National CineMedia, Inc.
Form 10-Q
August 10, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

EXCHANGE ACT OF 1934

For the quarterly period ended June 28, 2007

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 ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

As of August 8, 2007, 42,000,000 shares of the registrant s common stock, par value of $0.01 per share, were outstanding.

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NATIONAL CINEMEDIA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In millions)

	June 28, 2007	December 28, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12.1	$ 6.7
Receivables, net	70.7	63.9
Deferred tax assets	1.9	
Prepaid expenses and other current assets	1.6	1.6
Total current assets	86.3	72.2
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $14.9 million in 2007 and $12.7 million in 2006	14.3	12.6
OTHER ASSETS:		
Debt issuance costs, net	14.0	0.2
Deferred tax assets	306.5	
Interest rate swap agreements and other	19.6	5.0
Investment in non-consolidated affiliate	5.0	
Total other assets	345.1	5.2
TOTAL	$ 445.7	$ 90.0
LIABILITIES AND STOCKHOLDER S EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3.0	$ 5.4
Amounts due to founding members	14.3	53.9
Accrued payroll and related expenses	7.3	6.4
Accrued expenses	7.5	5.5
Income taxes payable	8.4	
Deferred tax liability	0.2	
Deferred revenue	5.4	3.4
Total current liabilities	46.1	74.6
OTHER LIABILITIES:		
Unit option plan payable		1.9
Deferred tax liability	61.0	
Taxes payable to founding members	129.8	
Borrowings	768.0	10.0
Total other liabilities	958.8	11.9
Total liabilities	1,004.9	86.5
COMMITMENTS AND CONTINGENCIES (NOTE 12)		
STOCKHOLDERS EQUITY/(DEFICIT):		

Common stock, $0.01 par value; 120,000,000 shares authorized, 42,000,000 issued and outstanding at June 28, 2007	0.4	
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued and outstanding		
Retained earnings	7.4	
Distributions in excess of additional paid in capital	(572.2)	
Accumulated other comprehensive income	5.2	
Total stockholders equity/(deficit)	(559.2)	
MEMBERS EQUITY		3.5
TOTAL	$ 445.7	$ 90.0

See accompanying notes to consolidated financial statements.

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NATIONAL CINEMEDIA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In millions, except share and per share data)

	Quarter Ended June 28, 2007	Period February 13, 2007 through June 28, 2007	Period December 29, 2006 through February 12, 2007	Quarter Ended June 29, 2006	Six Months Ended June 29, 2006
REVENUE:					
Advertising	$ 76.7	$ 105.8	$ 20.6	$ 50.2	$ 73.3
Administrative fees founding members			0.1	2.0	3.5
Meetings and events	7.0	10.3	2.9	4.9	7.6
Other		0.1			0.1
Total	83.7	116.2	23.6	57.1	84.5
EXPENSES:					
Advertising operating costs	2.2	3.2	1.1	2.4	3.8
Meetings and events operating costs	3.9	5.7	1.4	2.1	3.1
Network costs	3.7	5.6	1.7	3.9	7.0
Theatre access fees/circuit share costs founding members	12.0	17.5	14.4	34.4	50.6
Selling and marketing costs	10.3	15.4	5.2	9.7	18.3
Administrative costs	5.3	7.9	2.8	3.8	7.3
Severance plan costs	0.5	1.0	0.4	0.8	2.6
Depreciation and amortization	1.3	1.8	0.7	1.1	2.3
Other costs	0.5	0.8			
Total	39.7	58.9	27.7	58.2	95.0
OPERATING INCOME (LOSS)	44.0	57.3	(4.1)	(1.1)	(10.5)
INTEREST EXPENSE, NET	16.4	24.5	0.1	0.1	0.1
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	27.6	32.8	(4.2)	(1.2)	(10.6)
PROVISION FOR INCOME TAXES	11.3	13.2			
MINORITY INTEREST, NET	10.0	12.2			
NET INCOME (LOSS)	$ 6.3	$ 7.4	$ (4.2)	$ (1.2)	$ (10.6)
EARNINGS PER SHARE:					
Basic	$ 0.15	$ 0.17			
Diluted	$ 0.15	$ 0.17			
WEIGHTED AVERAGE SHARES OUTSTANDING:					
Basic	42,000,000	42,000,000			
Diluted	42,143,091	42,132,782			

See accompanying notes to consolidated financial statements.

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NATIONAL CINEMEDIA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In millions)

	Period February 13, 2007 through June 28, 2007	Period December 29, 2006 through February 12, 2007	Six Months Ended June 29, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 7.4	$ (4.2)	$ (10.6)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1.8	0.7	2.3
Minority interest	12.2		
Non-cash severance plan and share-based compensation costs	2.4	0.7	3.0
Accretion of income taxes payable to founding members	4.2		
Debt issuance costs and loss on repayment of debt	0.8		
Changes in operating assets and liabilities:			
(Increase) decrease in receivables net	(19.4)	12.6	(13.6)
Increase (decrease) in accounts payable and accrued expenses	6.6	(4.4)	4.7
(Decrease) increase in amounts due to founding members	(50.5)	(3.7)	15.4
Payment of severance plan costs			(3.5)
Increase in income taxes and other	12.8	0.5	
Net cash (used in) provided by operating activities	(21.7)	2.2	(2.3)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(3.2)	(0.5)	(2.3)
Increase in investment in non-consolidated affiliate	(5.0)		
Net cash used in investing activities	(8.2)	(0.5)	(2.3)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Sale of common stock	882.0		
Payment of offering costs and fees	(52.7)	(0.1)	
Proceeds of short-term borrowings from founding members			3.0
Repayments of short-term borrowings to founding members			(4.3)
Proceeds from borrowings	818.0	13.0	18.5
Repayments of borrowings	(60.0)	(13.0)	(10.5)
Payment of debt issuance costs	(14.7)		(0.6)
Proceeds from founding member contributions	0.9		0.9
Distribution to founding members	(1,539.8)		(0.9)
Net cash provided by (used in) financing activities	33.7	(0.1)	6.1
INCREASE IN CASH AND CASH EQUIVALENTS	3.8	1.6	1.5

CASH AND CASH EQUIVALENTS:						
Beginning of period		8.3		6.7		
End of period	$	12.1	$	8.3	$	1.5

(*Continued*)

See accompanying notes to consolidated financial statements.

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NATIONAL CINEMEDIA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(UNAUDITED)

(In millions)

	Period February 13, 2007 through June 28, 2007		Period December 29, 2006 through February 12, 2007		Quarter Ended June 29, 2006	
Supplemental disclosure of non-cash financing and investing activity:						
Contribution for severance plan payments	$	1.0	$	0.4	$	2.6
Increase in distributions payable to members	$	17.3	$		$	
Contributions from members collected after period end	$	2.8	$		$	
Increase in property and equipment	$	0.2	$		$	0.1
Liability and equity recorded upon recognition of deferred tax assets and liabilities related to IPO-date transactions:						
Taxes payable to founding members	$	125.6	$		$	
Additional paid-in-capital	$	119.3	$		$	
Deferred offering costs reclassified to equity	$	4.5	$		$	
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	17.3	$	0.1	$	0.1
Cash paid for income taxes	$		$		$	

See accompanying notes to consolidated financial statements.

NATIONAL CINEMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. THE COMPANY

National CineMedia, Inc. (NCM, Inc.) was incorporated in the state of Delaware on October 5, 2006 as a holding company with the sole purpose of becoming a member and sole manager of National CineMedia, LLC (NCM LLC). NCM LLC commenced operations on April 1, 2005 and operates the largest digital in-theatre network in North America that allows NCM to distribute advertising, business meeting, and Fathom and other event services under long-term exhibitor services agreements (ESAs) with American Multi-Cinema, Inc. (AMC), a wholly owned subsidiary of AMC Entertainment, Inc. (AMCE), Regal Cinemas , Inc. (RCM), a wholly owned subsidiary of Regal Entertainment Group (Regal), and Cinemark USA, Inc. (Cinemark). AMC, RCM and Cinemark are referred to in this document as founding members . NCM LLC also provides such services to certain third-party theater circuits under Network Affiliate Agreements which expire at various dates.

2. INITIAL PUBLIC OFFERING AND RELATED TRANSACTIONS

On February 13, 2007, NCM, Inc. closed its initial public offering (IPO) of 42,000,000 shares of common stock at a price to the public of $21.00 per share. NCM, Inc. received net proceeds of approximately $824.6 million, after deducting underwriting discounts and commissions and offering expenses of approximately $57.4 million. After various transactions completed in connection with the IPO, the public stockholders, through NCM, Inc., obtained a 44.8% interest in NCM LLC. As the managing member of NCM LLC, NCM, Inc. consolidates the operations of NCM LLC. The terms NCM , the Company or we shall be deemed to include the consolidated entity when used in discussions included herein regarding the current operations or assets of the entities.

NCM, Inc. used the net proceeds from the IPO to purchase a 44.8% interest in NCM LLC, paying NCM LLC $746.1 million, which included reimbursement to NCM LLC for expenses it advanced related to the IPO and paying the founding members $78.5 million for a portion of the NCM LLC units owned by them. NCM LLC paid $686.3 million of the funds received from NCM, Inc. to the founding members to modify the then-existing exhibitor services agreements. The remaining proceeds received by NCM LLC from NCM, Inc. of $59.8 million, together with the $709.8 million net proceeds from NCM LLC s new senior secured credit facility, were used to redeem $769.5 million in NCM LLC preferred units held by the founding members. The preferred units were created immediately prior to the IPO in a non-cash recapitalization of each membership unit into one common unit and one preferred unit. Immediately prior to this non-cash recapitalization, the existing common units and employee unit options were split on a 44,291-to-1 basis. All unit and per unit amounts in these financial statements reflect the impact of this split. At June 28, 2007, NCM LLC had 93,850,951 membership units outstanding, of which 42,000,000 (44.8%) were owned by NCM, Inc., 21,230,712 (22.6%) were owned by RCM, 17,474,890 (18.6%) were owned by AMC, and 13,145,349 (14.0%) were owned by Cinemark.

Under the amended and restated ESAs with the founding members, subject to limited exceptions, NCM LLC is the exclusive provider of advertising services to the founding members for a 30-year term (with a five-year right of first refusal at the end of the term) and meetings and event services to the founding members for an initial five-year term, with an automatic five-year renewal providing certain financial tests are met. In exchange for the right to provide these services to the founding members, NCM LLC is required to pay to the founding members a theatre access fee which is a specified calculation based on the attendance at the founding member theatres and the number of digital screens in founding member theatres. Prior to the IPO, NCM LLC paid to the founding members a percentage of NCM LLC s advertising revenue as advertising circuit share. Upon the completion of the IPO, the founding members assigned to NCM LLC all legacy contracts , which are generally contracts for advertising sold by the founding members prior to the formation of NCM LLC but which were unfulfilled at the date of formation. In addition, the founding members made additional time available for sale by NCM LLC, subject to a first right to purchase the time, if needed, by the founding members to fulfill advertising obligations with their in-theatre beverage concessionaries. NCM, Inc. also entered into employment agreements with five executive officers to carry out obligations entered into pursuant to a management services agreement between NCM, Inc. and NCM LLC.

3. BASIS OF PRESENTATION

The December 28, 2006 consolidated balance sheet information is derived from the audited financial statements of NCM, Inc. and NCM LLC included in our annual report on Form 10-K for the fiscal year ended December 28, 2006 filed with the Securities and Exchange Commission on March 28, 2007. (At December 28, 2006, NCM, Inc. had been formed but was not capitalized; therefore, its balance sheet at that date is not presented herein.) The unaudited condensed consolidated financial

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NATIONAL CINEMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

statements contained herein should be read in conjunction with the audited consolidated financial statements and notes thereto. The results of operations for the period ended June 28, 2007 are presented in two periods, reflecting operations prior to and subsequent to the IPO. The period from December 29, 2006 through February 12, 2007 is referred to as the 2007 pre-IPO period . The period from February 13, 2007 through June 28, 2007 is referred to as the 2007 post-IPO period . Separate periods have been presented because there were significant changes due to the ESA modifications and related expenses thereunder, and significant changes to revenue arrangements and contracts with the founding members.

The financial statements for both the 2007 pre-IPO period and 2007 post-IPO period give effect to allocations of revenues and expenses made using relative percentages of founding member attendance or days in each period, discrete events and other methods management considered to be a reasonable reflection of the results for such periods. The historical financial data of NCM LLC may not be indicative of the Company s future performance nor will such data reflect what its financial position and results of operations would have been had it operated as an independent publicly traded company during the periods presented. In addition, as a result of the various related-party agreements discussed in Note 8, the operating results as presented are not necessarily indicative of the results that would have occurred if all agreements were with non-related third parties.

The Company has prepared the unaudited condensed consolidated balance sheet as of June 28, 2007 and the unaudited condensed consolidated statements of operations and cash flows for the quarter and six-month periods ended June 29, 2006, and the period December 29, 2006 through February 12, 2007 and the quarter ended June 28, 2007 and the period February 13, 2007 through June 28, 2007 in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. 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 balance sheet of NCM LLC at December 28, 2006 reflects the carryover basis of the founding members in the assets contributed by RCM and AMC. At formation, and through the date of the IPO, NCM LLC was a joint venture. As stated in Emerging Issues Task Force (EITF) Issue 94-8 concerning the formation of a joint venture, ...it is developed practice to record the contributed businesses at predecessor basis.

The founding members received all of the proceeds from the IPO and the related issuance of debt, except for amounts needed to pay out-of-pocket costs of the financings, and $10.0 million to repay outstanding amounts under NCM LLC s then-existing revolving line of credit agreement. In conformity with accounting guidance of the Securities and Exchange Commission concerning monetary consideration paid to promoters, such as the founding members, in exchange for property conveyed by the promoters, the excess over predecessor cost is treated as a special distribution. Because the founding members had no cost basis in the ESAs, all payments to the founding members with the proceeds of the IPO and related debt, amounting to approximately $1.456 billion, have been accounted for as distributions, except for the payments to liquidate accounts payable to the founding members arising from the ESAs. The distributions by NCM LLC to the founding members made at the date of the IPO resulted in a consolidated stockholders deficit. As a minority interest cannot be shown as an asset, the founding members interest in NCM LLC s members equity is included in distributions in excess of paid in capital in the accompanying June 28, 2007 balance sheet.

The Company operates on a 52-week fiscal year, with the fiscal year ending on the first Thursday after December 25, which, in certain years, results in a 53-week year. The meetings and event services operations are operating segments but do not meet the quantitative thresholds for segment reporting.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation NCM, Inc. consolidates the accounts of NCM LLC under the provision of EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. Under EITF 04-5, 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 either 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 EITF 04-5, as they do not limit NCM, Inc. s ability to make decisions in the ordinary course of business.

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Revenue Recognition Advertising revenue and administrative fees from legacy contracts are recognized in the period in which an advertising contract is fulfilled against the contracted theatre attendees. Deferred revenue refers to the unearned portion of advertising contracts. All deferred revenue is classified as a current liability. Meetings and events revenue is recognized in the period in which the event is held. Legacy contracts are advertising contracts with the founding members prior to the formation of NCM LLC, which were not assigned to NCM LLC until the IPO was complete. Administrative fees earned by the Company prior to the IPO for its services in fulfilling the legacy contracts were based on a percentage of legacy contract revenue (32% during 2006 and the 2007 pre-IPO period).

Operating Costs Advertising-related operating costs primarily include personnel and other costs related to advertising fulfillment, and to a lesser degree, production costs of non-digital advertising, and payments due to unaffiliated theatres circuits under the Network Affiliate Agreements.

Meeting and event operating costs include equipment rental, catering, movie tickets acquired primarily from the founding members, revenue share under the amended and restated ESAs and other direct costs of the meeting or event.

In the 2007 pre-IPO period, circuit share costs were fees payable to the founding members for the right to exhibit advertisements within the theatres, based on a percentage of advertising revenue. In the 2007 post-IPO period, under the amended and restated ESAs, a payment to the founding members of a theatre access fee, in lieu of circuit share expense, comprised of a payment per theatre attendee and a payment per digital screen, both of which escalate over time, is reflected in expense.

Network costs include personnel, satellite bandwidth, repairs, and other costs of maintaining and operating the digital network and preparing advertising and other content for transmission across the digital network. These costs relate primarily to the advertising business, and to a lesser extent to the meetings and events business.

Cash and Equivalents All highly liquid debt instruments and investments purchased with a remaining maturity of three months or less are classified as cash equivalents. Periodically these are cash balances in a bank in excess of the federally insured limits or in the form of a money market demand account with a major financial institution.

Receivables 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. Trade accounts receivable are uncollateralized and represent a large number of geographically dispersed debtors. At June 28, 2007, there are two individual accounts representing approximately 14% and 10%, respectively, of our outstanding gross receivable balances.

Property and Equipment Property and equipment is stated at cost, net of accumulated depreciation or amortization. Major renewals and improvements are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed currently. In general, the equipment associated with the digital network that is located at the theatre is owned by the founding members, while equipment outside the theatre is owned by the Company.

Amounts Due to/from Founding Members In the 2007 pre-IPO period, amounts due to/from founding members included circuit share costs and cost reimbursements, net of the administrative fees earned on Legacy Contracts. Amounts due to/from founding members in the 2007 post-IPO period include amounts due for the theatre access fee, offset by a receivable for advertising time purchased by the founding members, as well as revenue share earned for meetings and events plus any amounts outstanding under other contractually obligated payments. Payments to or received from the founding members against outstanding balances are made monthly.

Network Affiliate Agreements Network affiliate agreements were contributed at NCM LLC s formation at the net book value of the founding members and are amortized on a straight-line basis over the remaining life of the agreement. These agreements require payment to the affiliate of a percentage of the advertising revenue associated with the advertisements played in affiliate theatres, and also specify minimum payments that must be made. Amortization expense related to the network affiliate agreements was $0.1 million, $0.3 million, $0.2 million, $0.1 million and $0.6 million for the quarter ended June 28, 2007, quarter ended June 29, 2006, 2007 post-IPO period, 2007 pre-IPO period and the six month period ended June 29, 2006, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Investments in Non-Consolidated Affiliates The Company uses the equity method of accounting for its investments in and earnings or losses of affiliates that it does not control but over which it has the ability to exert significant influence. The Company considers whether the fair value of its equity method investment has declined below the carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considered any such decline to be other than temporary, based on various factors including product development activities and the overall health of the affiliate and affiliate industry, then a write-down would be recorded to estimated fair value.

Income Taxes In the 2007 pre-IPO and 2006 periods, as a limited liability company, NCM LLC s taxable income or loss was allocated to the founding members and, therefore, no provision or liability for income taxes was included in the financial statements.

Effective with the 2007 post-IPO period, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates will be recognized in income in the period that includes the enactment date. The Company will record a valuation allowance if it is deemed more likely than not that its deferred income tax assets will not be realized, which will be assessed on an on-going basis.

Interest Rate Swap NCM LLC has entered into interest rate swap agreements which qualify for and have been designated as a cash flow hedge against interest rate exposure on $550.0 million of the variable rate debt obligations under the senior secured credit facility. Under the terms of the interest rate swap agreements, NCM LLC pays interest at a fixed rate of 6.734% and will receive interest at a variable rate based on 3-month LIBOR. The 3-month LIBOR rate on each reset date determines the variable portion of the interest for cash on the last day of each calendar quarter, until completion. The fair value of the interest rate swap is recorded on the Company s unaudited condensed consolidated balance sheet as an asset or liability with the effective portion of the interest rate swap gains or losses reported as a component of other comprehensive income (loss) and the ineffective portion recorded in earnings. As interest expense is accrued on the debt obligation, amounts in accumulated other comprehensive income (loss) related to the interest rate swap will be reclassified into earnings to obtain a net cost on the debt obligation equal to the effective yield of the fixed rate of the swap. The fair value of the Company s interest rate swap is based on dealer quotes, and represents an estimate of the amount the Company would receive or pay to terminate the agreements taking into consideration various factors, including current interest rates and the forward yield curve for 3-month LIBOR.

As a result of the mark to market of the interest rate swap in the quarter ended June 28, 2007, the Company has comprehensive income for the quarter totaling $11.5 million, consisting of net income of $6.3 million and other comprehensive income of $5.2 million.

Stock-Based Compensation Stock-based employee compensation is accounted for at fair value under Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*. The Company adopted SFAS No. 123(R) on December 30, 2005 prospectively for new equity based grants, as there were no equity based grants prior to the date of adoption.

Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, deferred revenue and equity-based compensation. Actual results could differ from those estimates.

5. RECENT ACCOUNTING PRONOUNCEMENTS

During June 2006, the FASB issued Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken

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NATIONAL CINEMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company adopted this interpretation on February 13, 2007, the date at which the Company began to account for income taxes within its consolidated accounts. The impact of the Company s assessment of its tax positions in accordance with FIN 48 did not have a material effect on the Company s results of operations, financial condition or liquidity.

During September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within such fiscal years. The Company is assessing the impact that SFAS No. 157 will have on our results of operations, financial condition and liquidity, which we do not expect to be significant.

During February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these investments in earnings. SFAS No. 159 is effective as of January 1, 2008. The Company is assessing the impact that SFAS No. 159 will have on our results of operations, financial condition and liquidity, which we do not expect to be significant.

6. INCOME TAXES

The components of the provision for income taxes for income from operations are as follows (in millions):

	Quarter Ended June 28, 2007	Period February 13, 2007 through June 28, 2007
Federal and State :		
Current	$ 8.3	$ 8.8
Deferred	3.0	4.4
Total income tax provision	$ 11.3	$ 13.2

A reconciliation of the provision for income taxes as reported and the amount computed by multiplying the income before taxes and minority interest by the U.S. federal statutory rate of 35% was (in millions):

	Quarter Ended June 28, 2007	Period February 13, 2007 through June 28, 2007

Provision calculated at federal statutory income tax rate	$ 9.7	$ 11.5
State and local income taxes, net of federal benefit	1.3	1.6
Other	0.3	0.1
Total income tax provision	$ 11.3	$ 13.2

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NATIONAL CINEMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Significant components of the Company s deferred tax assets and deferred tax liability consisted of the following (in millions):

	As of June 28, 2007
Deferred tax assets:	
Excess of tax basis in assets over book basis	$ 298.3
Other	10.1
Total deferred tax assets	$ 308.4
Deferred tax liabilities:	
Discount on liability for income taxes payable to founding members	$ 57.6
Interest rate swap and other	3.6
Total deferred tax liabilities	$ 61.2

The Company has provided total income taxes, as follows (in millions):

	Quarter Ended June 28, 2007		Period February 13, 2007 through June 28, 2007	
	Pre-Tax Amount	Income Tax Provision	Pre-Tax Amount	Income Tax Provision
Income before income taxes and minority interest	$ 27.6	$ 11.3	$ 32.8	$ 13.2
Minority interest	16.7	6.7	20.3	8.1
Other comprehensive income, net of minority interest	8.6	3.4	8.6	3.4
Total		$ 21.4		$ 24.7

The payments made to the founding members at the date of the IPO that were accounted for as distributions under generally accepted accounting principles created amortizable basis for federal income tax purposes. NCM, Inc. and the founding members entered into a tax receivable agreement under which NCM, Inc. will effectively make cash payments to the founding members in amounts equal to 90% of NCM, Inc. s actual tax benefit realized as a result of this amortization. NCM, Inc. recorded a deferred tax asset equal to the future tax benefits of the tax amortization, estimated at $304.2 million and a credit to a long-term payable to founding members of $273.8 million, which was recorded at its original present value of $125.6 million. The discount on the liability is a temporary difference that resulted in a deferred tax liability of $59.3 million at its original amount.

In assessing the realizable value of deferred tax assets, primarily arising in connection with the IPO, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The Company has not recorded a valuation allowance against deferred tax assets at June 28, 2007 as management believes it is more likely than not that the deferred tax assets will be realized in future periods.

Prior to February 13, 2007, as an LLC, NCM LLC allocated all of its earnings to its founding members.

NATIONAL CINEMEDIA, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7. INVESTMENT IN NON-CONSOLIDATED AFFILIATE

On June 26, 2007, NCM LLC invested $5.0 million of cash in 6% PIK convertible preferred stock of IdeaCast, Inc., a provider of advertising to fitness centers and health clubs throughout the United States. As part of the initial investment, NCM LLC entered into an agreement whereby, at our option or at the option of IdeaCast, Inc., exercisable at any time before June 30, 2008, NCM LLC will make an additional $2.0 million cash investment in 6% convertible preferred stock of IdeaCast, Inc. The amount of IdeaCast, Inc. 6% convertible preferred stock owned by NCM LLC at June 28, 2006 and, the aggregate amount of IdeaCast, Inc. 6% convertible preferred stock owned after the $2.0 million additional investment, if made, is convertible into a minority interest of IdeaCast, Inc. s common stock. In addition, a further agreement was entered into whereby, at the option of NCM LLC during the period June 30, 2008 through December 2009, a further investment may be made by NCM LLC to purchase common stock of IdeaCast, Inc. at a predetermined valuation formula, to bring NCM LLC s total investment to approximately 50.1% of IdeaCast, Inc. (on a fully diluted basis assuming conversion of all of the 6% convertible preferred stock). Neither the option to purchase additional convertible preferred stock or common stock of IdeaCast, Inc. has been exercised. The companies also entered into a shared services agreement which will allow for cross-marketing and certain services to be provided between the companies at rates which will be determined on an arms length basis. There have been no services provided through June 28, 2007.

At the date of investment, the carrying value of the investment exceeds the underlying equity in net assets of IdeaCast, Inc. The Company is in process of evaluating the allocation of such difference between identifiable intangibles and goodwill.

8. CAPITAL STOCK

As of June 28, 2007, the Company has authorized capital stock of 120,000,000 shares of common stock, par value of $0.01 per share, and 10,000,000 shares of preferred stock, par value of $0.01 per share. The Company issued 42,000,000 shares of common stock and 268,184 restricted shares in connection with the IPO as described in Note 2 above. No shares of preferred stock were issued or outstanding at June 28, 2007. The Company has 2,576,000 shares reserved for issuance under its Equity Incentive Plan. As of June 28, 2007 and June 29, 2006, options to acquire 1,812,406 shares and 1,018,870 units, as converted, respectively, were outstanding under the equity incentive plan. As of June 28, 2007, 271,845 restricted shares were outstanding under the equity incentive plan.

9. RELATED-PARTY TRANSACTIONS

2007 Pre-IPO Period

At the formation of NCM LLC and upon the admission of Cinemark as a founding member, circuit share arrangements and administrative services fee arrangements were consummated with each founding member. Circuit share cost and administrative fee revenue by founding member were as follows (in millions):

	February 12, 2007		June 29, 2006		June 29, 2006	
	Circuit Share Cost	Administrative Fee Revenue	Circuit Share Cost	Administrative Fee Revenue	Circuit Share Cost	Administrative Fee Revenue
AMC	$ 4.1	$ 0.0	$ 10.6	$ 0.1	$ 16.0	$ 0.2
Cinemark	3.7	0.1	8.2		10.7	0.3

Regal	6.6		0.0	15.6		1.9	23.9		3.0
Total	$ 14.4	$	0.1	$ 34.4	$	2.0	$ 50.6	$	3.5

NCM LLC s administrative services fee was earned at a rate of 32% of the legacy contract value for the 2007 pre-IPO period and the quarter and six months ended June 29, 2006. At the closing of the IPO, the founding members entered into amended and restated ESAs which, among other things, amended the circuit share structure in favor of the theatre access fee structure and assigned all remaining legacy contracts to NCM LLC.

Pursuant to the agreements entered into at the completion of the IPO, amounts owed to the founding members through the date of the IPO of $50.8 million were paid by NCM LLC on March 15, 2007.

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NATIONAL CINEMEDIA, INC.

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Amounts due to (from) founding members at December 28, 2006, were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Circuit share payments	$ 15.2	$ 14.0	$ 24.8	$ 54.0
Cost reimbursement	0.1		0.4	0.5
Administrative fee		(0.1)	(0.5)	(0.6)
Total	$ 15.3	$ 13.9	$ 24.7	$ 53.9

2007 Post-IPO Period

Pursuant to the amended and restated ESAs in place since the close of the IPO, we make monthly theatre access fee payments to the founding members, comprised of a payment per theatre attendee and a payment per digital screen of the founding member theatres. The theatre access fee replaced the circuit share expenses. Also, under the amended and restated ESAs, NCM LLC records revenue for payments from the founding members for the display of up to 90 seconds of on-screen advertising under their beverage concessionaire agreements at a specified 30 second equivalent cost per thousand (CPM). The total theatre access fee to the founding members for the quarter ended June 28, 2007 is $12.0 million and for the 2007 post-IPO period is $17.5 million. The total revenue related to the beverage concessionaire agreements for the quarter ended June 28, 2007 is $11.8 million and for the 2007 post-IPO period is $17.3 million. In addition, pursuant to the amended and restated ESAs, we make monthly payments to the founding members for use of their screens and theatres for our meetings and events business. These payments are at agreed upon rates based on the nature of the event. Payments to the founding members for these events totaled $1.1 million for the quarter ended June 28, 2007 and $1.6 million for the 2007 post-IPO period.

Amounts due to (from) founding members at June 28, 2007 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	$ (0.5)	$ 0.1	$ 0.2	$ (0.2)
Cost and other reimbursement				