

National CineMedia, Inc.
Form 10-Q
November 09, 2015

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 October 1, 2015

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 required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Edgar Filing: National CineMedia, Inc. - Form 10-Q

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 November 3, 2015, 61,496,385 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>	3
<u>Unaudited Condensed Consolidated Balance Sheets</u>	3
<u>Unaudited Condensed Consolidated Statements of Income</u>	4
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	6
<u>Unaudited Condensed Consolidated Statements of Equity/(Deficit)</u>	8
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	9
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	38
<u>PART II</u>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	39
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 3. <u>Defaults Upon Senior Securities</u>	39
Item 4. <u>Mine Safety Disclosures</u>	39
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	39
<u>Signatures</u>	40

PART I

Item 1. Financial Statements

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(UNAUDITED)

	October 1, 2015	January 1, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$22.7	\$13.4
Short-term marketable securities	13.5	21.7
Receivables, net of allowance of \$5.1 and \$4.3, respectively	124.0	116.5
Prepaid expenses	3.1	3.6
Deferred tax assets	3.9	6.9
Income tax receivable	5.8	6.1
Current portion of notes receivable - founding members	4.2	4.2
Other current assets	1.0	—
Total current assets	178.2	172.4
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of \$71.1 and \$72.9, respectively	22.9	22.4
Intangible assets, net of accumulated amortization of \$86.0 and \$69.3, respectively	503.4	488.6
Deferred tax assets	222.4	227.3
Debt issuance costs, net of accumulated amortization of \$19.7 and \$17.8, respectively	13.6	15.5
Long-term notes receivable, net of current portion - founding members	16.6	16.6
Other investments	4.3	2.5
Long-term marketable securities	44.3	45.5
Other assets	0.5	0.6
Total non-current assets	828.0	819.0
TOTAL ASSETS	\$1,006.2	\$991.4
LIABILITIES AND EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members	\$27.3	\$34.9
Payable to founding members under tax receivable agreement	28.0	19.6
Accrued expenses	22.1	19.2
Accrued payroll and related expenses	13.0	10.7
Accounts payable	13.1	13.3
Deferred revenue	8.7	8.5
Deferred tax liability	0.6	1.0

Edgar Filing: National CineMedia, Inc. - Form 10-Q

Total current liabilities	112.8	107.2
NON-CURRENT LIABILITIES:		
Long-term debt	936.0	892.0
Deferred tax liability	50.0	54.2
Payable to founding members under tax receivable agreement	135.7	146.7
Total non-current liabilities	1,121.7	1,092.9
Total liabilities	1,234.5	1,200.1
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
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, 59,018,867 and		
58,750,926 issued and outstanding, respectively	0.6	0.6
Additional paid in capital/(deficit)	(244.9)	(261.0)
Retained earnings (distributions in excess of earnings)	(179.1)	(147.4)
Accumulated other comprehensive income/(loss)	—	(0.4)
Total NCM, Inc. stockholders' equity/(deficit)	(423.4)	(408.2)
Noncontrolling interests	195.1	199.5
Total equity/(deficit)	(228.3)	(208.7)
TOTAL LIABILITIES AND EQUITY/DEFICIT	\$1,006.2	\$991.4

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		Nine Months Ended	
	October 1,	September	October 1,	September
	2015	2014	2015	2014
REVENUE (including revenue from founding members of \$6.5, \$9.1, \$23.2 and \$28.4, respectively)	\$111.7	\$100.8	\$310.1	\$270.9
OPERATING EXPENSES:				
Advertising operating costs	7.8	6.5	21.9	18.1
Network costs	4.3	4.4	13.0	13.4
Theatre access fees—founding members	17.6	17.0	54.0	52.3
Selling and marketing costs	16.9	14.7	49.9	43.8
Merger termination fee and related merger costs	-	2.0	34.3	3.7
Administrative and other costs	9.3	6.9	26.3	21.6
Depreciation and amortization	8.0	8.6	24.2	24.2
Total	63.9	60.1	223.6	177.1
OPERATING INCOME	47.8	40.7	86.5	93.8
NON-OPERATING EXPENSES:				
Interest on borrowings	13.0	12.7	39.2	38.8
Interest income	(0.5)	(0.3)	(1.4)	(1.2)
Accretion of interest on the discounted payable to founding members under tax receivable agreement				
	3.5	3.5	10.6	10.8
Amortization of terminated derivatives	-	2.6	1.6	7.6
Other non-operating expense	0.1	0.7	0.2	0.9
Total	16.1	19.2	50.2	56.9
INCOME BEFORE INCOME TAXES	31.7	21.5	36.3	36.9
Income tax expense	4.8	2.1	6.3	4.2
CONSOLIDATED NET INCOME	26.9	19.4	30.0	32.7
Less: Net income attributable to noncontrolling interests				
	19.2	14.6	21.2	27.4
NET INCOME ATTRIBUTABLE TO NCM, INC.	\$7.7	\$4.8	\$8.8	\$5.3
NET INCOME PER NCM, INC. COMMON SHARE:				
Basic	\$0.13	\$0.08	\$0.15	\$0.09
Diluted	\$0.13	\$0.08	\$0.15	\$0.09
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	59,014,887	58,744,395	58,959,381	58,695,073
Diluted	59,625,214	59,043,769	59,452,580	58,987,945



Dividends declared per common share	\$0.22	\$0.22	\$0.66	\$1.16
-------------------------------------	--------	--------	--------	--------

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		Nine Months Ended	
	October 1,	September 25,	October 1,	September 25,
	2015	2014	2015	2014
CONSOLIDATED NET INCOME, NET OF TAX OF				
\$4.8, \$2.1, 6.3 AND \$4.2, RESPECTIVELY	\$26.9	\$ 19.4	\$30.0	\$ 32.7
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Amortization of terminated derivatives, net of tax of				
\$0.0, \$0.5, \$0.3 and \$1.4, respectively	—	2.1	1.3	6.2
CONSOLIDATED COMPREHENSIVE INCOME	26.9	21.5	31.3	38.9
Less: Comprehensive income attributable to				
noncontrolling interests	19.2	16.0	22.1	31.5
COMPREHENSIVE INCOME ATTRIBUTABLE				
TO NCM, INC.	\$7.7	\$ 5.5	\$9.2	\$ 7.4

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(UNAUDITED)

	Nine Months Ended	
	October	September
	1,	25,
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$30.0	\$ 32.7
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Deferred income tax expense	5.7	12.2
Depreciation and amortization	24.2	24.2
Non-cash share-based compensation	9.7	5.1
Excess tax benefit from share-based compensation	(0.1)	0.2
Accretion of interest on the discounted payable to founding members under tax receivable agreement	10.6	10.8
Amortization of terminated derivatives	1.6	7.6
Amortization of debt issuance costs	1.9	2.1
Other	0.7	—
Changes in operating assets and liabilities:		
Receivables, net	(9.2)	23.2
Accounts payable and accrued expenses	3.9	(6.1)
Amounts due to founding members	0.5	2.6
Payment to founding members under tax receivable agreement	(17.2)	(25.1)
Deferred revenue	0.2	1.6
Income taxes and other	(0.6)	(4.2)
Net cash provided by operating activities	61.9	86.9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(8.0)	(6.9)
Purchases of marketable securities	(57.6)	(99.1)
Proceeds from sale and maturities of marketable securities	66.5	110.7
Purchases of intangible assets from network affiliates	(2.0)	(3.0)
Net cash (used in) provided by investing activities	(1.1)	1.7
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(39.4)	(68.1)
Proceeds from borrowings	166.0	92.0
Repayments of borrowings	(122.0)	(87.0)
Payment of debt issuance costs	—	(0.7)
Founding member integration payments	1.9	1.5
Distributions to founding members	(58.0)	(55.7)

Edgar Filing: National CineMedia, Inc. - Form 10-Q

Excess tax benefit from share-based compensation	0.1	(0.2)
Proceeds from stock option exercises	1.2	0.8
Repurchase of stock for restricted stock tax withholding	(1.3)	(1.3)
Net cash used in financing activities	(51.5)	(118.7)
CHANGE IN CASH AND CASH EQUIVALENTS	9.3	(30.1)
Cash and cash equivalents at beginning of period	13.4	54.7
Cash and cash equivalents at end of period	\$22.7	\$ 24.6

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

(UNAUDITED)

	Nine Months Ended	
	October 1,	September 25,
	2015	2014
Supplemental disclosure of non-cash financing and investing activity:		
Purchase of an intangible asset with NCM LLC equity	\$31.4	\$ 16.4
Accrued distributions to founding members	\$24.7	\$ 21.8
Increase (decrease) in dividends not requiring cash in the period	\$1.1	\$ (0.5)
Write-off of property and equipment included in accrued expenses	\$(0.3)	\$(0.4)
Increase in cost and equity method investments	\$1.7	\$ —
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$35.2	\$ 34.6
Payments (refunds) for income taxes, net	\$0.2	\$ (6.4)

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	Noncontrolling	
	Consolidated	Shares	Amount	Paid in	Earnings	Other	Interest
	Shares		(Deficit)	in Excess	Loss	Comprehensive	
				of		Income	
				(Distribution)			
				in Excess			
				of			
				Earnings)			
Balance—January 1, 2015	\$ (208.7)	58,750,926	\$ 0.6	\$ (261.0)	\$ (147.4)	\$ (0.4)	\$ 199.5
Distributions to founding members	(49.8)	—	—	—	—	—	(49.8)
NCM LLC equity issued for purchase							
of intangible asset	31.4	—	—	14.1	—	—	17.3
Income tax and other impacts of NCM							
LLC ownership changes	(1.7)	—	—	(4.6)	—	—	2.9
Comprehensive income, net of tax	31.3	—	—	—	8.8	0.4	22.1
Share-based compensation issued	(0.1)	267,941	—	(0.1)	—	—	—
Share-based compensation expense/capitalized	9.9	—	—	6.8	—	—	3.1
Excess tax benefit from share-based compensation	(0.1)	—	—	(0.1)	—	—	—
Cash dividends declared \$0.66 per share	(40.5)	—	—	—	(40.5)	—	—
Balance—October 1, 2015	\$ (228.3)	59,018,867	\$ 0.6	\$ (244.9)	\$ (179.1)	\$ (0.0)	\$ 195.1
Balance—December 26, 2013	\$ (146.1)	58,519,137	\$ 0.6	\$ (271.7)	\$ (80.0)	\$ (3.2)	\$ 208.2
Distributions to founding members	(46.5)	—	—	—	—	—	(46.5)
NCM LLC equity returned for purchase	16.4	—	—	7.5	—	—	8.9

of intangible asset							
Income tax and other impacts of NCM							
LLC ownership changes	(0.3)	—	—	(2.0)	—	—	1.7
Comprehensive income, net of tax	38.9	—	—	—	5.3	2.1	31.5
Share-based compensation issued	(0.5)	227,851	—	(0.5)	—	—	—
Share-based compensation expense/capitalized	5.2	—	—	3.5	—	—	1.7
Excess tax benefit from share-based compensation	0.2	—	—	0.2	—	—	—
Cash dividends declared \$1.16 per share	(67.5)	—	—	—	(67.5)	—	—
Balance—September 25, 2014	\$ (200.2)	58,746,988	\$ 0.6	\$ (263.0)	\$ (142.2)	\$ (1.1)	\$ 205.5

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”. The Company 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 October 1, 2015) 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 October 1, 2015, NCM LLC had 130,723,361 common membership units outstanding, of which 59,018,867 (45.2%) were owned by NCM, Inc., 26,409,784 (20.2%) were owned by Regal, 25,631,046 (19.6%) were owned by Cinemark and 19,663,664 (15.0%) 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.

Recent Transactions

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. This payment was \$2 million lower than the reverse termination fee contemplated by the Merger Agreement. During the nine months ended October 1, 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 nine months ended October 1, 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.

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 January 1, 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 January 1, 2015.

In the opinion of management, all adjustments (which include only normal recurring 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: advertising.

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 January 1, 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 the fact that the majority of accounts receivable are with large, national advertising agencies that 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 October 1, 2015 and January 1, 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 nine months ended October 1, 2015 and the three months ended September 25, 2014, there were no customers that accounted for more than 10% of revenue. During the nine months ended September 25, 2014, revenue related to advertisements of NCM LLC's founding members' beverage supplier accounted for 10.4% of total revenue.

Share-Based Compensation—The Company has issued stock options and restricted stock to certain employees and restricted stock units to its independent directors. In 2015 and 2014, the Company did not grant stock options. In 2015 and 2014, 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 October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, 4,378, 1,930, 258,839 and 253,590 shares of restricted stock and restricted stock units vested, respectively. During the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, 4,135, 3,605, 94,540 and 56,052 stock options were exercised at a weighted average exercise price of \$12.06, \$11.54, \$12.18 and

\$13.58 per share, respectively.

In connection with the Company's March 2014 special cash dividend of \$0.50 per share and pursuant to the antidilution adjustment terms of the Company's Equity Incentive Plan, the exercise price and the number of shares of common stock subject to options held by option holders were adjusted to prevent dilution and restore their economic value that existed immediately before the special dividend. The antidilution adjustments made with respect to such options resulted in a decrease in the range of exercise prices from \$5.35 - \$24.68 per share to \$5.18 - \$23.90 per share and an increase in the aggregate number of shares issuable upon exercise of such options by 98,589 shares, or 3.3%, of previously outstanding options. The number of shares authorized under the Equity Incentive Plan increased by an equivalent number of shares. There were no accounting consequences for the changes made to reduce the exercise prices and increase the number of underlying options as a result of the special cash dividend because the aggregate fair values of the awards immediately before and after the modifications were the same.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 participating 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.

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):

	Nine Months Ended October 1, September 2015 25, 2014	
Net income attributable to NCM, Inc.	\$8.8	\$ 5.3
NCM LLC equity issued for purchase of intangible asset	14.1	7.5
Income tax and other impacts of subsidiary ownership changes	(4.6)	(2.0)
Change from net income attributable to NCM, Inc. and transfers from noncontrolling interests	\$18.3	\$ 10.8

Income Taxes—Income taxes are accounted for under the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which differences are expected to be recovered or settled pursuant to the provisions of ASC 740, Income Taxes. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance if it is deemed more likely than not that all or a portion of its deferred income tax assets will not be realized, which will be assessed on an on-going basis. In addition, income tax rules and regulations are subject to interpretation and the application of those rules and regulations require judgment by the Company and may be challenged by the taxation authorities. The Company follows ASC 740-10-25, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. Only tax positions that meet the more likely than not

recognition threshold are recognized.

Recent 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. This guidance will be effective for annual periods beginning after December 15, 2017 and early adoption is permitted no earlier than fiscal years beginning after December 15, 2016. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its unaudited Condensed Consolidated Financial Statements or notes thereto, as well as, which transition method it intends to use.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In January 2015, the FASB issued 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”), 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. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. A reporting entity may apply ASU 2015-01 prospectively. A reporting entity may also apply ASU 2015-01 retrospectively to all periods presented in the financial statements. The Company expects to adopt this accounting guidance in its first quarter of 2016 and does not expect the application of ASU 2015-01 to have a material impact in the unaudited Condensed Consolidated Financial Statements or notes thereto.

In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis (“ASU 2015-02”). 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. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not expect the application of ASU 2015-02 to have a material impact in the unaudited Condensed Consolidated Financial Statements or notes thereto.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), 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. This guidance will be effective for fiscal years beginning after December 15, 2015, and early adoption is permitted for financial statements that have not been previously issued. The standard requires application on a retrospective basis and represents a change in accounting principle. In addition, in August 2015, Accounting Standards Update 2015-15, Interest — Imputation of Interest, was released which added SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 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 impact of ASU 2015-03 and ASU 2015-15 on the Company’s Consolidated Financial Statements includes a reclassification of net deferred financing costs related to the Company’s Term Loans, Senior Secured Notes and Senior Unsecured Notes to be presented in the 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 will remain an asset. As of October 1, 2015, the Company had \$11.2 million of net deferred financing costs related to its Term Loans, Senior Secured Notes and Senior Unsecured Notes. The Company is currently evaluating when it will adopt this accounting guidance.

In April 2015, the FASB issued 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”), 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. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within that reporting period, with early adoption permitted. The Company does not expect the application of ASU 2015-05 to have a material impact in the unaudited Condensed Consolidated Financial Statements or notes thereto.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. INCOME PER SHARE

Basic income per share is computed on the basis of the weighted average number of common shares outstanding. Diluted income 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 income per NCM, Inc. share are as follows:

	Three Months Ended		Nine Months Ended	
	October 1,	September 25,	October 1,	September 25,
	2015	2014	2015	2014
Net income attributable to NCM, Inc. (in millions)	\$7.7	\$4.8	\$8.8	\$5.3
Weighted average shares outstanding:				
Basic	59,014,887	58,744,395	58,959,381	58,695,073
Add: Dilutive effect of stock options and				
restricted stock	610,327	299,374	493,199	292,872
Diluted	59,625,214	59,043,769	59,452,580	58,987,945
Income per NCM, Inc. share:				
Basic	\$0.13	\$0.08	\$0.15	\$0.09
Diluted	\$0.13	\$0.08	\$0.15	\$0.09

The effect of 71,704,494, 69,543,579, 71,110,836 and 69,220,792 exchangeable NCM LLC common units held by the founding members for the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, 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 10,293 and 10,125, 50,021 and 97,767 stock options and non-vested (restricted) shares for the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, respectively, excluded from the calculation as they were antidilutive, primarily because exercise prices were above the average market value.

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 2015 and 2014, NCM LLC issued 2,160,915 and 1,087,911 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 \$31.4 million and \$16.4 million during the three months ended April 2, 2015 and March 27, 2014, 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 October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, the Company recorded a reduction to net intangible assets of \$0.7 million, \$0.6 million, \$1.8 million and \$1.4 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 October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, AMC and Cinemark paid a total of \$0.8 million, \$0.6 million, \$1.9 million, and \$1.5 million, respectively, in integration payments.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.
- **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.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following tables provide summaries of the transactions between the Company and the founding members (in millions):

	Three Months Ended		Nine Months Ended	
	October 1,	September 25,	October 1,	September 25,
	2015	2014	2015	2014
Included in the Condensed Consolidated Statements of Income:				
Revenue:				
Beverage concessionaire revenue (included				
in advertising revenue) (1)	\$6.4	\$ 9.0	\$23.0	\$ 28.2
Advertising inventory revenue (included in				
advertising revenue) (2)	0.1	0.1	0.2	0.2
Operating expenses:				
Theatre access fee (3)	17.6	17.0	54.0	52.3
Purchase of movie tickets and concession				
products and rental of theatre space				
(included in selling and marketing costs) (4)	0.4	0.2	0.9	0.7
Purchase of movie tickets and concession				
products and rental of theatre space (included				
in other administrative and other costs)	—	—	0.1	0.1
Non-operating expenses:				
Interest income from notes receivable				
(included in interest income) (5)	0.2	0.3	0.7	0.9

(1) For the three months ended October 1, 2015, 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 thousand (“CPM”) rate specified by the ESA. For the first six months of 2015 and for the three and nine months ended September 25, 2014, the founding members purchased 60 seconds of on-screen advertising time.

(2) The value of such purchases is calculated by reference to NCM LLC’s advertising rate card.

- (3) Comprised of payments per theatre attendee and payments per digital screen with respect to the founding member theatres included in the Company's network, including payments for access to higher quality digital cinema equipment.
- (4) Used primarily for marketing to NCM LLC's advertising clients.
- (5) On December 26, 2013, NCM LLC sold its Fathom Events business to a newly formed limited liability company (AC JV, LLC) owned 32% by each of the founding members and 4% by NCM LLC. In consideration for the sale, NCM LLC received a total of \$25.0 million in promissory notes from its founding members (one-third or approximately \$8.3 million from each founding member). The notes bear interest at a fixed rate of 5.0% per annum, compounded annually. Interest and principal payments are due annually in six equal installments commencing on the first anniversary of the closing.

	As of	
	October	January 1, 2015
Included in the Condensed Consolidated Balance Sheets:	1, 2015	January 1, 2015
Purchase of movie tickets and concession products (included in		
Prepaid expenses) (1)	\$0.2	\$ —
Current portion of notes receivable - founding members (2)	4.2	4.2
Long-term portion of notes receivable - founding members (2)	16.6	16.6
Interest receivable on notes receivable (included in other		
current assets) (2)	0.7	—
Common unit adjustments and integration payments, net of		
amortization (included in intangible assets) (3)	472.7	458.3
Current payable to founding members under tax receivable		
agreement (4)	28.0	19.6
Long-term payable to founding members under tax receivable		
agreement (4)	135.7	146.7

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) Used primarily for marketing to NCM LLC's advertising clients.

(2) Refer to the discussion of notes receivable from the founding members above.

(3) Refer to Note 3—Intangible Assets for further information on common unit adjustments and integration payments.

(4) The Company paid the founding members \$17.2 million in the first quarter of 2015, of which \$0.9 million was net operating loss carrybacks for the 2009, 2010 and 2011 tax years and \$16.3 million was for the 2014 tax year. The Company paid the founding members \$25.1 million in the first quarter of 2014, of which \$6.7 million was net operating loss carrybacks for the 2009, 2010 and 2011 tax years and \$18.4 million was for the 2013 tax year. On March 16, 2015, the Company announced the termination of the Merger Agreement with Screenvision. 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. This payment was \$2 million lower than the reverse termination fee contemplated by the Merger Agreement. During the nine months ended October 1, 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 nine months ended October 1, 2015). The Company and the founding members each bore a pro rata portion of the termination fee and the related merger expenses based on their aggregate ownership percentages in NCM LLC.

Pursuant to the terms of the NCM LLC Operating Agreement in place since the completion of the Company's IPO, NCM LLC is required to make mandatory distributions on a proportionate basis to its members of available cash, as defined in the NCM LLC Operating Agreement, on a quarterly basis in arrears. Mandatory distributions of available cash for the three and nine months ended October 1, 2015 and September 25, 2014 were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	October	September	October	September
	1,	25,	1,	25,
	2015	2014	2015	2014
AMC	\$6.8	\$ 6.0	\$13.7	\$ 12.8
Cinemark	8.8	7.7	17.8	16.4
Regal	9.1	8.1	18.3	17.2
Total founding members	24.7	21.8	49.8	46.4
NCM, Inc.	20.4	18.5	41.1	39.4
Total	\$45.1	\$ 40.3	\$90.9	\$ 85.8

Due to the merger termination fee and related merger expenses, the mandatory distributions of available cash by NCM LLC to its founding members and NCM, Inc. for the three months ended April 2, 2015 was calculated as negative \$25.5 million (\$14.0 million for the founding members and \$11.5 million for NCM, Inc.). Therefore, there was no payment made in the second quarter of 2015. Under the terms of the NCM LLC Operating Agreement, this negative

amount will be netted against the available cash distributions for the second quarter of 2016, which will be paid in the third quarter of 2016. Until the settlement in the third quarter of 2016, the remaining merger-related costs will be funded through borrowings on the NCM LLC revolving credit facility.

The mandatory distributions of available cash by NCM LLC to its founding members for the three months ended October 1, 2015 of \$24.7 million is included in amounts due to founding members on the unaudited Condensed Consolidated Balance Sheets as of October 1, 2015 and will be made in the fourth quarter of 2015.

Amounts due to founding members as of October 1, 2015 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	\$1.2	\$ 0.9	\$1.2	\$3.3
Cost and other reimbursement	(0.5)	(0.3)	0.1	(0.7)
Distributions payable to founding members	6.8	8.8	9.1	24.7
Total amounts due to founding members	\$7.5	\$ 9.4	\$10.4	\$27.3

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Amounts due to founding members as of January 1, 2015 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	\$0.8	0.8	1.2	\$2.8
Cost and other reimbursement	(0.6)	(0.2)	—	(0.8)
Distributions payable to founding members	9.1	11.6	12.2	32.9
Total amounts due to founding members	\$9.3	\$ 12.2	\$13.4	\$34.9

AC JV, LLC Transactions—In December 2013, NCM LLC sold its Fathom Events business to a newly formed limited liability company, AC JV, LLC, owned 32% by each of the founding members and 4% by NCM LLC. The Company accounts for its investment in AC JV, LLC under the equity method of accounting in accordance with ASC 323-30, Investments—Equity Method and Joint Ventures (“ASC 323-30”) because AC JV, LLC is a limited liability company with the characteristics of a limited partnership and ASC 323-30 requires the use of equity method accounting unless the Company’s interest is so minor that it would have virtually no influence over partnership operating and financial policies. Although NCM LLC does not have a representative on AC JV, LLC’s Board of Directors or any voting, consent or blocking rights with respect to the governance or operations of AC JV, LLC, the Company concluded that its interest was more than minor under the accounting guidance. The Company’s investment in AC JV, LLC was \$1.4 million and \$1.3 million as of October 1, 2015 and January 1, 2015, respectively. Equity in earnings from AC JV, LLC was \$0.0 million, \$0.0 million, \$0.1 million and \$0.1 million for the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, respectively and is included in non-operating expenses in the unaudited Condensed Consolidated Statements of Income.

Related Party Affiliates—NCM LLC enters into network affiliate agreements with network affiliates for NCM LLC to provide in-theatre advertising at theatre locations that are owned by companies that are affiliates of certain of the founding members or directors of NCM, Inc. Related party affiliate agreements are entered into at terms that are similar to those of the Company’s other network affiliates.

NCM LLC has an agreement with LA Live, an affiliate of The Anschutz Corporation. The Anschutz Corporation is a wholly-owned subsidiary of the Anschutz Company, which is the controlling stockholder of Regal. During the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, there was approximately \$0.1 million, \$0.0 million \$0.2 million and \$0.1 million, respectively, included in advertising operating costs related to LA Live, and there was approximately \$0.1 million and \$0.1 million of accounts payable with this company as of October 1, 2015 and January 1, 2015, respectively.

NCM LLC has an agreement with Starplex Operating L.P. (“Starplex”), an affiliate of one of NCM, Inc.’s former directors, who was a member of NCM, Inc.’s board of directors from the IPO date until his resignation during 2014. During the three and nine months ended September 25, 2014, there was approximately \$0.8 million and \$1.3 million included in advertising operating costs related to Starplex, and there was approximately \$0.9 million of accounts payable with Starplex as of January 1, 2015. Following the director’s resignation from NCM, Inc.’s board of directors in 2014, Starplex is no longer a related party.

Other Transactions—NCM LLC has an agreement with an interactive media company to sell some of its online inventory. One of NCM, Inc.'s directors is also a director of this media company. During the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, this company generated approximately \$0.0 million, \$0.0 million, \$0.0 million and \$0.1 million, respectively, in revenue for NCM LLC and there was approximately \$0.3 million and \$0.3 million of accounts receivable due from this company as of October 1, 2015 and January 1, 2015, respectively.

NCM LLC has an agreement with AEG Live, an affiliate of The Anschutz Corporation, for AEG Live to showcase musical artists in NCM LLC's FirstLook preshow. During the three months ended October 1, 2015 and September 25, 2014 and the nine months ended October 1, 2015 and September 25, 2014, NCM LLC received approximately \$0.3 million, \$0.2 million, \$1.2 million and \$0.2 million, respectively, in revenue from AEG Live and as of October 1, 2015 and January 1, 2015, had \$0.3 million and \$0.4 million, respectively, of accounts receivable from AEG Live.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5. BORROWINGS

The following table summarizes NCM LLC's total outstanding debt as of October 1, 2015 and January 1, 2015 and the significant terms of its borrowing arrangements (in millions):

	Outstanding Balance as of		Maturity Date	Interest Rate
	October 1, 2015	January 1, 2015		
Borrowings	2015	2015	Date	Rate
Revolving Credit Facility	\$ 66.0	\$ 22.0	November 26, 2019	(1)
Term Loans	270.0	270.0	November 26, 2019	(1)
Senior Unsecured Notes	200.0	200.0	July 15, 2021	7.875%
Senior Secured Notes	400.0	400.0	April 15, 2022	6.000%
Total	\$ 936.0	\$ 892.0		

(1) The interest rates on the revolving credit facility and term loan are described below.

Senior Secured Credit Facility—As of October 1, 2015 and January 1, 2015, NCM LLC's senior secured credit facility consisted of a \$135.0 million revolving credit facility and a \$270.0 million term loan.

Revolving Credit Facility—The revolving credit facility portion of NCM LLC's total borrowings is available, subject to certain conditions, for general corporate purposes of NCM LLC in the ordinary course of business and for other transactions permitted under the senior secured credit facility, and a portion is available for letters of credit. As of October 1, 2015, NCM LLC's total availability under the revolving credit facility was \$69.0 million. The unused line fee is 0.50% per annum. Borrowings under the revolving credit facility bear interest at NCM LLC's option of either the LIBOR index plus an applicable margin or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the senior secured credit facility) plus an applicable margin. The applicable margin for the revolving credit facility is determined quarterly and is subject to adjustment based upon a consolidated net senior secured leverage ratio for NCM LLC (the ratio of secured funded debt less unrestricted cash and cash equivalents, over a non-GAAP measure defined in the senior secured credit facility). The weighted-average interest rate on the outstanding balance on the revolving credit facility as of October 1, 2015 was 2.51%.

Term Loans—The interest rate on the term loans is a rate chosen at NCM LLC's option of either the LIBOR index plus 2.75% or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the senior secured credit facility) plus 1.75%. The weighted-average interest rate on the term loans as of October 1, 2015 was 2.95%. Interest on the term loans is currently paid monthly.

The senior secured credit facility contains a number of covenants and financial ratio requirements, with which NCM LLC was in compliance as of October 1, 2015, including maintaining a consolidated net senior secured leverage ratio of equal to or less than 6.5 times on a quarterly basis. In addition, there are no borrower distribution restrictions as long as NCM LLC's consolidated net senior secured leverage ratio is below 6.5 times and NCM LLC is in compliance

with its debt covenants. As of October 1, 2015, NCM LLC's consolidated net senior secured leverage ratio was 3.2 times (versus the covenant of 6.5 times).

Senior Unsecured Notes due 2021—On July 5, 2011, NCM LLC completed a private placement of \$200.0 million in aggregate principal amount of 7.875% Senior Unsecured Notes (“Senior Unsecured Notes”) for which the registered exchange offering was completed on September 22, 2011. The Senior Unsecured Notes pay interest semi-annually in arrears on January 15 and July 15 of each year, which commenced January 15, 2012. The notes are subordinated to all existing and future secured debt, including indebtedness under NCM LLC's existing senior secured credit facility and the Senior Secured Notes defined below. The Senior Unsecured Notes contain certain non-maintenance covenants with which NCM LLC was in compliance as of October 1, 2015.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Senior Secured Notes due 2022—On July 27, 2012, NCM LLC completed a private placement of \$400.0 million in aggregate principal amount of 6.00% Senior Secured Notes (the “Senior Secured Notes”) for which the registered exchange offering was completed on November 26, 2012. The Senior Secured Notes pay interest semi-annually in arrears on April 15 and October 15 of each year, which commenced October 15, 2012. The Senior Secured Notes are senior secured obligations of NCM LLC, rank the same as NCM LLC’s senior secured credit facility, subject to certain exceptions, and share in the same collateral that secures NCM LLC’s obligations under the senior secured credit facility. The Senior Secured Notes contain certain non-maintenance covenants with which NCM LLC was in compliance as of October 1, 2015.

6. COMMITMENTS AND CONTINGENCIES

Legal Actions—The Company is subject to claims and legal actions in the ordinary course of business. The Company believes such claims will not have a material effect on its financial position, results of operations or cash flows.

Minimum Revenue Guarantees As part of the network affiliate agreements entered into in the ordinary course of business under which the Company sells advertising for display in various network affiliate theatre chains, the Company has agreed to certain minimum revenue guarantees on a per attendee basis. If a network affiliate achieves the attendance set forth in their respective agreement, the Company has guaranteed minimum revenue for the network affiliate per attendee if such amount paid under the revenue share arrangement is less than its guaranteed amount. The amount and term varies for each network affiliate, but terms range from three to twenty years, prior to any renewal periods of which some are at the option of the Company. As of October 1, 2015, the maximum potential amount of future payments the Company could be required to make pursuant to the minimum revenue guarantees is \$37.5 million over the remaining terms of the network affiliate agreements, which calculation does not include any potential future extensions. As of October 1, 2015 and January 1, 2015, the Company had an inconsequential amount of liabilities recorded for these obligations.

Income Taxes The Company is subject to taxation in the U.S. and various states. As of October 1, 2015 and January 1, 2015, there was no material liability or expense for the periods then ended recorded for payment of interest and penalties associated with uncertain tax positions or material unrecognized tax positions and the Company’s unrecognized tax benefits were not material.

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following

hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Non-Recurring Measurements—Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. These assets include long-lived assets, intangible assets, cost and equity method investments, notes receivable and borrowings.

Long-Lived Assets, Intangible Assets, Other Investments and Notes Receivable—The Company regularly reviews long-lived assets (primarily property, plant and equipment), intangible assets, investments accounted for under the cost or equity method and notes receivable for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. When the estimated fair value is determined to be lower than the carrying value of the asset, an impairment charge is recorded to write the asset down to its estimated fair value.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Other investments consisted of the following (in millions):

	As of	
	October	January
	1,	1,
	2015	2015
Investment in AC JV, LLC (1)	\$ 1.4	\$ 1.3
Other investments (2)	2.9	1.2
Total	\$4.3	\$ 2.5

(1) Refer to Note 4—Related Party Transactions.

(2) During 2014 and 2015, the Company received equity securities in privately held companies as consideration for a portion of advertising contracts. The equity securities were accounted for under the cost method and represent an ownership of less than 20%. The Company does not exert significant influence on these companies' operating or financial activities.

The fair value of the investments has not been estimated as of October 1, 2015 and January 1, 2015 as there were no identified events or changes in the circumstances that had a significant adverse effect on the fair value of the investments and it is not practicable to do so because the equity securities are not in publicly traded companies. As the inputs to the determination of fair value are based upon non-identical assets and use significant unobservable inputs, they have been classified as Level 3 in the fair value hierarchy.

As of October 1, 2015 and January 1, 2015, the Company had notes receivable totaling \$20.8 million and \$20.8 million, respectively, from its founding members related to the sale of Fathom Events, as described in Note 4—Related Party Transactions. These notes were valued using comparative market multiples. There were no identified events or changes in circumstances that had a significant adverse effect on the fair value of the notes receivable. The notes are classified as Level 3 in the fair value hierarchy as the inputs to the determination of fair value are based upon non-identical assets and use significant unobservable inputs.

Borrowings—The carrying amount of the revolving credit facility is considered a reasonable estimate of fair value due to its floating-rate terms. The estimated fair values of the Company's financial instruments where carrying values do not approximate fair value were as follows (in millions):

	As of October 1,		As of January 1,	
	2015		2015	
	Carrying	Fair	Carrying	Fair
	Value	Value (1)	Value	Value (1)
Term Loans	\$270.0	\$ 268.9	\$270.0	\$ 257.9
Senior Unsecured Notes	200.0	207.5	200.0	210.8

Senior Secured Notes	400.0	405.3	400.0	400.8
----------------------	-------	-------	-------	-------

(1) The Company has estimated the fair value on an average of at least two non-binding broker quotes and the Company's analysis. If the Company were to measure the borrowings in the above table at fair value on the balance sheet they would be classified as Level 2.

Recurring Measurements—The fair values of the Company's assets and liabilities measured on a recurring basis pursuant to ASC 820-10, Fair Value Measurements and Disclosures are as follows (in millions):

	As of October 1, 2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Cash equivalents (1)	\$ 2.5	\$ 2.5	\$ —	\$ —
Short-term marketable securities (2)	13.5	10.0	3.5	—
Long-term marketable securities (2)	44.3	34.6	9.7	—
Total assets	\$ 60.3	\$ 47.1	\$ 13.2	\$ —

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	As of	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
ASSETS:	January 1, 2015			
Cash equivalents (1)	\$ 2.5	\$2.5	\$ —	\$ —
Short-term marketable securities (2)	21.7	9.5	12.2	—
Long-term marketable securities (2)	45.5	41.5	4.0	—
Total assets	\$ 69.7	\$53.5	\$ 16.2	\$ —

(1) Cash Equivalents—The Company's cash equivalents are carried at estimated fair value. Cash equivalents consist of money market accounts which the Company has classified as Level 1 given the active market for these accounts and commercial paper with original maturities of three months or less, which are classified as Level 2 and are valued as described below.

(2) Short-Term and Long-Term Marketable Securities—The carrying amount and fair value of the marketable securities are equivalent since the Company accounts for these instruments at fair value. The Company's government agency bonds, commercial paper and certificates of deposit are valued using third party broker quotes. The value of the Company's government agency bonds is derived from quoted market information. The inputs in the valuation are generally classified as Level 1 given the active market for these securities; however if an active market does not exist, the inputs are recorded at a lower level in the fair value hierarchy. The value of commercial paper and certificates of deposit is derived from pricing models using inputs based upon market information, including contractual terms, market prices and yield curves. The inputs to the valuation pricing models are observable in the market, and as such are generally classified as Level 2 in the fair value hierarchy. For the three and nine months ended October 1, 2015 and September 25, 2014, there was an inconsequential amount of net realized gains (losses) recognized in interest income and an inconsequential amount of net unrealized holding gains (losses) included in other comprehensive income. Original cost of short-term marketable securities is based on the specific identification method. As of October 1, 2015, there was an inconsequential amount of gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer, and as of January 1, 2015, there were no gross unrealized losses related to individual securities that had been in a continuous loss position for 12 months or longer.

The amortized cost basis, aggregate fair value and maturities of the marketable securities the Company held as of October 1, 2015 and January 1, 2015 were as follows:

Edgar Filing: National CineMedia, Inc. - Form 10-Q

As of October 1, 2015
 Amortized Cost Aggregate Fair

	Basis	Value	Maturities (1)
	(in millions)		(in years)
MARKETABLE SECURITIES:			
Short-term municipal bonds	\$10.0	\$ 10.0	0.4
Short-term certificates of deposit	3.5	3.5	0.7
Total short-term marketable securities	13.5	13.5	
Long-term U.S. government treasury bonds	1.2	1.2	2.1
Long-term municipal bonds	2.3	2.3	1.7
Long-term U.S. government agency bonds	31.0	31.1	3.1
Long-term certificates of deposit:			
Financial	9.4	9.4	2.2
Industrial	0.3	0.3	2.1
Total long-term marketable securities	44.2	44.3	
Total marketable securities	\$57.7	\$ 57.8	

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	As of January 1, 2015		
	Amortized Cost	Aggregate Fair Value	
	Basis	Value	Maturities (1)
	(in millions)		(in years)
MARKETABLE SECURITIES:			
Short-term municipal bonds	\$9.4	\$ 9.5	0.5
Short-term commercial paper:			
Financial	3.4	3.4	—
Industrial	3.3	3.3	0.1
Utility	3.0	3.0	0.2
Short-term certificates of deposit	2.5	2.5	0.6
Total short-term marketable securities	21.6	21.7	
Long-term U.S. government treasury bonds	5.1	5.1	2.7
Long-term municipal bonds	0.3	0.3	1.4
Long-term U.S. government agency bonds	36.1	36.1	3.3
Long-term certificates of deposit	4.0	4.0	3.1
Total long-term marketable securities	45.5	45.5	
Total marketable securities	\$67.1	\$ 67.2	

(1) Maturities—Securities available for sale include obligations with various contractual maturity dates some of which are greater than one year. The Company considers the securities to be liquid and convertible to cash within 30 days.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

During 2012, NCM LLC terminated interest rate swap agreements that were used to hedge its interest rate risk associated with its term loan. Following the termination of the swap agreements, the variable interest rate on NCM LLC's \$270.0 million term loan is unhedged and as of October 1, 2015 and January 1, 2015, the Company did not have any outstanding derivative assets or liabilities. A portion of the breakage fees paid to terminate the swap agreements was for swaps in which the underlying debt remained outstanding. The balance in AOCI related to these swaps was fixed and was amortized into earnings over the remaining period during which interest payments were hedged, or February 13, 2015. The Company considered the guidance in ASC 815, Derivatives and Hedging which states that amounts in AOCI shall be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. As of October 1, 2015, there were no amounts outstanding related to these discontinued cash flow hedges.

Edgar Filing: National CineMedia, Inc. - Form 10-Q

The changes in AOCI by component for the nine months ended October 1, 2015 and September 25, 2014 were as follows (in millions):

	Nine Months Ended		
	October 1,	September 25,	
	2015	2014	Income Statement Location
Balance at beginning of period	\$(0.4)	\$ (3.2)	
Amounts reclassified from AOCI:			
Amortization on discontinued cash			Amortization of
flow hedges	1.6	7.6	terminated derivatives
Total amounts reclassified from AOCI	1.6	7.6	
Noncontrolling interest on reclassifications	(0.9)	(4.1)	
Tax effect on reclassifications	(0.3)	(1.4)	
Net other comprehensive income	0.4	2.1	
Impact of subsidiary ownership changes	—	—	
Balance at end of period	\$—	\$ (1.1)	

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

9. SUBSEQUENT EVENT

On November 6, 2015, the Company declared a cash dividend of \$0.22 per share (approximately \$13.0 million) on each share of the Company's common stock (not including outstanding restricted stock which will accrue dividends until the shares vest) to stockholders of record on November 20, 2015 to be paid on December 4, 2015.

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

Some of the information in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended. All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations", may constitute forward-looking statements. In some cases, you can identify these "forward-looking statements" by the specific words, including but not limited to "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain factors as more fully discussed under the heading "Risk Factors" contained in our annual report on Form 10-K for the Company's fiscal year ended January 1, 2015. The following discussion and analysis should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and notes thereto included herein and the audited financial statements and other disclosure included in our annual report on Form 10-K for the Company's fiscal year ended January 1, 2015. In the following discussion and analysis, the term net income refers to net income attributable to NCM, Inc.

Overview

NCM LLC operates the largest digital in-theatre video advertising network in North America, through which it distributes national and local advertising that the Company has sold on theatre screens and video monitors in theatre lobbies. NCM LLC also sells theatre lobby promotions and online and mobile advertising that are displayed on its and other company websites and mobile sites and apps. Our revenue is principally derived from advertising distributed to NCM LLC's founding member theatres in accordance with long-term ESAs (approximately 21 years remaining as of October 1, 2015) and to network affiliates in accordance with multi-year agreements, which expire at various dates through July 2031. The weighted average remaining term (based on attendance) of the ESAs and the network affiliate agreements is 19.2 years as of October 1, 2015. The ESAs with the founding members and network affiliate agreements grant NCM LLC exclusive rights in their theatres to sell advertising, subject to limited exceptions. Our advertising FirstLook pre-show and LEN programming are distributed predominantly via satellite through our proprietary DCN. Approximately 98% of the aggregate founding member and network affiliate theatre attendance is generated by theatres connected to our DCN (the remaining 622 screens receive advertisements on USB drives) and 100% of the FirstLook pre-show is projected on digital projectors (88% digital cinema projectors and 12% LCD projectors).

Management focuses on several measurements that we believe provide us with the necessary ratios and key performance indicators to manage our business, determine how we are performing versus our internal goals and targets, and against the performance of our competitors and other benchmarks in the marketplace in which we operate. Senior executives hold meetings twice per quarter with officers, managers and staff to discuss and analyze operating results and address significant variances to budget and prior year in an effort to identify trends and changes in our business. We focus on many operating metrics including changes in revenue, OIBDA, Adjusted OIBDA and Adjusted OIBDA margin, as defined and discussed in "Non-GAAP Financial Measures" below, as some of our primary measurement metrics. In addition, we monitor our monthly advertising performance measurements, including advertising inventory utilization, national advertising pricing (CPM), local/regional advertising rate per screen per week, local/regional and total advertising revenue per attendee, as well as, our free cash flow, dividend coverage ratio, financial leverage and cash balances and revolving credit facility availability to ensure that there is adequate cash availability to fund our working capital needs and debt obligations and current and future dividends declared by our Board of Directors.

Recent Transactions

On May 5, 2014, NCM, Inc. entered into the Merger Agreement to merge with 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. This payment was \$2 million lower than the reverse termination fee contemplated by the Merger Agreement. During the nine months ended October 1, 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 nine months ended October 1, 2015). The Company and the founding members each bore a pro rata portion of the termination fee and the related merger expenses based on their aggregate ownership percentages in NCM LLC.

Our operating results may be affected by a variety of internal and external factors and trends described more fully in the section entitled “Risk Factors” in our Form 10-K filed with the SEC on February 27, 2015 for the Company’s fiscal year ended January 1, 2015 and Item 1A of this Form 10-Q.

Summary Historical and Operating Data

The following table presents operating data and Adjusted OIBDA (dollars in millions, except share and margin data):

	Three Months Ended		Nine Months Ended		% Change			
	Oct. 1, 2015	Sept. 25, 2014	Oct. 1, 2015	Sept. 25, 2014	Q3 2015 to Q3 2014		YTD 2015 to YTD 2014	
Revenue	\$111.7	\$100.8	\$310.1	\$270.9	10.8	%	14.5	%
Operating expenses:								
Advertising	41.7	38.5	124.2	114.5	8.3	%	8.5	%
Network, administrative and unallocated costs	22.2	19.6	65.1	58.9	13.3	%	10.5	%
Merger termination fee and related merger costs (1)	—	2.0	34.3	3.7	(100.0%)		NM	
Total	63.9	60.1	223.6	177.1	6.3	%	26.3	%
Operating income	47.8	40.7	86.5	93.8	17.4	%	(7.8)	%
Non-operating expenses	16.1	19.2	50.2	56.9	(16.1)	%	(11.8)	%
Income tax expense	4.8	2.1	6.3	4.2	128.6	%	50.0	%
Net income attributable to noncontrolling interests	19.2	14.6	21.2	27.4	31.5	%	(22.6)	%
Net income attributable to NCM, Inc.	\$7.7	\$4.8	\$8.8	\$5.3	60.4	%	66.0	%
Net income per NCM, Inc. basic share	\$0.13	\$0.08	\$0.15	\$0.09	62.5	%	66.7	%
Net income per NCM, Inc. diluted share	\$0.13	\$0.08	\$0.15	\$0.09	62.5	%	66.7	%
Adjusted OIBDA	\$59.6	\$52.2	\$154.7	\$126.8	14.2	%	22.0	%
Adjusted OIBDA margin	53.4	51.8	49.9	46.8	1.6	%	3.1	%
Total theatre attendance (in millions) (2)	164.1	163.5	517.3	505.4	0.4	%	2.4	%

NM = not meaningful.

(1) Merger termination fee and related merger costs primarily include the merger termination payment and legal, accounting, advisory and other professional fees associated with the terminated merger with Screenvision.

(2) Represents the total attendance within NCM LLC’s advertising network, excluding screens and attendance associated with certain AMC Rave and Cinemark Rave theatres for all periods presented.

Non-GAAP Financial Measures

Operating Income Before Depreciation and Amortization (“OIBDA”), Adjusted OIBDA and Adjusted OIBDA margin are not financial measures calculated in accordance with GAAP in the U.S. OIBDA represents consolidated net income plus income tax expense, interest and other costs and depreciation and amortization expense. Adjusted OIBDA excludes from OIBDA non-cash share based payment costs and the merger termination fee and related merger costs. Adjusted OIBDA margin is calculated by dividing Adjusted OIBDA by total revenue. These non-GAAP financial measures are used by management to evaluate operating performance, to forecast future results and as a basis for compensation. The Company believes these are important supplemental measures of operating performance because they eliminate items that have less bearing on its operating performance and so highlight trends in its core business that may not otherwise be apparent when relying solely on GAAP financial measures. The Company believes the presentation of these measures is relevant and useful for investors because it enables them to view performance in a manner similar to the method used by the Company’s management, helps improve their ability to understand the Company’s operating performance and makes it easier to compare the Company’s results with other companies that may have different depreciation and amortization policies, non-cash share based compensation programs, levels of mergers and acquisitions, interest rates or debt levels or income tax rates. A limitation of these measures, however, is that they exclude depreciation and amortization, which represent a proxy for the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company’s business. In addition, Adjusted OIBDA has the limitation of not reflecting the effect of the Company’s share based payment costs or costs associated with the Screenvision merger. OIBDA or Adjusted OIBDA should not be regarded as an alternative to operating income, net income or as indicators of operating performance, nor should they be considered in isolation of, or as substitutes for financial measures prepared in accordance with GAAP. The Company believes that consolidated net income is the most directly comparable GAAP financial measure to OIBDA. Because not all companies use identical calculations, these non-GAAP presentations may not be comparable to other similarly titled measures of other companies, or calculations in the Company’s debt agreement.

The following table reconciles consolidated net income to OIBDA and Adjusted OIBDA for the periods presented (dollars in millions):

	Three Months Ended		Nine Months Ended	
	Oct. 1,	Sept. 25,	Oct. 1,	Sept. 25,
	2015	2014	2015	2014
Consolidated net income	\$26.9	\$19.4	\$30.0	\$32.7
Income tax expense	4.8	2.1	6.3	4.2
Interest and other non-operating costs	16.1	19.2	50.2	56.9
Depreciation and amortization	8.0	8.6	24.2	24.2
OIBDA	\$55.8	\$49.3	\$110.7	\$118.0
Share-based compensation costs (1)	3.8	0.9	9.7	5.1
Merger termination fee and related merger costs (2)	-	2.0	34.3	3.7
Adjusted OIBDA	\$59.6	\$52.2	\$154.7	\$126.8
Total revenue	\$111.7	\$100.8	\$310.1	\$270.9
Adjusted OIBDA margin	53.4 %	51.8 %	49.9 %	46.8 %

(1) Share-based compensation costs are included in network operations, selling and marketing and administrative expense in the accompanying unaudited Condensed Consolidated Financial Statements.

(2) Merger termination fee and related merger costs primarily include the merger termination payment and legal, accounting, advisory and other professional fees associated with the terminated merger with Screenvision.

The Company has also presented total operating expenses before the merger termination fee and related merger costs within its results of operations section below which is not a financial measure calculated in accordance with GAAP in the United States. Operating expenses before the merger termination fee and related merger costs represent operating costs less costs associated with the terminated Screenvision merger. This non-GAAP financial measure is used to provide readers a comparison of our 2015 results to our 2014 results without including the impact of the nonrecurring merger termination fee and related merger costs. The Company believes this is an important supplemental measure because it eliminates these nonrecurring costs to highlight trends in its ongoing business that may not otherwise be apparent when relying solely on GAAP financial measures. Operating expenses before the merger termination fee and related merger costs should not be regarded as an alternative to operating expenses or as an indicator of operating performance, nor should it be considered in isolation of, or as a substitute for financial measures prepared in accordance with GAAP. The Company believes that total operating expenses is the most directly comparable GAAP financial measure.

Basis of Presentation

The results of operations data for the three and nine months ended October 1, 2015 and September 25, 2014 was derived from the unaudited Condensed Consolidated Financial Statements and accounting records of NCM, Inc. and should be read in conjunction with the notes thereto.

Results of Operations

Three Months Ended October 1, 2015 and September 25, 2014

Revenue. Total revenue increased 10.8%, from \$100.8 million for the three months ended September 25, 2014 to \$111.7 million for the three months ended October 1, 2015. The following is a summary of revenue by category (in millions):

Three Months Ended	\$ Change
--------------------------	--------------