

National CineMedia, Inc.
Form 10-Q
August 07, 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 July 2, 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

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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 4, 2015, 61,472,476 shares of the registrant’s common stock (including unvested restricted shares), par value of \$0.01 per share, were outstanding.

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PART I

Item 1. Financial Statements

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(UNAUDITED)

	July 2, 2015	January 1, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$11.8	\$13.4
Short-term marketable securities	16.1	21.7
Receivables, net of allowance of \$4.8 and \$4.3, respectively	126.9	116.5
Prepaid expenses	4.2	3.6
Deferred tax assets	2.9	6.9
Income tax receivable	5.8	6.1
Current portion of notes receivable - founding members	4.2	4.2
Other current assets	0.8	—
Total current assets	172.7	172.4
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of \$75.9 and \$72.9, respectively	21.9	22.4
Intangible assets, net of accumulated amortization of \$80.3 and \$69.3, respectively	508.8	488.6
Deferred tax assets	230.0	227.3
Debt issuance costs, net of accumulated amortization of \$19.1 and \$17.8, respectively	14.2	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	41.5	45.5
Other assets	0.5	0.6
Total non-current assets	837.8	819.0
TOTAL ASSETS	\$1,010.5	\$991.4
LIABILITIES AND EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members	\$28.1	\$34.9
Payable to founding members under tax receivable agreement	15.4	19.6
Accrued expenses	18.9	19.2
Accrued payroll and related expenses	10.0	10.7
Accounts payable	13.2	13.3
Deferred revenue	13.4	8.5
Deferred tax liability	0.7	1.0

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Total current liabilities	99.7	107.2
NON-CURRENT LIABILITIES:		
Long-term debt	935.0	892.0
Deferred tax liability	52.0	54.2
Payable to founding members under tax receivable agreement	145.4	146.7
Total non-current liabilities	1,132.4	1,092.9
Total liabilities	1,232.1	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, 59,012,038 and		
58,750,926 issued and outstanding, respectively	0.6	0.6
Additional paid in capital/(deficit)	(248.2)	(261.0)
Retained earnings (distributions in excess of earnings)	(173.5)	(147.4)
Accumulated other comprehensive income/(loss)	-	(0.4)
Total NCM, Inc. stockholders' equity/(deficit)	(421.1)	(408.2)
Noncontrolling interests	199.5	199.5
Total equity/(deficit)	(221.6)	(208.7)
TOTAL LIABILITIES AND EQUITY/DEFICIT	\$1,010.5	\$991.4

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except share and per share data)

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	July 2,	June 26,	July 2,	June 26,
	2015	2014	2015	2014
REVENUE:				
Advertising (including revenue from founding members				
of \$9.0, \$9.8, \$16.7 and \$19.3, respectively)	\$121.5	\$99.9	\$198.4	\$170.1
OPERATING EXPENSES:				
Advertising operating costs	8.3	6.6	14.1	11.6
Network costs	4.2	4.4	8.7	9.0
Theatre access fees—founding members	19.2	17.9	36.4	35.3
Selling and marketing costs	17.0	14.1	33.0	29.1
Merger termination fee and related merger costs	0.9	1.7	34.3	1.7
Administrative and other costs	8.3	7.1	17.0	14.7
Depreciation and amortization	8.2	7.8	16.2	15.6
Total	66.1	59.6	159.7	117.0
OPERATING INCOME	55.4	40.3	38.7	53.1
NON-OPERATING EXPENSES:				
Interest on borrowings	13.1	13.0	26.2	26.1
Interest income	(0.3)	(0.5)	(0.9)	(0.9)
Accretion of interest on the discounted payable to				
founding members under tax receivable agreement	3.5	3.5	7.1	7.3
Amortization of terminated derivatives	-	2.5	1.6	5.0
Other non-operating expense	-	0.1	0.1	0.2
Total	16.3	18.6	34.1	37.7
INCOME BEFORE INCOME TAXES	39.1	21.7	4.6	15.4
Income tax expense	5.8	3.8	1.5	2.1
CONSOLIDATED NET INCOME	33.3	17.9	3.1	13.3
Less: Net income attributable to noncontrolling				
interests	23.2	14.3	2.0	12.8
NET INCOME ATTRIBUTABLE TO NCM, INC.	\$10.1	\$3.6	\$1.1	\$0.5
NET INCOME PER NCM, INC. COMMON SHARE:				
Basic	\$0.17	\$0.06	\$0.02	\$0.01
Diluted	\$0.17	\$0.06	\$0.02	\$0.01
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	58,974,581	58,722,025	58,931,628	58,670,412
Diluted	59,595,019	59,000,127	59,360,245	59,006,383

Dividends declared per common share	\$0.22	\$0.22	\$0.44	\$0.94
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See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	July 2,	June 26,	July 2,	June 26,
	2015	2014	2015	2014
CONSOLIDATED NET INCOME, NET OF TAX OF				
\$5.8, \$3.8, 1.5 AND \$2.1, RESPECTIVELY	\$33.3	\$17.9	\$3.1	\$13.3
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Amortization of terminated derivatives, net of tax of				
\$0.0, \$0.5, \$0.3 and \$0.9, respectively	—	2.0	1.3	4.1
CONSOLIDATED COMPREHENSIVE INCOME	33.3	19.9	4.4	17.4
Less: Comprehensive income attributable to noncontrolling				
interests	—	15.6	2.9	15.5
COMPREHENSIVE INCOME ATTRIBUTABLE TO NCM, INC.	\$33.3	\$4.3	\$1.5	\$1.9

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(UNAUDITED)

	Six Months Ended	
	July 2,	June 26,
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net income	\$3.1	\$13.3
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Deferred income tax expense	1.0	9.2
Depreciation and amortization	16.2	15.6
Non-cash share-based compensation	5.9	4.2
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	7.1	7.3
Amortization of terminated derivatives	1.6	5.0
Amortization of debt issuance costs	1.3	1.4
Other	0.6	(0.3)
Changes in operating assets and liabilities:		
Receivables, net	(12.0)	10.9
Accounts payable and accrued expenses	(1.8)	(12.8)
Amounts due to founding members	1.0	3.0
Payment to founding members under tax receivable agreement	(17.2)	(25.1)
Deferred revenue	4.9	5.7
Income taxes and other	(1.4)	(1.0)
Net cash provided by operating activities	10.2	36.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(4.8)	(5.2)
Purchases of marketable securities	(40.8)	(70.2)
Proceeds from sale and maturities of marketable securities	49.9	81.3
Purchases of intangible assets from network affiliates	(0.9)	(0.5)
Net cash provided by investing activities	3.4	5.4
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(26.4)	(55.2)
Proceeds from borrowings	113.0	63.0
Repayments of borrowings	(70.0)	(54.0)
Payment of debt issuance costs	-	(0.1)
Founding member integration payments	1.1	0.9

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Distributions to founding members	(32.9)	(37.2)
Excess tax benefit from share-based compensation	0.1	(0.2)
Proceeds from stock option exercises	1.1	0.8
Repurchase of stock for restricted stock tax withholding	(1.2)	(1.3)
Net cash used in financing activities	(15.2)	(83.3)
CHANGE IN CASH AND CASH EQUIVALENTS	(1.6)	(41.3)
Cash and cash equivalents at beginning of period	13.4	54.7
Cash and cash equivalents at end of period	\$11.8	\$13.4

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

(UNAUDITED)

	Six Months Ended	
	July 2,	June 26,
	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	\$25.1	\$18.4
Increase (decrease) in dividends not requiring cash in the period	\$0.8	\$(0.7)
Increase in cost and equity method investments	\$1.7	\$—
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$24.8	\$24.5
Payments for income taxes, net	\$0.2	\$6.6

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY/(DEFICIT)

(In millions, except share and per share data)

(UNAUDITED)

	NCM, Inc.				Retained	Accumulated	
		Common Stock	Capital	Additional	Earnings	Other	Noncontrolling
	Consolidated	Shares	Amount	Paid in	(Distribution	Loss	Interest
			(Deficit)	in	in Excess	Comprehensive	
				Excess	of	Loss	
				of	Earnings)	Loss	
				Earnings)	Loss	Loss	
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 issued for purchase							
of intangible asset	31.4	—	—	14.1			