Cinemark Holdings, Inc.
Form 10-Q
May 06, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010
Commission File Number: 001-33401
CINEMARK HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5490327**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
3900 Dallas Parkway Suite 500 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 þ 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 o 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 definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ	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 þ

As of April 30, 2010, 112,260,209 shares of common stock were 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. All statements included in this Form 10Q, other than statements of historical fact, may constitute forward-looking statements. Forward-looking statements can be identified by the use of words such as may, should, will, could, estimates, predicts, potential, continue, anticipates, believes, plans, expects, future 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 March 10, 2010 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.

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data, unaudited)

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 433,229	$ 437,936
Inventories	9,817	9,854
Accounts receivable	30,526	33,110
Income tax receivable		13,025
Current deferred tax asset	3,297	3,321
Prepaid expenses and other	9,376	10,051
Total current assets	486,245	507,297
Theatre properties and equipment	1,934,828	1,936,535
Less accumulated depreciation and amortization	743,613	716,947
Theatre properties and equipment, net	1,191,215	1,219,588
Other assets		
Goodwill	1,115,368	1,116,302
Intangible assets net	342,331	342,998
Investment in NCM	64,190	34,232
Investment in DCIP	16,845	640
Investments in and advances to affiliates	2,873	2,889
Deferred charges and other assets net	63,613	52,502
Total other assets	1,605,220	1,549,563
Total assets	$ 3,282,680	$ 3,276,448
Liabilities and equity		
Current liabilities		
Current portion of long-term debt	$ 11,475	$ 12,227
Current portion of capital lease obligations	7,270	7,340
Income tax payable	8,178	
Current liability for uncertain tax positions	8,507	13,229
Accounts payable and accrued expenses	211,450	248,036
Total current liabilities	246,880	280,832
Long-term liabilities		

Long-term debt, less current portion	1,529,321	1,531,478
Capital lease obligations, less current portion	131,359	133,028
Deferred tax liability	113,957	124,823
Liability for uncertain tax positions	17,773	18,432
Deferred lease expenses	28,498	27,698
Deferred revenue NCM	233,031	203,006
Other long-term liabilities	42,727	42,523
Total long-term liabilities	2,096,666	2,080,988
Commitments and contingencies (see Note 17)		
Equity		
Cinemark Holdings, Inc. s stockholders equity:		
Common stock, $0.001 par value: 300,000,000 shares authorized, 115,571,013 shares issued and 112,217,578 shares outstanding at March 31, 2010; and 114,222,523 shares issued and 110,917,105 shares outstanding at December 31, 2009	116	114
Additional paid-in-capital	1,020,141	1,011,667
Treasury stock, 3,353,435 and 3,305,418 shares at cost at March 31, 2010 and December 31, 2009, respectively	(44,608)	(43,895)
Retained deficit	(45,606)	(60,595)
Accumulated other comprehensive loss	(7,087)	(7,459)
Total Cinemark Holdings, Inc. s stockholders equity	922,956	899,832
Noncontrolling interests	16,178	14,796
Total equity	939,134	914,628
Total liabilities and equity	$ 3,282,680	$ 3,276,448

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 INCOME
(in thousands except per share data, unaudited)

	Three months ended March 31,	
	2010	**2009**
Revenues		
Admissions	$ 342,990	$ 279,883
Concession	153,104	130,031
Other	20,537	15,886
Total revenues	516,631	425,800
Cost of operations		
Film rentals and advertising	188,819	147,126
Concession supplies	22,406	19,717
Salaries and wages	52,542	44,350
Facility lease expense	62,715	55,738
Utilities and other	55,221	48,728
General and administrative expenses	25,530	21,788
Depreciation and amortization	33,933	36,133
Amortization of favorable/unfavorable leases	158	323
Impairment of long-lived assets	347	1,039
Loss on sale of assets and other	3,167	272
Total cost of operations	444,838	375,214
Operating income	71,793	50,586
Other income (expense)		
Interest expense	(26,010)	(25,464)
Interest income	1,053	1,832
Foreign currency exchange gain (loss)	(268)	66
Distributions from NCM	9,946	6,579
Equity in income (loss) of affiliates	27	(605)
Total other expense	(15,252)	(17,592)
Income before income taxes	56,541	32,994
Income taxes	19,830	14,643
Net income	$ 36,711	$ 18,351
Less: Net income attributable to noncontrolling interests	1,618	786
Net income attributable to Cinemark Holdings, Inc.	$ 35,093	$ 17,565

Weighted average shares outstanding				
Basic		110,547		108,463
Diluted		110,880		109,566
Earnings per share attributable to Cinemark Holdings, Inc. s common stockholders				
Basic	$	0.32	$	0.16
Diluted	$	0.31	$	0.16

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,	
	2010	**2009**
Operating activities		
Net income	$ 36,711	$ 18,351
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	32,829	35,229
Amortization of intangible and other assets and unfavorable leases	1,262	1,227
Amortization of long-term prepaid rents	341	390
Amortization of debt issue costs	1,181	1,193
Amortization of deferred revenues, deferred lease incentives and other	(1,399)	(1,002)
Amortization of accumulated other comprehensive loss related to interest rate swap agreement	1,158	1,158
Amortization of bond discount	188	
Impairment of long-lived assets	347	1,039
Share based awards compensation expense	1,313	1,578
Loss on sale of assets and other	1,457	272
Loss on contribution of digital projection systems to DCIP	1,710	
Accretion of interest on senior discount notes		8,085
Deferred lease expenses	783	1,088
Deferred income tax expenses	(10,528)	(2,422)
Equity in (income) loss of affiliates	(27)	605
Tax benefit related to stock option exercises	1,667	
Increase in deferred revenue related to new beverage contract		6,000
Distributions from equity investees	1,674	424
Changes in assets and liabilities	(26,566)	(21,740)
Net cash provided by operating activities	44,101	51,475
Investing activities		
Additions to theatre properties and equipment	(19,517)	(22,872)
Proceeds from sale of theatre properties and equipment	491	510
Acquisition of theatres in the U.S.		(48,950)
Investment in joint venture DCIP, net of cash distributions	(644)	
Net cash used for investing activities	(19,670)	(71,312)
Financing activities		
Proceeds from stock option exercises	5,081	192
Payroll taxes paid as a result of noncash stock option exercises and restricted stock withholdings	(299)	
Dividends paid to stockholders	(20,046)	(19,595)
Repayments of other long-term debt	(3,070)	(3,147)
Payments on capital leases	(1,739)	(1,299)

Payment of debt issue costs	(8,706)	
Other		(94)
Net cash used for financing activities	(28,779)	(23,943)
Effect of exchange rate changes on cash and cash equivalents	(359)	(319)
Decrease in cash and cash equivalents	(4,707)	(44,099)
Cash and cash equivalents:		
Beginning of period	437,936	349,603
End of period	$ 433,229	$ 305,504

Supplemental information (see Note 14)

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

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) is a leader in the motion picture exhibition industry, with theatres in the United States (U.S.), Canada, Brazil, Mexico, Chile, Colombia, Argentina, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Guatemala. The Company also managed additional theatres in the U.S., Brazil, and Colombia during the three months ended March 31, 2010.

The condensed consolidated financial statements have been prepared by the Company, without audit, according to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these interim financial statements reflect all adjustments of a recurring nature necessary to state fairly the financial position and results of operations as of, and for, the periods indicated. 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, 2009, included in the Annual Report on Form 10-K filed March 10, 2010 by the Company under the Securities Exchange Act of 1934, as amended (the Exchange Act). Operating results for the three months ended March 31, 2010, are not necessarily indicative of the results to be achieved for the full year.

2. New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1(FASB ASC Topic 825), *Interim Disclosures about Fair Value of Financial Instruments* . FSP FAS 107-1 and APB 28-1 (FASB ASC Topic 825) require that disclosures about the fair value of financial instruments be included in the notes to financial statements issued during interim periods. Fair value information must be presented in the notes to financial statements together with the carrying amounts of the financial instruments. It must be clearly stated whether the amounts are assets or liabilities and how they relate to information presented in the balance sheet. The disclosures must include methods and significant assumptions used to estimate fair values, along with any changes in those methods and assumptions from prior periods. FSP FAS 107-1 and APB 28-1 (FASB ASC Topic 825) were effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. Upon adoption of FSP FAS-107-1 and APB 28-1 (FASB ASC Topic 825), the Company added an interim disclosure regarding the fair value of its long-term debt (Note 9). Below is a summary of the Company s financial instruments, both of which are liabilities:

	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt (see Note 9)	$ 1,540,796	$ 1,570,479	$ 1,543,705	$ 1,513,838
Interest rate swap agreements (see Note 10)	$ 19,356	$ 19,356	$ 18,524	$ 18,524

In May 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 165 (FASB ASC Topic 855), *Subsequent Events* . SFAS No. 165 (FASB ASC Topic 855) should not result in significant changes in the subsequent events that an entity reports. Rather, SFAS No. 165 (FASB ASC Topic 855) introduced the concept of financial statements that are available to be issued. Financial statements are considered available to be issued when they are complete in a form and format that complies with generally accepted accounting principles and all approvals necessary for issuance have been obtained. SFAS No. 165 (FASB ASC Topic 855) was effective for interim or annual financial periods ending after June 15, 2009. The adoption of SFAS No. 165 (FASB ASC Topic 855) did not have a significant impact on the Company s condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168 (FASB ASC Topic 105), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which authorizes the Codification as the

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sole source for authoritative generally accepted accounting principles in the U.S. (U.S. GAAP). SFAS No. 168 (FASB ASC Topic 105) was effective for financial statements issued for reporting periods that ended after September 15, 2009. SFAS No. 168 (FASB ASC Topic 105) supersedes all accounting standards in U.S. GAAP, aside from those issued by the SEC. SFAS No. 168 (FASB ASC Topic 105) replaced SFAS No. 162 to establish a new hierarchy of GAAP sources for non-governmental entities under the FASB Accounting Standards Codification. The adoption of SFAS No. 168 (FASB ASC Topic 105) did not have a significant impact on the Company s condensed consolidated financial statements.

In December 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.* ASU No. 2009-17 changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. ASU No. 2009-17 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. ASU No. 2009-17 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. The Company adopted ASU No. 2009-17 as of January 1, 2010, and its application had no impact on the Company s condensed consolidated financial statements.

In January 2010, the FASB issued FASB ASU 2010-06, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06) , which amends FASB ASC Topic 820-10, *Fair Value Measurements and Disclosures* . The update requires additional disclosures for transfers in and out of Levels 1 and 2 and for activity in Level 3 and clarifies certain other existing disclosure requirements. The Company adopted ASU 2010-06 beginning January 1, 2010. This update did not have a significant impact on the Company s disclosures.

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3. Earnings Per Share

The Company considers its unvested share based payment 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 and unvested restricted stock plus the potentially dilutive effect of common equivalent shares outstanding determined under both the two class method and the treasury stock method. For the three months ended March 31, 2010 and 2009, basic earnings per share was the same under both the two class method and the treasury stock method. For the three months ended March 31, 2010, diluted earnings per share was $0.31 per share under the two class method versus $0.32 per share under the treasury stock method. For the three months ended March 31, 2009, diluted earnings per share was the same under both the two class method and the treasury stock method. The following table presents computations of basic and diluted earnings per share under the two class method:

	Three Months Ended March 31,	
	2010	**2009**
Numerator:		
Net income attributable to Cinemark Holdings, Inc.	$ 35,093	$ 17,565
Earnings allocated to participating share-based awards [(1)]	(232)	(65)
Net income attributable to common stockholders	$ 34,861	$ 17,500
Denominator (shares in thousands):		
Basic weighted average common stock outstanding	110,547	108,463
Common equivalent shares for stock options	332	1,103
Common equivalent shares for restricted stock units [(2)]	1	
Diluted	110,880	109,566
Basic earnings per share attributable to common stockholders	$ 0.32	$ 0.16
Diluted earnings per share attributable to common stockholders	$ 0.31	$ 0.16

(1) For the three months ended March 31, 2010 and 2009, a weighted average of approximately 737 shares and

408 shares of unvested restricted stock, respectively, are considered participating securities.

(2) Common equivalent shares for restricted stock units of 325 were excluded from the diluted earnings per share calculation for the three months ended March 31, 2009 because they were anti-dilutive.

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In thousands, except share and per share data

4. 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, 2010 and 2009:

	Cinemark Holdings, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2010	$ 899,832	$ 14,796	$ 914,628
Share based awards compensation expense	1,313		1,313
Stock repurchases related to vested restricted stock	(182)		(182)
Exercise of stock options, net of stock withholdings	4,965		4,965
Tax benefit related to stock option exercises	1,667		1,667
Dividends paid to stockholders [1]	(20,046)		(20,046)
Dividends accrued on unvested restricted stock unit awards [1]	(58)		(58)
Comprehensive income:			
Net income	35,093	1,618	36,711
Fair value adjustments on interest rate swap agreements, net of taxes of $314	(518)		(518)
Amortization of accumulated other comprehensive loss on terminated swap agreement	1,158		1,158
Foreign currency translation adjustment	(268)	(236)	(504)
Balance at March 31, 2010	$ 922,956	$ 16,178	$ 939,134

	Cinemark Holdings, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2009	$ 811,256	$ 12,971	$ 824,227
Share based awards compensation expense	1,578		1,578
Exercise of stock options	192		192
Dividends paid to stockholders [2]	(19,595)		(19,595)
Dividends accrued on unvested restricted stock unit awards [2]	(25)		(25)
Dividends paid to noncontrolling interests		(93)	(93)
Comprehensive income:			
Net income	17,565	786	18,351
Fair value adjustments on interest rate swap agreements, net of taxes of $(31)	52		52

Amortization of accumulated other comprehensive loss on terminated swap agreement	1,158		1,158
Foreign currency translation adjustment	(1,728)	(821)	(2,549)
Balance at March 31, 2009	$ 810,453	$ 12,843	$ 823,296

(1) On February 25, 2010, the Company s board of directors declared a cash dividend for the fourth quarter of 2009 in the amount of $0.18 per share of common stock payable to stockholders of record on March 5, 2010. The dividend was paid on March 19, 2010.

(2) On February 13, 2009, the Company s board of directors declared a cash dividend for the fourth quarter of 2008 in the amount of $0.18 per share of common stock payable to stockholders of record on March 5, 2009. The dividend was paid on March 20, 2009.

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES
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In thousands, except share and per share data

5. Acquisition of U.S. Theatres

On March 18, 2009, the Company acquired four theatres with 82 screens from Muvico Entertainment L.L.C. in an asset purchase for $48,950 in cash. The acquisition resulted in an expansion of the Company s U.S. theatre base, as three of the theatres are located in Florida and one theatre is located in Maryland. The Company incurred approximately $113 in transaction costs, which are reflected in general and administrative expenses on the condensed consolidated statement of income for the three months ended March 31, 2009.

The transaction was accounted for by applying the acquisition method. The following table represents the identifiable assets acquired and liabilities assumed that have been recognized by the Company in its condensed consolidated balance sheets:

Theatre properties and equipment	$ 25,575
Brandname	3,500
Noncompete agreement	1,630
Goodwill	44,565
Unfavorable lease	(3,600)
Capital lease liability (for one theatre)	(22,720)
Total	$ 48,950

The brandname and noncompete agreement are presented as intangible assets and the unfavorable lease is presented as other long-term liabilities on the Company s condensed consolidated balance sheets. The weighted average amortization period for these intangible assets and the unfavorable lease are 8.6 years and 9 years, respectively. Goodwill represents excess of the costs of acquiring these theatres over amounts assigned to assets acquired, including intangible assets, and liabilities assumed. The goodwill recorded is fully deductible for tax purposes.

6. Investment in National CineMedia

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