National CineMedia, Inc.
Form 10-Q
May 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

Commission file number: 001-33296

NATIONAL CINEMEDIA, INC.

(Exact name of registrant as specified in its charter)

Delaware	20-5665602
(State or Other Jurisdiction of 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 April 28, 2016, 62,392,303 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 SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share data)

(UNAUDITED)

	March 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 14.2	$ 31.7
Short-term marketable securities	25.9	13.2
Receivables, net of allowance of $5.7 and $5.6, respectively	97.6	148.9
Prepaid expenses	4.4	2.8
Income tax receivable	15.0	2.5
Current portion of notes receivable - founding members	4.2	4.2
Other current assets	0.4	0.3
Total current assets	161.7	203.6
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of $63.5 and $64.1, respectively	26.9	25.1
Intangible assets, net of accumulated amortization of $98.4 and $91.9, respectively	581.1	566.7
Deferred tax assets	212.0	217.1
Long-term notes receivable, net of current portion - founding members	12.5	12.5
Other investments	7.1	5.4
Long-term marketable securities	33.6	40.5
Debt issuance costs, net	2.1	2.3
Other assets	0.6	0.5
Total non-current assets	875.9	870.1
TOTAL ASSETS	$ 1,037.6	$ 1,073.7
LIABILITIES AND EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members	$ 4.9	$ 35.5
Payable to founding members under tax receivable agreement	11.8	26.2
Accrued expenses	22.0	19.8
Accrued payroll and related expenses	6.3	18.1
Accounts payable	14.1	14.9
Deferred revenue	10.1	10.2
Total current liabilities	69.2	124.7
NON-CURRENT LIABILITIES:		

Long-term debt, net of debt issuance costs of $10.2 and $10.6, respectively	944.8	925.4
Deferred tax liability	50.0	50.1
Income tax payable	5.0	4.9
Payable to founding members under tax receivable agreement	141.9	140.3
Total non-current liabilities	1,141.7	1,120.7
Total liabilities	1,210.9	1,245.4
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
EQUITY/(DEFICIT):		
NCM, Inc. Stockholders' Equity/(Deficit):		
Preferred stock, $0.01 par value; 10,000,000 shares authorized, none issued and outstanding, respectively	—	—
Common stock, $0.01 par value; 175,000,000 shares authorized, 59,820,477 and 59,239,154 issued and outstanding, respectively	0.6	0.6
Additional paid in capital/(deficit)	(214.2)	(221.5)
Retained earnings (distributions in excess of earnings)	(204.3)	(186.1)
Total NCM, Inc. stockholders' equity/(deficit)	(417.9)	(407.0)
Noncontrolling interests	244.6	235.3
Total equity/(deficit)	(173.3)	(171.7)
TOTAL LIABILITIES AND EQUITY/DEFICIT	$ 1,037.6	$ 1,073.7

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF LOSS

(In millions, except share and per share data)

(UNAUDITED)

	Three Months Ended	
	March 31, 2016	April 2, 2015
REVENUE (including revenue from founding members of $7.3 and $7.7, respectively)	$76.2	$76.9
OPERATING EXPENSES:		
Advertising operating costs	5.0	5.8
Network costs	4.5	4.5
Theatre access fees—founding members	18.7	17.2
Selling and marketing costs	18.6	16.0
Merger termination fee and related merger costs	—	33.4
Administrative and other costs	14.9	8.7
Depreciation and amortization	8.7	8.0
Total	70.4	93.6
OPERATING INCOME (LOSS)	5.8	(16.7)
NON-OPERATING EXPENSES:		
Interest on borrowings	13.4	13.1
Interest income	(0.6)	(0.6)
Accretion of interest on the discounted payable to founding members under tax receivable agreement	3.6	3.6
Amortization of terminated derivatives	—	1.6
Other non-operating expense	—	0.1
Total	16.4	17.8
LOSS BEFORE INCOME TAXES	(10.6)	(34.5)
Income tax benefit	(2.1)	(4.3)
CONSOLIDATED NET LOSS	(8.5)	(30.2)
Less: Net loss attributable to noncontrolling interests	(4.2)	(21.2)
NET LOSS ATTRIBUTABLE TO NCM, INC.	$(4.3)	$(9.0)
NET LOSS PER NCM, INC. COMMON SHARE:		
Basic	$(0.07)	$(0.15)
Diluted	$(0.07)	$(0.15)
WEIGHTED AVERAGE SHARES OUTSTANDING:		
Basic	59,610,864	58,888,674
Diluted	59,610,864	58,888,674
Dividends declared per common share	$0.22	$0.22

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)

(UNAUDITED)

	Three Months Ended	
	March 31, 2016	April 2, 2015
CONSOLIDATED NET LOSS, NET OF TAX OF $2.1 AND $4.3, RESPECTIVELY	$(8.5)	$(30.2)
OTHER COMPREHENSIVE LOSS, NET OF TAX:		
Amortization of terminated derivatives, net of tax of $0.0 and $0.3, respectively	—	1.3
CONSOLIDATED COMPREHENSIVE LOSS	(8.5)	(28.9)
Less: Comprehensive loss attributable to noncontrolling interests	(4.2)	(20.3)
COMPREHENSIVE LOSS ATTRIBUTABLE TO NCM, INC.	$(4.3)	$(8.6)

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(UNAUDITED)

	Three Months Ended	
	March 31, 2016	April 2, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Consolidated net loss	$(8.5)	$(30.2)
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:		
Deferred income tax expense	10.3	(4.4)
Depreciation and amortization	8.7	8.0
Non-cash share-based compensation	6.6	3.0
Excess tax benefit from share-based compensation	—	(0.1)
Accretion of interest on the discounted payable to founding members under tax receivable agreement	3.6	3.6
Amortization of terminated derivatives	—	1.6
Amortization of debt issuance costs	0.7	0.6
Other	(0.2)	(0.1)
Changes in operating assets and liabilities:		
Receivables, net	49.7	35.2
Accounts payable and accrued expenses	(9.3)	(0.3)
Amounts due to founding members	(0.1)	0.4
Payment to founding members under tax receivable agreement	(23.5)	(17.2)
Deferred revenue	(0.2)	1.0
Income taxes and other	(14.1)	(0.8)
Net cash provided by operating activities	23.7	0.3
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3.9)	(2.0)
Purchases of marketable securities	(17.1)	(18.4)
Proceeds from sale and maturities of marketable securities	11.6	20.6
Purchases of intangible assets from network affiliates	—	(0.9)
Net cash used in investing activities	(9.4)	(0.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividends	(15.0)	(13.3)
Proceeds from borrowings	71.0	96.0
Repayments of borrowings	(52.0)	(50.0)
Founding member integration payments	0.9	0.8

Distributions to founding members	(32.4)	(32.9)
Excess tax benefit from share-based compensation	—	0.1
Proceeds from stock option exercises	0.3	0.4
Repurchase of stock for restricted stock tax withholding	(4.6)	(1.2)
Net cash used in financing activities	(31.8)	(0.1)
CHANGE IN CASH AND CASH EQUIVALENTS	(17.5)	(0.5)
Cash and cash equivalents at beginning of period	31.7	13.4
Cash and cash equivalents at end of period	$14.2	$12.9

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

(UNAUDITED)

	Three Months Ended March 31, 2016	April 2, 2015
Supplemental disclosure of non-cash financing and investing activity:		
Purchase of an intangible asset with NCM LLC equity	$21.1	$31.4
Accrued distributions to founding members	$1.1	$—
(Decrease) increase in dividends not requiring cash in the period	$(1.1)	$0.1
Increase in cost and equity method investments	$1.7	$1.6
Supplemental disclosure of cash flow information:		
Cash paid for interest	$10.7	$10.3
Cash paid for income taxes, net of refunds	$0.1	$0.2

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY/(DEFICIT)

(In millions, except share and per share data)

(UNAUDITED)

		NCM, Inc.					
	Consolidated	Common Stock Shares	Amount	Additional Paid in Capital (Deficit)	Retained Earnings (Distribution in Excess of Earnings)	Accumulated Other Comprehensive Loss	Noncontrolling Interest
Balance—December 31, 2015	$ (171.7)	59,239,154	$ 0.6	$ (221.5)	$ (186.1)	$ —	$ 235.3
Distributions to founding members	(1.1)	—	—	—	—	—	(1.1)
NCM LLC equity issued for purchase of intangible asset	21.1	—	—	9.2	—	—	11.9
Income tax and other impacts of NCM LLC ownership changes	(1.7)	—	—	(2.7)	—	—	1.0
Comprehensive loss, net of tax	(8.5)	—	—		(4.3)	—	(4.2)
Share-based compensation issued	(4.3)	581,323	—	(4.3)	—	—	—
Share-based compensation expense/capitalized	6.8	—	—	5.1	—	—	1.7
Cash dividends declared $0.22 per share	(13.9)	—	—	—	(13.9)	—	—
Balance—March 31, 2016	$ (173.3)	59,820,477	$ 0.6	$ (214.2)	$ (204.3)	$ —	$ 244.6
Balance—January 1, 2015	$ (208.7)	58,750,926	$ 0.6	$ (261.0)	$ (147.4)	$ (0.4)	$ 199.5
NCM LLC equity returned for purchase of intangible asset	31.4	—	—	14.1	—	—	17.3
Income tax and other impacts of NCM LLC ownership changes	(2.4)	—	—	(5.0)	—	—	2.6

Comprehensive loss, net of tax	(28.9)	—	—	—	(9.0)	0.4	(20.3)
Share-based compensation issued	(0.8)	193,119	—	(0.8)	—	—	—
Share-based compensation expense/capitalized	3.0	—	—	2.0	—	—	1.0
Cash dividends declared $0.22 per share	(13.4)	—	—	—	(13.4)	—	—
Balance—April 2, 2015	$ (219.8)	58,944,045	$ 0.6	$ (250.7)	$ (169.8)	$ —	$ 200.1

See accompanying notes to Condensed Consolidated Financial Statements.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. THE COMPANY

Description of Business

National CineMedia, Inc. ("NCM, Inc.") was incorporated in Delaware as a holding company with the sole purpose of becoming a member and sole manager of National CineMedia, LLC ("NCM LLC"), a limited liability company owned by NCM, Inc., American Multi-Cinema, Inc. and AMC ShowPlace Theatres, Inc. ("AMC"), wholly owned subsidiaries of AMC Entertainment, Inc., Regal Cinemas, Inc. and Regal CineMedia Holdings, LLC, wholly owned subsidiaries of Regal Entertainment Group ("Regal") and Cinemark Media, Inc. and Cinemark USA, Inc., wholly owned subsidiaries of Cinemark Holdings, Inc. ("Cinemark"). The terms "NCM", "the Company" or "we" shall, unless the context otherwise requires, be deemed to include the consolidated entity. AMC, Regal and Cinemark and their affiliates are referred to in this document as "founding members". NCM LLC operates the largest digital in-theatre network in North America, allowing NCM LLC to sell advertising (the "Services") under long-term exhibitor services agreements ("ESAs") with the founding members (approximately 21 years remaining as of March 31, 2016) and certain third-party theatre circuits (known as "network affiliates") under long-term network affiliate agreements, which have terms from three to twenty years.

As of March 31, 2016, NCM LLC had 137,140,810 common membership units outstanding, of which 59,820,477 (43.6%) were owned by NCM, Inc., 27,072,701 (19.8%) were owned by Regal, 26,384,644 (19.2%) were owned by Cinemark and 23,862,988 (17.4%) were owned by AMC. The membership units held by the founding members are exchangeable into NCM, Inc. common stock on a one-for-one basis.

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 three months ended April 2, 2015, NCM LLC also either paid directly or reimbursed NCM, Inc. for the legal and other merger-related costs of approximately $14.1 million ($7.5 million incurred by NCM, Inc. during the year ended January 1, 2015 and approximately $6.6 million incurred by NCM LLC during the three months ended April 2, 2015). The Company and the founding members each bore a pro rata portion of the merger termination fee and the related merger expenses based on their aggregate ownership percentages in NCM LLC when the expenses were incurred.

Basis of Presentation

The Company has prepared the unaudited Condensed Consolidated Financial Statements and related notes of NCM, Inc. in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. The balance sheet as of December 31, 2015 is derived from the audited financial statements of NCM, Inc. Therefore, the unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in the Company's annual report on Form 10-K filed for the fiscal year ended December 31, 2015.

In the opinion of management, all adjustments (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 December 31, 2015 contain a complete discussion of the Company's significant accounting policies. Following is additional information related to the Company's accounting policies.

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

Share-Based Compensation—The Company has issued stock options and restricted stock to certain employees and restricted stock units to its independent directors. The Company has not granted stock options since 2012. In 2015 and 2016, the restricted stock grants for Company officers vest upon the achievement of Company performance measures and/or service conditions, while non-officer grants vest only upon the achievement of service conditions. Compensation expense of restricted stock that vests upon the achievement of Company performance measures is based on management's financial projections and the probability of achieving the projections, which require considerable judgment. A cumulative adjustment is recorded to share-based compensation expense in periods that management changes its estimate of the number of shares of restricted stock expected to vest. Ultimately, the Company adjusts the expense recognized to reflect the actual vested shares following the resolution of the performance conditions. Dividends are accrued when declared on unvested restricted stock that is expected to vest and are only paid with respect to shares that actually vest. During the three months ended March 31, 2016 and April 2, 2015, 868,605 and 238,315 shares of restricted stock and restricted stock units vested, respectively. During the three months ended March 31, 2016 and April 2, 2015, 22,934 and 32,515 stock options were exercised at a weighted average exercise price of $13.02 and $12.24 per share, respectively.

Consolidation—NCM, Inc. consolidates the accounts of NCM LLC under the provisions of ASC 810, Consolidation ("ASC 810"). Under ASC 810, a managing member of a limited liability company ("LLC") is presumed to control the

LLC, unless the non-managing members have the right to dissolve the entity or remove the managing member without cause, or if the non-managing members have substantive 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):

	Three Months Ended March 31, 2016	April 2, 2015
Net loss attributable to NCM, Inc.	$(4.3)	$(9.0)
NCM LLC equity issued for purchase of intangible asset	9.2	14.1
Income tax and other impacts of subsidiary ownership changes	(2.7)	(5.0)
Change from net income attributable to NCM, Inc. and transfers from noncontrolling interests	$2.2	$0.1

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Adopted Accounting Pronouncements

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

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

During the first quarter of 2016, the Company adopted Accounting Standards Update 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03") on a retrospective basis, which provides guidance for simplifying the presentation of debt issuance costs. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The Company also adopted Accounting Standards Update 2015-15, Interest — Imputation of Interest ("ASU 2015-15"), 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 Company reclassified net deferred financing costs related to the Company's Term Loans, Senior Secured Notes and Senior Unsecured Notes in the Condensed Consolidated Balance Sheets as a direct deduction from the carrying amount of those borrowings, while net deferred financing costs related to the Company's Revolving Credit Facility remained an asset in the unaudited Condensed Consolidated Balance Sheets. Upon adoption of ASU 2015-03 and ASU 2015-15, net deferred financing costs of $10.6 million in the December 31, 2015 unaudited Condensed Consolidated Balance Sheet were reclassified from an asset to a reduction of the carrying value of long-term debt.

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

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

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which supersedes the revenue recognition requirements in Accounting Standards Codification 605, Revenue Recognition. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which was issued in August 2015, revised the effective date for this standard to annual and interim periods beginning on or after December 15, 2017, with early adoption permitted, but not earlier than the original effective date of annual and interim periods beginning after December 15, 2016, for public entities. The standard allows for either a full retrospective or a modified retrospective transition method. The Company is currently evaluating the effect that adopting this guidance will have on the unaudited Condensed Consolidated Financial Statements or notes thereto, as well as, which transition method it intends to use.

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

In February 2016, the FASB issued Accounting Standards Update 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the impact of ASU 2016-02 on the unaudited Condensed Consolidated Financial Statements or notes thereto.

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

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

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

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2. LOSS PER SHARE

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

	Three Months Ended	
	March 31, 2016	April 2, 2015
Net loss attributable to NCM, Inc. (in millions)	$(4.3)	$(9.0)
Weighted average shares outstanding:		
Basic	59,610,864	58,888,674
Add: Dilutive effect of stock options and restricted stock	—	—
Diluted	59,610,864	58,888,674
Loss per NCM, Inc. share:		
Basic	$(0.07)	$(0.15)
Diluted	$(0.07)	$(0.15)

The effect of 76,121,743 and 69,923,520, exchangeable NCM LLC common units held by the founding members for the three months ended March 31, 2016 and April 2, 2015, respectively, have been excluded from the calculation of diluted weighted average shares and earnings per NCM, Inc. share as they were antidilutive. NCM LLC common units do not participate in NCM, Inc. dividends. In addition, there were 5,326,214 and 5,529,103 stock options and non-vested (restricted) shares for the three months ended March 31, 2016 and April 2, 2015, respectively, excluded from the calculation as they were antidilutive, primarily due to the net loss in those periods.

3. INTANGIBLE ASSETS

In accordance with NCM LLC's Common Unit Adjustment Agreement with its founding members, on an annual basis NCM LLC determines the amount of common membership units to be issued to or returned by the founding members based on theatre additions or dispositions during the previous year. During the first quarter of 2016 and 2015, NCM LLC issued 1,416,515 and 2,160,915 common membership units to its founding members, respectively, for the rights to exclusive access to the theatre screens and attendees added, net of dispositions by the founding members to NCM LLC's network during the previous year. NCM LLC recorded a net intangible asset of $21.1 million and $31.4 million during the three months ended March 31, 2016 and April 2, 2015, respectively, as a result of the Common Unit Adjustments.

In addition, NCM LLC's Common Unit Adjustment Agreement requires that a Common Unit Adjustment occur for a specific founding member if its acquisition or disposition of theatres, in a single transaction or cumulatively since the most recent Common Unit Adjustment, results in an attendance increase or decrease in excess of two percent of the annual total attendance at the prior adjustment date. If an existing on-screen advertising agreement with an alternative provider is in place with respect to any acquired theatres, the founding members may elect to receive common membership units related to those encumbered theatres in connection with the Common Unit Adjustment. If the founding members make this election, then they are required to make payments on a quarterly basis in arrears in accordance with certain run-out provisions pursuant to the ESAs ("integration payments"). During the three months ended March 31, 2016 and April 2, 2015 the Company recorded a reduction to net intangible assets of $0.1 million and $0.3 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 March 31, 2016 and April 2, 2015, AMC and Cinemark paid a total of $0.9 million and $0.8 million, respectively, in integration payments.

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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.

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

Included in the Condensed Consolidated Statements of Income:	Three Months Ended March 31, 2016	April 2, 2015
Revenue:		
Beverage concessionaire revenue (included in advertising revenue) (1)	$7.2	$7.6
Advertising inventory revenue (included in advertising revenue) (2)	0.1	0.1
Operating expenses:		
Theatre access fee (3)	18.7	17.2
Purchase of movie tickets and concession products and rental of theatre space (included in selling and marketing costs) (4)	0.3	0.2
Non-operating expenses:		
Interest income from notes receivable (included in interest income) (5)	0.2	0.3

(1) For the three months ended March 31, 2016, two of the founding members purchased 60 seconds of on-screen advertising time and one founding member purchased 30 seconds (with all three founding members having a right to purchase up to 90 seconds) from NCM LLC to satisfy their obligations under their beverage concessionaire agreements at a 30 second equivalent cost per thousand ("CPM") rate specified by the ESA. For the three months ended April 2, 2015 all 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 March 31,	December 31,
Included in the Condensed Consolidated Balance Sheets:	2016	2015
Current portion of notes receivable - founding members (1)	4.2	4.2
Long-term portion of notes receivable - founding members (1)	12.5	12.5
Interest receivable on notes receivable (included in other current assets) (1)	0.2	—
Common unit adjustments and integration payments, net of amortization (included in intangible assets) (2)	550.9	535.9
Current payable to founding members under tax receivable agreement (3)	11.8	26.2
Long-term payable to founding members under tax receivable agreement (3)	141.9	140.3

(1) Refer to the discussion of notes receivable from the founding members above.
(2) Refer to Note 3—Intangible Assets for further information on common unit adjustments and integration payments.

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(3) The Company paid the founding members approximately $23.5 million in the first quarter of 2016, of which $2.7 million was net operating loss carrybacks for the 2013 tax year and $20.8 million was for the 2015 tax year. 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.

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 three months ended April 2, 2015, NCM LLC also either paid directly or reimbursed NCM, Inc. for the legal and other merger-related costs of approximately $14.1 million ($7.5 million incurred by NCM, Inc. during the year ended January 1, 2015 and approximately $6.6 million incurred by NCM LLC during the three months ended April 2, 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 when the expenses were incurred.

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 months ended March 31, 2016 and April 2, 2015 were as follows (in millions):

	Three Months Ended March 31, 2016	April 2, 2015
AMC	$0.3	$ —
Cinemark	0.4	—
Regal	0.4	—
Total founding members	1.1	—
NCM, Inc.	0.9	—
Total	$2.0	$ —

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 March 31, 2016 of $1.1 million is included in amounts due to founding members on the unaudited Condensed Consolidated Balance Sheets as of March 31, 2016 and will be made in the second quarter of 2016. The distributions to NCM, Inc. are eliminated in consolidation.

Amounts due to founding members as of March 31, 2016 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	$ 1.7	$ 1.0	$ 1.2	$ 3.9
Cost and other reimbursement	—	(0.1)	—	(0.1)
Distributions payable to founding members	0.3	0.4	0.4	1.1
Total amounts due to founding members	$ 2.0	$ 1.3	$ 1.6	$ 4.9

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Amounts due to founding members as of December 31, 2015 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	$1.8	$ 1.0	$1.5	$4.3
Cost and other reimbursement	(0.9)	(0.3)	—	(1.2)
Distributions payable to founding members	10.2	10.9	11.3	32.4
Total amounts due to founding members	$11.1	$ 11.6	$12.8	$35.5

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 $1.2 million and $1.2 million as of March 31, 2016 and December 31, 2015, respectively. Equity in earnings from AC JV, LLC was $0.1 million and $0.1 million for the three months ended March 31, 2016 and April 2, 2015, respectively, and is included in non-operating expenses in the unaudited Condensed Consolidated Statements of Loss.

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 March 31, 2016 and April 2, 2015 there was an inconsequential amount of 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 March 31, 2016 and December 31, 2015, respectively.

Other Transactions—NCM LLC had 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. There was approximately $0.3 million and $0.3 million of accounts receivable due from this company as of March 31, 2016 and December 31, 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 pre-show. During the three months ended March 31, 2016 and April 2, 2015, NCM LLC recorded approximately $0.4 million and $0.4 million, respectively, in revenue from AEG Live and as of

March 31, 2016 and December 31, 2015, had $0.2 million and $0.4 million, respectively, of accounts receivable from AEG Live.

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5. BORROWINGS

The following table summarizes NCM LLC's total outstanding debt as of March 31, 2016 and December 31, 2015 and the significant terms of its borrowing arrangements (in millions):

	Outstanding Balance as of			
	March 31,	December 31,	Maturity	Interest
Borrowings	2016	2015	Date	Rate
Revolving Credit Facility	$ 85.0	$ 66.0	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 borrowings	955.0	936.0		
Less: debt issuance costs related to term loans and senior notes	(10.2)	(10.6)		
Carrying value of long-term debt	$ 944.8	$ 925.4		

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

Senior Secured Credit Facility—As of March 31, 2016 and December 31, 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 March 31, 2016, NCM LLC's total availability under the $135.0 million revolving credit facility was $50.0 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 March 31, 2016 was 2.68%.

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 March 31, 2016 was 3.19%. 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 March 31, 2016, 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 March 31, 2016, NCM LLC's consolidated net senior secured leverage ratio was 3.4 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 March 31, 2016.

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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 March 31, 2016.

6. INCOME TAXES

The Company is subject to taxation in the U.S. and various states. The Company has established a contingency reserve for material, known tax exposures. The Company's reserve reflects management's judgment as to the resolution of the issues involved if subject to judicial review or other settlement. While the Company believes its reserves are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be resolved at a financial cost that does not exceed its related reserve. With respect to the reserve, the Company' income tax expense would include (i) any changes in tax reserves arising from material changes during the period in the facts and circumstances (i.e., new information) surrounding a tax issue and (ii) any difference from the Company's tax position as recorded in the financial statements and the final resolution of a tax issue during the period. Such resolution could materially increase or decrease income tax expense in the unaudited Condensed Consolidated Financial Statements in future periods and could impact operating cash flows.

Unrecognized tax benefits represent the aggregate tax effect of differences between tax return positions and the amounts otherwise recognized in the unaudited Condensed Consolidated Financial Statements. The total amount of unrecognized tax benefits as of March 31, 2016 and December 31, 2015, was $3.9 million and $3.9 million, respectively, excluding accrued interest and penalties.

The Company recognizes interest and penalties with respect to unrecognized tax benefits in income tax expense in the unaudited Condensed Consolidated Statements of Loss and records the liability in income taxes payable in the unaudited Condensed Consolidated Balance Sheets. The Company recognized $0.1 million and $0.0 million interest and penalties during the three months ended March 31, 2016 and April 2, 2015, respectively. The Company has accrued $1.1 million and $1.0 million for the payment of interest and penalties as of March 31, 2016 and December 31, 2015, respectively.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $3.9 million and $3.9 million as of March 31, 2016 and December 31, 2015, respectively, excluding interest and penalties. It is reasonably possible that the Company's total unrecognized tax benefits will decrease by approximately $2.2 million during the next twelve months due to the expiration of certain statutes of limitations.

7. 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 individually and in the aggregate 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 March 31, 2016, the maximum potential amount of future payments the Company could be required to make pursuant to the minimum revenue guarantees is $41.2 million over the remaining terms of the network affiliate agreements, which calculation does not include any potential future extensions. As of March 31, 2016 and December 31, 2015, the Company had no liabilities recorded for these obligations, as such guarantees are less than the expected share of revenue paid to the network affiliate.

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8. 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.

Other investments consisted of the following (in millions):

	As of March 31, 2016	December 31, 2015
Investment in AC JV, LLC (1)	$1.2	$ 1.2
Other investments (2)	5.9	4.2
Total	$7.1	$ 5.4

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

(2) 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 March 31, 2016 and December 31, 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 March 31, 2016 and December 31, 2015, the Company had notes receivable totaling $16.7 million and $16.7 million, respectively, from its founding members related to the sale of Fathom Events, as described in Note 4—Related Party Transactions. These notes were initially 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.

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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 March 31, 2016		As of December 31, 2015	
	Carrying Value	Fair Value (1)	Carrying Value	Fair Value (1)
Term Loans	$270.0	$ 269.6	$270.0	$ 269.3
Senior Unsecured Notes	200.0	208.3	200.0	208.4
Senior Secured Notes	400.0	416.5	400.0	414.5

(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):

	Fair Value as of March 31, 2016	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Cash equivalents (1)	$ 1.1	$1.1	$ —	$ —
Short-term marketable securities (2)	25.9	5.7	20.2	—
Long-term marketable securities (2)	33.6	24.6	9.0	—
Total assets	$ 60.6	$31.4	$ 29.2	$ —

Fair Value Measurements at Reporting Date Using

	Fair Value as of December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Cash equivalents (1)	$ 6.4	$6.4	$ —	$ —
Short-term marketable securities (2)	13.2	9.5	3.7	—
Long-term marketable securities (2)	40.5	30.6	9.9	—
Total assets	$ 60.1	$46.5	$ 13.6	$ —

(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.

NATIONAL CINEMEDIA, INC. AND SUBSIDIARY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(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 months ended March 31, 2016 and April 2, 2015, 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 March 31, 2016, 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 December 31, 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 March 31, 2016 and December 31, 2015 were as follows:

	As of March 31, 2016		
	Amortized Cost Basis (in millions)	Aggregate Fair Value (in millions)	Maturities (1) (in years)
MARKETABLE SECURITIES:			
Short-term municipal bonds	$5.7	$ 5.7	0.3
Short-term commercial paper:			
Financial	4.1	4.1	0.9
Industrial	5.8	5.8	0.4
Utility	5.8	5.8	0.1
Short-term certificates of deposit	4.5	4.5	0.5
Total short-term marketable securities	25.9	25.9	
Long-term U.S. government treasury bonds	1.2	1.2	1.6
Long-term municipal bonds	1.6	1.6	1.5
Long-term U.S. government agency bonds	21.8	21.8	3.4
Long-term certificates of deposit:			
Financial	8.7	8.7	1.8
Industrial	0.3	0.3	1.6
Total long-term marketable securities	33.6	33.6	