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 Incorporation or Organization)	(I.R.S. Employer 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 x No o

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 x No o

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	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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

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, 2015	June 26, 2014	July 2, 2015	June 26, 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

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, 2015	June 26, 2014	July 2, 2015	June 26, 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, 2015	June 26, 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

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, 2015	June 26, 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.					
	Consolidated	Common Stock Shares	Amount	Additional Paid in Capital (Deficit)	Retained Earnings (Distribution in Excess of Earnings)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
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	—	—	17.3
Income tax and other impacts of NCM LLC ownership changes	(2.4)	—	—	(5.4)	—	—	3.0
Comprehensive income, net of tax	4.4	—	—	—	1.1	0.4	2.9
Share-based compensation issued	1.1	261,112	—	1.1	—	—	—
Share-based compensation expense/capitalized	4.9	—	—	3.0	—	—	1.9
Cash dividends declared $0.44 per share	(27.2)	—	—	—	(27.2)	—	—
Balance—July 2, 2015	$ (221.6)	59,012,038	$ 0.6	$ (248.2)	$ (173.5)	$ (0.0)	$ 199.5
Balance—December 26, 2013	$ (146.1)	58,519,137	$ 0.6	$ (271.7)	$ (80.0)	$ (3.2)	$ 208.2
Distributions to founding members	(24.6)	—	—	—	—	—	(24.6)
NCM LLC equity returned for purchase of intangible asset	16.4	—	—	7.5	—	—	8.9
Income tax and other impacts of NCM	(0.8)	—	—	(2.4)	—	—	1.6

LLC ownership changes							
Comprehensive income, net of tax	17.4	—	—	—	0.5	1.4	15.5
Share-based compensation issued	(0.5)	223,052	—	(0.5)	—	—	—
Share-based compensation expense/capitalized	4.2	—	—	2.9	—	—	1.3
Excess tax benefit from share-based compensation	0.2	—	—	0.2	—	—	—
Cash dividends declared $0.94 per share	(54.5)	—	—	—	(54.5)	—	—
Balance—June 26, 2014	$ (188.3)	58,742,189	$ 0.6	$ (264.0)	$ (134.0)	$ (1.8)	$ 210.9

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

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 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 July 2, 2015, NCM LLC had 130,716,532 common membership units outstanding, of which 59,012,038 (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 six months ended July 2, 2015, NCM LLC also either paid directly or reimbursed NCM, Inc. for the legal and other merger-related costs of approximately $15.0 million ($7.5 million incurred by NCM, Inc. during the year ended January 1, 2015 and approximately $7.5 million incurred by NCM LLC during the six months ended July 2, 2015). The Company and the founding members each bore a pro rata portion of the merger termination fee and the related merger expenses based on their aggregate ownership percentages in NCM LLC.

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 SUBSIDIARIES

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 July 2, 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 six months ended July 2, 2015 and the three months ended June 26, 2014, there were no customers that accounted for more than 10% of revenue. During the six months ended June 26, 2014, revenue related to advertisements of NCM LLC's founding members' beverage supplier accounted for 11.3% 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 July 2, 2015 and June 26, 2014 and the six months ended July 2, 2015 and June 26, 2014, 16,146, 3,672, 254,461 and 251,660 shares of restricted stock and restricted stock units vested, respectively. During the three months ended July 2, 2015 and June 26, 2014 and the six months ended July 2, 2015 and June 26, 2014, 57,890, 23,559, 90,405 and 52,447 stock options were exercised at a weighted average exercise price of $12.15, $12.73, $12.18 and $13.74 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 the Company's employees 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.

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

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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):

	Six Months Ended	
	July 2, 2015	June 26, 2014
Net income attributable to NCM, Inc.	$1.1	$0.5
NCM LLC equity issued for purchase of intangible asset	14.1	7.5
Income tax and other impacts of subsidiary ownership changes	(5.4)	(2.4)
Change from net income attributable to NCM, Inc. and transfers from noncontrolling interests	$9.8	$5.6

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.

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.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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. The Company expects to adopt this accounting guidance in its first quarter of 2016 and will present debt issuance costs as a reduction of debt, rather than an asset.

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.

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	Six Months Ended

	Ended July 2, 2015	June 26, 2014	July 2, 2015	June 26, 2014
Net income attributable to NCM, Inc. (in millions)	$10.1	$		