Cinemark Holdings, Inc.
Form 10-Q
May 09, 2018
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, 2018

Commission File Number: 001-33401

CINEMARK HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 20-5490327 |
| (State or other jurisdiction | (I.R.S. Employer |
| of incorporation or organization) | Identification No.) |
| 3900 Dallas Parkway<br>Suite 500<br>Plano, Texas | 75093 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (972) 665-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | | | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | | Smaller reporting company |
| Emerging growth company | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 30, 2018, 116,778,802 shares of common stock were issued and outstanding.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

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Cautionary Statement Regarding Forward-Looking Statements

Certain matters within this Quarterly Report on Form 10Q include “forward–looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The “forward-looking statements” may include our current expectations, assumptions, estimates and projections about our business and our industry. They may include statements relating to future revenues, expenses and profitability, the future development and expected growth of our business, projected capital expenditures, attendance at movies generally or in any of the markets in which we operate, the number or diversity of popular movies released and our ability to successfully license and exhibit popular films, national and international growth in our industry, competition from other exhibitors and alternative forms of entertainment and determinations in lawsuits in which we are defendants. Forward-looking statements can be identified by the use of words such as “may,” “should,” “could,” “estimates,” “predicts,” “potential,” “continue,” “anticipates,” “believes,” “plans,” “expects,” “future” and “intends” a expressions. Forward-looking statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results or performance to differ from those projected in the forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. For a description of the risk factors, please review the “Risk Factors” section or other sections in the Company’s Annual Report on Form 10-K filed February 23, 2018 and quarterly reports on Form 10-Q, filed with the Securities and Exchange Commission. All forward-looking statements are expressly qualified in their entirety by such risk factors. We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION

Item 1.Financial Statements

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data, unaudited)

| | March 31, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $474,046 | $522,547 |
| Inventories | 17,083 | 17,507 |
| Accounts receivable | 78,211 | 89,250 |
| Current income tax receivable | 2,991 | 11,730 |
| Prepaid expenses and other | 19,409 | 16,536 |
| Total current assets | 591,740 | 657,570 |
| | | |
| Theatre properties and equipment | 3,387,494 | 3,328,589 |
| Less: accumulated depreciation and amortization | 1,551,842 | 1,500,535 |
| Theatre properties and equipment, net | 1,835,652 | 1,828,054 |
| | | |
| Other assets | | |
| Goodwill | 1,283,945 | 1,284,079 |
| Intangible assets - net | 335,164 | 336,761 |
| Investment in NCM | 202,455 | 200,550 |
| Investments in and advances to affiliates | 118,789 | 120,045 |
| Long-term deferred tax asset | 4,103 | 4,067 |
| Deferred charges and other assets - net | 41,623 | 39,767 |
| Total other assets | 1,986,079 | 1,985,269 |
| | | |
| Total assets | $4,413,471 | $4,470,893 |
| | | |
| Liabilities and equity | | |
| | | |
| Current liabilities | | |
| Current portion of long-term debt | $7,984 | $7,099 |
| Current portion of capital lease obligations | 26,231 | 25,511 |
| Current income tax payable | 11,058 | 5,509 |
| Current liability for uncertain tax positions | 12,353 | 11,873 |
| Accounts payable and accrued expenses | 329,723 | 418,921 |

| | | |
|---|---|---|
| Total current liabilities | 387,349 | 468,913 |
| | | |
| Long-term liabilities | | |
| Long-term debt, less current portion | 1,775,252 | 1,780,381 |
| Capital lease obligations, less current portion | 245,798 | 251,151 |
| Long-term deferred tax liability | 134,732 | 121,787 |
| Long-term liability for uncertain tax positions | 13,258 | 8,358 |
| Deferred lease expenses | 40,489 | 40,929 |
| Deferred revenue - NCM | 299,222 | 351,706 |
| Other long-term liabilities | 45,380 | 41,980 |
| Total long-term liabilities | 2,554,131 | 2,596,292 |
| | | |
| Commitments and contingencies (see Note 17) | | |
| | | |
| Equity | | |
| Cinemark Holdings, Inc.'s stockholders' equity: | | |
| Common stock, $0.001 par value: 300,000,000 shares authorized, 121,385,985 shares issued and 116,778,802 shares outstanding at March 31, 2018 and 121,000,903 shares issued and 116,475,033 shares outstanding at December 31, 2017 | 121 | 121 |
| Additional paid-in-capital | 1,144,514 | 1,141,088 |
| Treasury stock, 4,607,183 and 4,525,870 shares, at cost, at March 31, 2018 and December 31, 2017, respectively | (79,049 ) | (76,354 ) |
| Retained earnings | 647,298 | 582,222 |
| Accumulated other comprehensive loss | (252,942 ) | (253,282 ) |
| Total Cinemark Holdings, Inc.'s stockholders' equity | 1,459,942 | 1,393,795 |
| Noncontrolling interests | 12,049 | 11,893 |
| Total equity | 1,471,991 | 1,405,688 |
| | | |
| Total liabilities and equity | $4,413,471 | $4,470,893 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data, unaudited)

| | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Revenues | | |
| Admissions | $452,624 | $476,469 |
| Concession | 261,772 | 268,224 |
| Other | 65,575 | 34,917 |
| Total revenues | 779,971 | 779,610 |
| | | |
| Cost of operations | | |
| Film rentals and advertising | 240,915 | 252,818 |
| Concession supplies | 40,824 | 42,100 |
| Salaries and wages | 93,158 | 84,201 |
| Facility lease expense | 82,091 | 84,262 |
| Utilities and other | 109,432 | 88,357 |
| General and administrative expenses | 42,384 | 38,216 |
| Depreciation and amortization | 64,395 | 57,356 |
| Impairment of long-lived assets | 591 | 273 |
| Loss on sale of assets and other | 3,939 | 834 |
| Total cost of operations | 677,729 | 648,417 |
| | | |
| Operating income | 102,242 | 131,193 |
| | | |
| Other income (expense) | | |
| Interest expense | (27,115 ) | (26,369 ) |
| Loss on debt amendments | (1,484 ) | — |
| Interest income | 2,238 | 1,333 |
| Foreign currency exchange gain | 1,378 | 1,589 |
| Distributions from NCM | 6,358 | 6,788 |
| Interest expense - NCM | (4,979 ) | — |
| Equity in income of affiliates | 8,636 | 10,060 |
| Total other expense | (14,968 ) | (6,599 ) |
| | | |
| Income before income taxes | 87,274 | 124,594 |
| Income taxes | 25,097 | 44,400 |
| Net income | $62,177 | $80,194 |
| Less: Net income attributable to noncontrolling interests | 156 | 466 |
| Net income attributable to Cinemark Holdings, Inc. | $62,021 | $79,728 |
| | | |
| Weighted average shares outstanding | | |
| Basic | 115,883 | 115,629 |

| | | |
|---|---|---|
| Diluted | 116,143 | 115,915 |
| | | |
| Earnings per share attributable to Cinemark Holdings, Inc.'s common stockholders | | |
| Basic | $0.53 | $0.68 |
| Diluted | $0.53 | $0.68 |
| | | |
| Dividends declared per common share | $0.32 | $0.29 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

| | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|
| Net income | $62,177 | $80,194 |
| Other comprehensive income, net of tax | | |
| Other comprehensive income in equity method investments | 136 | 198 |
| Foreign currency translation adjustments | 204 | 14,893 |
| Total other comprehensive income, net of tax | 340 | 15,091 |
| Total comprehensive income, net of tax | 62,517 | 95,285 |
| Comprehensive income attributable to noncontrolling interests | (156) | (466) |
| Comprehensive income attributable to Cinemark Holdings, Inc. | $62,361 | $94,819 |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Operating activities | | |
| Net income | $62,177 | $80,194 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 63,514 | 56,975 |
| Amortization of intangible and other assets and favorable/unfavorable leases | 881 | 381 |
| Amortization of long-term prepaid rents | 639 | 493 |
| Amortization of debt issue costs | 1,590 | 1,529 |
| Loss on debt amendments | 1,484 | — |
| Amortization of deferred revenues, deferred lease incentives and other | (5,343) | (3,822) |
| Impairment of long-lived assets | 591 | 273 |
| Share based awards compensation expense | 3,426 | 3,241 |
| Loss on sale of assets and other | 3,939 | 834 |
| Deferred lease expenses | (483) | (347) |
| Equity in income of affiliates | (8,636) | (10,060) |
| Deferred income tax expenses | (72) | 8,889 |
| Distributions from equity investees | 12,323 | 12,049 |
| Changes in assets and liabilities and other | (52,378) | (64) |
| Net cash provided by operating activities | 83,652 | 150,565 |
| | | |
| Investing activities | | |
| Additions to theatre properties and equipment | (80,163) | (91,187) |
| Proceeds from sale of theatre properties and equipment and other | 477 | 3,835 |
| (Investment in) return of investment from joint ventures and other, net | 764 | (228) |
| Net cash used for investing activities | (78,922) | (87,580) |
| | | |
| Financing activities | | |
| Dividends paid to stockholders | (37,346) | (33,760) |
| Payroll taxes paid as a result of restricted stock withholdings | (2,695) | (2,694) |
| Repayments of long-term debt | (1,649) | — |
| Payment of debt issue costs | (4,962) | — |
| Fees paid related to debt amendments | (704) | — |
| Payments on capital leases | (6,090) | (4,989) |
| Other | — | (294) |
| Net cash used for financing activities | (53,446) | (41,737) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | 215 | 1,835 |
| | | |
| Increase (decrease) in cash and cash equivalents | (48,501) | 23,083 |

| | | |
|---|---|---|
| Cash and cash equivalents: | | |
| Beginning of period | 522,547 | 561,235 |
| End of period | $474,046 | $584,318 |
| Supplemental information (see Note 14) | | |

The accompanying notes are an integral part of the condensed consolidated financial statements.

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

1. The Company and Basis of Presentation

Cinemark Holdings, Inc. and subsidiaries (the “Company”) operates in the motion picture exhibition industry, with theatres in the United States (“U.S.”), Brazil, Argentina, Chile, Colombia, Peru, Ecuador, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Guatemala, Bolivia, Curacao and Paraguay.

The accompanying condensed consolidated balance sheet as of December 31, 2017, which was derived from audited financial statements, and the unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete consolidated financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. Majority-owned subsidiaries that the Company has control of are consolidated while those affiliates of which the Company owns between 20% and 50% and does not control are accounted for under the equity method. Those affiliates of which the Company owns less than 20% are generally accounted for under the cost method, unless the Company is deemed to have the ability to exercise significant influence over the affiliate, in which case the Company would account for its investment under the equity method. The results of these subsidiaries and affiliates are included in the condensed consolidated financial statements effective with their formation or from their dates of acquisition. Intercompany balances and transactions are eliminated in consolidation.

These condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and the notes thereto for the year ended December 31, 2017, included in the Annual Report on Form 10-K filed February 23, 2018 by the Company under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results to be achieved for the full year.

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASC Topic 606”), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASC Topic 606 replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers. The Company adopted ASC Topic 606 effective January 1, 2018. See Note 3 for further discussion.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), (“ASU 2016-02”). The purpose of ASU 2016-02 is to provide financial statement users a better understanding of the amount, timing, and uncertainty of cash flows arising from leases. The adoption of ASU 2016-02 will result in the recognition of a right-of-use asset and a lease liability for most operating leases. New disclosure requirements include qualitative and quantitative information about the amounts recorded in the financial statements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. ASU 2016-02 requires a modified retrospective transition by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective with the option to elect certain practical expedients. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-02 on its condensed consolidated financial statements. The most significant impact of the amendments in ASU 2016-02 will be the recognition of new right-of-use assets and lease liabilities for assets currently subject to operating leases. The Company will adopt the amendments in ASU 2016-02 in the first quarter of 2019.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments – a consensus of the FASB Emerging Issues Task Force, ("ASU 2016-15"). The purpose of ASU 2016-15 is to reduce the diversity in practice regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within that year. A retrospective transition method should be used in the application of the amendments within ASU 2016-15. The Company adopted ASU 2016-15 effective January 1, 2018. ASU 2016-15 did not have a material impact on the Company's condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, ("ASU 2016-16"). The purpose of ASUS 2016-16 is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within that year. A modified retrospective transition method should be used in the application of the amendments within ASU 2016-16 with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. ASU 2016-16 did not have a material impact on the Company's condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation – Stock Compensation (Topic 718): Scope Modification Accounting, ("ASU 2017-09"). The amendments in ASU 2017-09 provide guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting as described in ASC Topic 718. The amendments should be applied on a prospective basis. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted. The Company adopted ASU 2017-09 effective January 1, 2018. ASU 2017-09 did not have a material impact on the Company's condensed consolidated financial statements.

## 3. Revenue Recognition

### Revenue Recognition Policy

Admissions and concession revenues are recognized when sales are made at the box office and concession stand, respectively. Other revenues include screen advertising and other ancillary revenues such as vendor marketing promotions, meeting rentals and electronic video games located in the Company's theatres. The Company records proceeds from the sale of gift cards and other advanced sale-type certificates in current liabilities and recognizes admissions or concession revenue when a holder redeems the card or certificate. Additionally, the Company recognizes unredeemed gift cards and other advanced sale-type certificates as a proportion of actual redemptions as other revenues, which is an estimate primarily based on the Company's historical experience with such cards and certificates.

Screen advertising revenues are generally recognized over the period that the related advertising is delivered on-screen or in-theatre. Advances collected on long-term screen advertising, concession and other contracts are recorded as deferred revenues. In accordance with the terms of the agreements, the advances collected on such contracts are recognized during the period in which the Company satisfies the related performance obligations, which may differ from the period in which the advances are collected. These advances are recognized on either a straight-line basis over the term of the contracts or as the Company has met its performance obligations in accordance with the terms of the contracts.

See additional revenue recognition policy considerations, updated for the adoption of ASC Topic 606, below.

### Adoption of ASC Topic 606

The Company adopted ASC 606, Revenue from Contracts with Customers, effective January 1, 2018 under the modified retrospective method (cumulative-effect) and therefore, revenue amounts as presented on the condensed consolidated statements of income have not been adjusted for prior periods presented.

Changes to the way in which the Company recognizes revenue resulted in the following impacts to the condensed consolidated statements of income:

a) Recording of incremental other revenue and interest expense related to the significant financing component of the Company's Exhibitor Services Agreement ("ESA") with NCM, LLC ("NCM"). See further discussion below, including the estimated interest rates assumed in determining the amount of interest expense.

b) Deferral of a portion of admissions and concession revenues for transactions that include the issuance of loyalty points to customers. To determine the amount of revenues to defer upon issuance of points to customers under its points-based loyalty programs, the Company estimated the values of the rewards expected to be redeemed by its customers for those points. The estimates are based on the rewards that have historically been offered under the loyalty programs, which the Company believes is representative of the rewards to be offered in the future.

c) Increase in other revenues and an increase in utilities and other expenses due to presentation of transactional fees on a gross versus net basis.

d) Increase in other revenues due to the change in amortization methodology for deferred revenue – NCM that is now amortized on a straight-line basis and effective for the entire term of the ESA. As a result of the change in amortization method, the Company recorded a cumulative effect of accounting change adjustment of $40,526, net of taxes, in retained earnings on January 1, 2018 (see also Note 6).

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

The above noted changes increased (decreased) admissions, concession and other revenue by ($1,302), ($545) and $27,459, respectively, for the three months ended March 31, 2018.

The Company applied the practical expedient to exclude sales and other similar taxes collected from customers from its transaction price for purposes of recording revenues, as such revenues are presented net of such taxes.

Disaggregation of Revenue

The following table presents revenues for the three months ended March 31, 2018, disaggregated based on major type of good or service and by reportable operating segment.

| Major Goods/Services | U.S. Operating Segment (1) | International Operating Segment | Consolidated |
|---|---|---|---|
| Admissions revenues | $349,352 | $ 103,272 | $ 452,624 |
| Concession revenues | 203,750 | 58,022 | 261,772 |
| Screen advertising and promotional revenues | 18,179 | 14,269 | 32,448 |
| Other revenues | 25,062 | 8,065 | 33,127 |
| Total revenues | $596,343 | $ 183,628 | $ 779,971 |

(1) U.S. segment revenues include eliminations of intercompany transactions with the international operating segment. See Note 15 for additional information by segment.

The following table presents revenues for the three months ended March 31, 2018, disaggregated based on timing of revenue recognition (see Revenue Recognition Policy above).

| | U.S. Operating Segment (1) | International Operating Segment | Consolidated |
|---|---|---|---|
| Goods and services transferred at a point in time | $575,826 | $ 166,149 | $ 741,975 |
| Goods and services transferred over time | 20,517 | 17,479 | 37,996 |
| Total | $596,343 | $ 183,628 | $ 779,971 |

(1) U.S. segment revenues include eliminations of intercompany transactions with the international operating segment. See Note 15 for additional information by segment.

Deferred Revenues

The following table presents changes in the Company’s deferred revenues for the three months ended March 31, 2018.

| Deferred Revenues | Deferred Revenue - NCM | Other Deferred Revenues [1] | Total |
|---|---|---|---|
| Balance at January 1, 2018 | $351,706 | $86,498 | $438,204 |
| Impact of adoption of ASC Topic 606 | (53,605) | — | (53,605) |
| Amounts recognized as accounts receivable | — | 9,119 | 9,119 |
| Cash received from customers in advance | — | 22,271 | 22,271 |
| Common units received from NCM (see Note 7) | 5,012 | — | 5,012 |
| Revenue recognized during period | (3,891) | (33,613) | (37,504) |
| Foreign currency translation adjustments | — | (75) | (75) |
| Balance at March 31, 2018 | $299,222 | $84,200 | $383,422 |

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

(1) Includes liabilities associated with outstanding gift cards and SuperSavers, points or rebates outstanding under the Company's loyalty and membership programs and revenues not yet recognized for screen advertising and other promotional activities. Classified as accounts payable and accrued expenses or other long-term liabilities on the condensed consolidated balance sheet.

The table below summarizes the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied as of March 31, 2018 and when the Company expects to recognize this revenue.

| | Twelve Months Ended March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| Remaining Performance Obligations | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
| Deferred revenue - NCM | $15,831 | $15,831 | $15,831 | $15,831 | $15,831 | $220,067 | $299,222 |
| Deferred revenue - other | 73,338 | 10,799 | 63 | — | — | — | 84,200 |
| Total | $89,169 | $26,630 | $15,894 | $15,831 | $15,831 | $220,067 | $383,422 |

Accounts receivable as of March 31, 2018 included approximately $47,539 of receivables related to contracts with customers. The Company did not record any assets related to the costs to obtain or fulfill a contract with customers during the three months ended March 31, 2018.

Significant Financing Component

As discussed further in Note 7, in connection with the completion of the NCM, Inc. ("NCMI") initial public offering, the Company amended and restated its ESA with NCM and received approximately $174,000 in cash consideration from NCM. The proceeds were recorded as deferred revenue and are being amortized over the term of the modified ESA, or through February 2037. In addition to the consideration received upon the ESA modification during 2007, the Company also receives consideration in the form of common units from NCM, at each annual common unit adjustment settlement, in exchange for exclusive access to the Company's newly opened domestic screens under the ESA. See Note 7 for additional information regarding the common unit adjustment and related accounting. Due to the significant length of time between receiving the consideration from NCM and fulfillment of the related performance obligation, the ESA includes an implied significant financing component, as per the guidance in ASC Topic 606.

As a result of the significant financing component on deferred revenue - NCM, the Company recognized incremental screen advertising revenue and an offsetting interest expense of $4,979 during the three months ended March 31, 2018. The interest expense was calculated using the Company's incremental borrowing rates at the time when the cash and each tranche of common units were received from NCM, which ranged from 5.5% to 8.0%.

4. Earnings Per Share

The Company considers its unvested restricted stock awards, which contain non-forfeitable rights to dividends, participating securities, and includes such participating securities in its computation of earnings per share pursuant to the two-class method. Basic earnings per share for the two classes of stock (common stock and unvested restricted stock) is calculated by dividing net income by the weighted average number of shares of common stock and unvested restricted stock outstanding during the reporting period. Diluted earnings per share is calculated using the weighted average number of shares of common stock plus the potentially dilutive effect of common equivalent shares outstanding determined under both the two class method and the treasury stock method.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

The following table presents computations of basic and diluted earnings per share under the two-class method:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Numerator: | | |
| Net income attributable to Cinemark Holdings, Inc. | $62,021 | $79,728 |
| Earnings allocated to participating share-based awards (1) | (297) | (382) |
| Net income attributable to common stockholders | $61,724 | $79,346 |
| | | |
| Denominator (shares in thousands): | | |
| Basic weighted average common stock outstanding | 115,883 | 115,629 |
| Common equivalent shares for restricted stock units | 260 | 286 |
| Diluted | 116,143 | 115,915 |
| | | |
| Basic earnings per share attributable to common stockholders | $0.53 | $0.68 |
| Diluted earnings per share attributable to common stockholders | $0.53 | $0.68 |

(1) For the three months ended March 31, 2018 and 2017, a weighted average of approximately 556 and 559 shares of unvested restricted stock, respectively, were considered participating securities.

5. Long Term Debt Activity

Senior Secured Credit Facility

On March 29, 2018, Cinemark USA, Inc., our wholly-owned subsidiary, amended its senior secured credit facility to extend the maturity of the term loan to March 29, 2025, reduce the rate at which the term loan bears interest by 0.25% and to reduce the amount of real property required to be mortgaged to secure the loans. Under the amended facility, quarterly principal payments of $1,649 are due on the term loan through December 31, 2024, with a final principal payment of $613,351 due on March 29, 2025. The Company incurred debt issue costs of approximately $4,962 in connection with the amendment, which are reflected as a reduction of long term debt on the condensed consolidated balance sheet as of March 31, 2018. As a result of the amendment, the Company wrote-off $780 of unamortized debt issue costs and incurred approximately $704 in legal and other fees, both of which are reflected as loss on debt amendments on the condensed consolidated statements of income for the three months ended March 31, 2018.

Fair Value of Long-Term Debt

The Company estimates the fair value of its long-term debt using the market approach, which utilizes quoted market prices that fall under Level 2 of the U.S. GAAP fair value hierarchy as defined by ASC 820, Fair Value Measurement ("ASC Topic 820"). The carrying value of the Company's long-term debt was $1,815,646 and $1,817,295 as of March 31, 2018 and December 31, 2017, respectively, excluding unamortized debt discounts and debt issue costs. The fair value of the Company's long-term debt was $1,814,853 and $1,840,918 as of March 31, 2018 and December 31, 2017, respectively.

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6. Equity

Below is a summary of changes in stockholders' equity attributable to Cinemark Holdings, Inc., noncontrolling interests and total equity for the three months ended March 31, 2018 and 2017:

| | Cinemark Holdings, Inc. Stockholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|
| Balance at January 1, 2018 | $ 1,393,795 | $ 11,893 | $ 1,405,688 |
| Cumulative effect of change in accounting principle, net of taxes of $13,079 (see Note 3) | 40,526 | — | 40,526 |
| Share based awards compensation expense | 3,426 | — | 3,426 |
| Stock withholdings related to share based awards that vested during the three months ended March 31, 2018 | (2,695) | — | (2,695) |
| Dividends paid to stockholders (1) | (37,346) | — | (37,346) |
| Dividends accrued on unvested restricted stock unit awards (1) | (125) | — | (125) |
| Net income | 62,021 | 156 | 62,177 |
| Other comprehensive income in equity method investees | 136 | — | 136 |
| Foreign currency translation adjustments | 204 | — | 204 |
| Balance at March 31, 2018 | $ 1,459,942 | $ 12,049 | $ 1,471,991 |

(1) The Company's board of directors declared a cash dividend for the fourth quarter of 2017 in the amount of $0.32 per share of common stock payable to stockholders of record on March 8, 2018. The dividend was paid on March 22, 2018.

| | Cinemark Holdings, Inc. Stockholders' Equity | Noncontrolling Interests | Total Equity |
|---|---|---|---|
| Balance at January 1, 2017 | $ 1,261,818 | $ 11,142 | $ 1,272,960 |
| Share based awards compensation expense | 3,241 | | 3,241 |
| Stock withholdings related to share based awards that vested during the three months ended March 31, 2017 | (2,694) | | (2,694) |
| Dividends paid to stockholders (2) | (33,760) | | (33,760) |
| Dividends accrued on unvested restricted stock unit awards (2) | (153) | | (153) |
| Dividends paid to noncontrolling interests | | (294) | (294) |

| | | | |
|---|---|---|---|
| Net income | 79,728 | 466 | 80,194 |
| Other comprehensive income in equity method investees | 198 | | 198 |
| Foreign currency translation adjustments | 13,342 | | 13,342 |
| Balance at March 31, 2017 | $ 1,321,720 | $ 11,314 | $1,333,034 |

(2) The Company's board of directors declared a cash dividend for the fourth quarter of 2016 in the amount of $0.29 per share of common stock payable to stockholders of record on March 8, 2017. The dividend was paid on March 20, 2017.

7. Investment in National CineMedia

The Company has an investment in NCM. NCM operates a digital in-theatre network in the U.S. for providing cinema advertising. Upon joining NCM, the Company entered into an Exhibitor Services Agreement with NCM ("ESA"), pursuant to which NCM provides advertising and promotions to our theatres. As described further in Note 5 to the Company's financial statements as included in its 2017 Annual Report on Form 10-K, on February 13, 2007, NCMI, an entity that serves as the sole manager of NCM, completed an initial public offering ("IPO") of its common stock. In connection with the NCMI initial public offering, the Company amended its operating agreement and the ESA. Following the NCM, Inc. IPO, the Company does not recognize undistributed equity in the earnings on its original NCM membership units (referred to herein as the Company's Tranche 1 Investment) until NCM's future

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net earnings, less distributions received, surpass the amount of the excess distribution. The Company recognizes equity in earnings on its Tranche 1 Investment only to the extent it receives cash distributions from NCM. The Company recognizes cash distributions it receives from NCM on its Tranche 1 Investment as a component of earnings as Distributions from NCM. The Company believes that the accounting model provided by ASC Topic 323-10-35-22 for recognition of equity investee losses in excess of an investor's basis is analogous to the accounting for equity income subsequent to recognizing an excess distribution.

Below is a summary of activity with NCM included in the Company's condensed consolidated financial statements:

| | Investment in NCM | Deferred Revenue | Distributions from NCM | Equity in Earnings | Other Revenue | Interest Expense - NCM [3] | Cash Received |
|---|---|---|---|---|---|---|---|
| Balance as of January 1, 2018 | $ 200,550 | $ (351,706) | | | | | |
| Impact of adoption of ASC Topic 606 [1] | — | 53,605 | $ — | $ — | $ — | $ — | $ — |
| Receipt of common units due to annual common unit adjustment ("CUA") | 5,012 | (5,012) | — | — | — | — | — |
| Revenues earned under ESA [2] [3] | — | — | — | — | (7,967) | 4,979 | 2,988 |
| Receipt of excess cash distributions | (7,122) | — | (6,358) | — | — | — | 13,480 |
| Equity in earnings | 4,015 | — | — | (4,015) | — | — | — |
| Amortization of deferred revenue | — | 3,891 | — | — | (3,891) | — | — |
| Balance as of and for the three months ended March 31, 2018 | $ 202,455 | $ (299,222) | $ (6,358) | $ (4,015) | $ (11,858) | $ 4,979 | $ 16,468 |

(1) As a result of adoption of ASC Topic 606, the Company determined that the deferred revenue associated with the ESA and Common Unit Adjustment agreement should be amortized on a straight-line basis versus the units of revenue method followed prior to adoption. The Company recorded a reduction in the deferred revenue balance and a cumulative effect of a change in accounting principle in retained earnings (see also Note 6). See Note 3 for further discussion of the impact of the adoption of ASC Topic 606.

(2) Amount includes the per patron and per digital screen theatre access fees due to the Company, net of amounts paid to NCM for on-screen advertising time provided to the Company's beverage concessionaire of approximately $2,961.

(3) Reflects impact of significant financing component related to amounts received in advance under the ESA and CUA agreements. See Note 3.

During the three months ended March 31, 2018 and 2017 the Company recorded equity in earnings of $4,015 and $3,241, respectively.

The Company made payments to NCM of $52 and $18 during the three months ended March 31, 2018 and 2017, respectively, related to installation of certain equipment used for digital advertising, which is included in theatre properties and equipment on the condensed consolidated balance sheets.

Pursuant to a Common Unit Adjustment Agreement dated as of February 13, 2007 between NCMI and the Company, AMC Entertainment, Inc. (“AMC”) and Regal Entertainment Group (“Regal”) (collectively, “Founding Members”), annual adjustments to the common membership units are made primarily based on increases or decreases in the number of theatre screens operated and theatre attendance generated by each Founding Member. As further discussed in Note 5 to the Company’s financial statements as included in its 2017 Annual Report on Form 10-K, the common units received (collectively referred to as the Company’s “Tranche 2 Investment”) are recorded at estimated fair value as an increase in the Company’s investment in NCM with an offset to deferred revenue. The Company’s Tranche 2 Investment is accounted for following the equity method, with undistributed equity earnings related to its Tranche 2 Investment included as a component of earnings in equity in income of affiliates and distributions received related to its Tranche 2 Investment are recorded as a reduction of investment basis.

During March 2018, NCM performed its annual common unit adjustment calculation under the Common Unit Adjustment Agreement. As a result of the calculation, on March 29, 2018, the Company received an additional 908,042 common units of NCM, each of which is convertible into one share of NCM, Inc. common stock. The Company recorded the additional common units received at estimated fair value with a corresponding adjustment to deferred revenue of approximately $5,012. The fair value of the common units received was estimated based on the market price of NCM, Inc. stock at the time the common units were determined, adjusted for volatility associated with the estimated time period it would take to convert the common units and register the respective shares. The deferred revenue will be recognized on a straight-line basis over the remaining term of the ESA, which is approximately 19 years.

As of March 31, 2018, the Company owned a total of 28,779,904 common units of NCM, representing an ownership interest of approximately 18%. The estimated fair value of the Company’s investment in NCM was approximately $149,368 based on NCM, Inc.’s stock price as of March 30, 2018 of $5.19 per share (Level 1 input as defined in FASB ASC Topic 820), which was less than the

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Company's carrying value of $202,455. The Company does not believe that the decline in NCM, Inc.'s stock price is other than temporary and therefore, no impairment of the Company's investment in NCM was recorded during the three months ended March 31, 2018. The market value of NCM, Inc.'s stock price may change due to the performance of the business, industry trends, general and economic conditions and other factors.

Below is summary financial information for NCM for the periods indicated:

| | Three Months Ended March 29, 2018 | Three Months Ended March 30, 2017 |
|---|---|---|
| Gross revenues | $ 80,200 | $ 71,900 |
| Operating income | $ 11,000 | $ 5,100 |
| Net income (loss) | $ (3,000 ) | $ (7,900 ) |

| | As of March 29, 2018 | As of December 28, 2017 |
|---|---|---|
| Current assets | $127,500 | $174,400 |
| Noncurrent assets | $765,400 | $758,300 |
| Current liabilities | $64,500 | $123,300 |
| Noncurrent liabilities | $948,100 | $925,400 |
| Members deficit | $(119,700) | $(116,000) |

8. Other Investments

Below is a summary of activity for each of the Company's other investments for the three months ended March 31, 2018:

| | DCIP | AC JV, LLC | DCDC | Other | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2018 | $106,215 | $5,916 | $3,598 | $4,316 | $120,045 |
| Cash contributions made | 326 | — | — | 78 | 404 |

| | | | | | |
|---|---|---|---|---|---|
| Cash distributions received | (5,201 ) | — | — | — | (5,201 ) |
| Equity in income | 4,142 | 253 | 226 | — | 4,621 |
| Equity in other comprehensive income | 136 | — | — | — | 136 |
| Other | — | — | (1,168) | (48 ) | (1,216 ) |
| Balance at March 31, 2018 | $105,618 | $6,169 | $2,656 | $4,346 | $118,789 |

Digital Cinema Implementation Partners LLC ("DCIP")

On February 12, 2007, the Company, AMC and Regal entered into a joint venture known as DCIP to facilitate the implementation of digital cinema in the Company's theatres and to establish agreements with major motion picture studios for the financing of digital cinema. As of March 31, 2018, the Company had a 33% voting interest in DCIP and a 24.3% economic interest in DCIP. The Company accounts for its investment in DCIP and its subsidiaries under the equity method of accounting.

Below is summary financial information for DCIP for the periods indicated:

| | Three Months Ended | |
|---|---|---|
| | March 31, 2018 | March 31, 2017 |
| Gross revenues | $41,033 | $ 45,479 |
| Operating income | $23,445 | $ 27,934 |
| Net income | $21,534 | $ 24,142 |

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| | As of March 31, 2018 | December 31, 2017 |
|---|---|---|
| Current assets | $52,531 | $56,296 |
| Noncurrent assets | $750,571 | $772,438 |
| Current liabilities | $62,251 | $59,153 |