Cinemark Holdings, Inc.
Form 10-Q
November 03, 2017

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 September 30, 2017

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 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 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” and “smaller reporting 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 October 31, 2017, 116,466,904 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, 2017 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)

	September 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 469,446	$ 561,235
Inventories	16,844	16,961
Accounts receivable	82,650	74,993
Current income tax receivable	4,381	7,367
Prepaid expenses and other	17,010	15,761
Total current assets	590,331	676,317
Theatre properties and equipment	3,268,653	3,059,754
Less: accumulated depreciation and amortization	1,477,047	1,355,218
Theatre properties and equipment, net	1,791,606	1,704,536
Other assets		
Goodwill	1,294,342	1,262,963
Intangible assets - net	335,657	334,899
Investment in NCM	204,347	189,995
Investments in and advances to affiliates	112,878	98,317
Long-term deferred tax asset	2,098	2,051
Deferred charges and other assets - net	40,391	37,555
Total other assets	1,989,713	1,925,780
Total assets	$ 4,371,650	$ 4,306,633
Liabilities and equity		
Current liabilities		
Current portion of long-term debt	$ 7,099	$ 5,671
Current portion of capital lease obligations	24,836	21,139
Current income tax payable	7,893	5,071
Current liability for uncertain tax positions	11,714	10,085
Accounts payable and accrued expenses	341,132	401,259

Total current liabilities	392,674	443,225
Long-term liabilities		
Long-term debt, less current portion	1,781,952	1,782,441
Capital lease obligations, less current portion	252,047	234,281
Long-term deferred tax liability	144,740	135,014
Long-term liability for uncertain tax positions	7,801	8,105
Deferred lease expenses	41,291	42,378
Deferred revenue - NCM	354,419	343,928
Other long-term liabilities	44,906	44,301
Total long-term liabilities	2,627,156	2,590,448
Commitments and contingencies (see Note 16)		
Equity		
Cinemark Holdings, Inc.'s stockholders' equity:		
Common stock, $0.001 par value: 300,000,000 shares authorized, 120,992,302 shares issued and 116,467,227 shares outstanding at September 30, 2017 and 120,657,254 shares issued and 116,210,252 shares outstanding at December 31, 2016	121	121
Additional paid-in-capital	1,137,897	1,128,442
Treasury stock, 4,525,075 and 4,447,002 shares, at cost, at September 30, 2017 and December 31, 2016, respectively	(76,354)	(73,411)
Retained earnings	521,058	453,679
Accumulated other comprehensive loss	(242,894)	(247,013)
Total Cinemark Holdings, Inc.'s stockholders' equity	1,339,828	1,261,818
Noncontrolling interests	11,992	11,142
Total equity	1,351,820	1,272,960
Total liabilities and equity	$ 4,371,650	$4,306,633

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Admissions	$425,128	$472,842	$1,351,477	$1,364,737
Concession	247,027	261,391	777,573	752,798
Other	38,593	34,341	112,503	100,312
Total revenues	710,748	768,574	2,241,553	2,217,847
Cost of operations				
Film rentals and advertising	226,229	249,766	725,603	733,101
Concession supplies	40,178	41,888	124,117	116,999
Salaries and wages	87,305	84,460	261,318	243,833
Facility lease expense	81,919	82,848	248,569	241,904
Utilities and other	92,341	94,999	271,751	265,506
General and administrative expenses	36,947	35,290	112,997	109,143
Depreciation and amortization	58,052	54,187	174,545	155,874
Impairment of long-lived assets	5,026	406	9,600	2,323
Loss on sale of assets and other	8,576	6,940	9,464	10,985
Total cost of operations	636,573	650,784	1,937,964	1,879,668
Operating income	74,175	117,790	303,589	338,179
Other income (expense)				
Interest expense	(26,317)	(26,659)	(79,208)	(81,980)
Loss on debt amendments and refinancing	—	—	(246)	(13,284)
Interest income	1,682	1,665	4,395	5,030
Foreign currency exchange gain	584	485	2,018	2,883
Distributions from NCM	2,144	1,381	11,704	10,117
Equity in income of affiliates	10,902	12,390	26,767	24,597
Total other expense	(11,005)	(10,738)	(34,570)	(52,637)
Income before income taxes	63,170	107,052	269,019	285,542
Income taxes	24,630	40,926	98,475	106,002
Net income	$38,540	$66,126	$170,544	$179,540
Less: Net income attributable to noncontrolling interests	401	471	1,438	1,454
Net income attributable to Cinemark Holdings, Inc.	$38,139	$65,655	$169,106	$178,086
Weighted average shares outstanding				
Basic	115,823	115,601	115,746	115,475
Diluted	116,104	115,793	116,063	115,706

Earnings per share attributable to Cinemark Holdings, Inc.'s common stockholders				
Basic	$0.33	$0.56	$1.45	$1.53
Diluted	$0.33	$0.56	$1.45	$1.53
Dividends declared per common share	$0.29	$0.27	$0.87	$0.81

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$38,540	$66,126	$170,544	$179,540
Other comprehensive income (loss), net of tax				
Unrealized gain due to fair value adjustments on interest rate swap agreements, net of settlements, net of taxes of $0, $0, $0 and $138	—	—	—	234
Other comprehensive income (loss) in equity method investments	(11)	(7)	92	(183)
Foreign currency translation adjustments	9,085	(3,669)	5,578	34,998
Total other comprehensive income (loss), net of tax	9,074	(3,676)	5,670	35,049
Total comprehensive income, net of tax	47,614	62,450	176,214	214,589
Comprehensive income attributable to noncontrolling interests	(401)	(475)	(1,438)	(1,478)
Comprehensive income attributable to Cinemark Holdings, Inc.	$47,213	$61,975	$174,776	$213,111

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

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands, unaudited)

	Nine Months Ended September 30, 2017	2016
Operating activities		
Net income	$170,544	$179,540
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	173,378	154,308
Amortization of intangible and other assets and favorable/unfavorable leases	1,167	1,566
Amortization of long-term prepaid rents	1,540	1,357
Amortization of debt issue costs	4,619	4,068
Amortization of deferred revenues, deferred lease incentives and other	(12,037)	(13,017)
Impairment of long-lived assets	9,600	2,323
Share based awards compensation expense	9,487	10,247
Loss on sale of assets and other	9,464	10,985
Write-off of unamortized debt issue costs associated with early retirement of debt	—	2,369
Deferred lease expenses	(1,019)	(809)
Equity in income of affiliates	(26,767)	(24,597)
Deferred income tax expenses	9,541	16,382
Distributions from equity investees	17,321	9,660
Changes in assets and liabilities and other	(55,433)	(76,102)
Net cash provided by operating activities	311,405	278,280
Investing activities		
Additions to theatre properties and equipment and other	(262,730)	(230,346)
Acquisitions of theatres in the U.S. and international markets	(41,000)	(15,300)
Proceeds from sale of theatre properties and equipment and other	14,816	3,398
Proceeds from sale of marketable securities	—	13,451
Investment in joint ventures and other	(1,178)	(1,703)
Net cash used for investing activities	(290,092)	(230,500)
Financing activities		
Dividends paid to stockholders	(101,304)	(94,117)
Payroll taxes paid as a result of restricted stock withholdings	(2,943)	(6,828)

Proceeds from issuance of Senior Notes, net of discount	—	222,750
Retirement of Senior Subordinated Notes	—	(200,000)
Repayments of long-term debt	(2,855)	(15,217)
Payment of debt issue costs	(817)	(4,504)
Payments on capital leases	(15,814)	(14,655)
Proceeds from financing lease	10,200	—
Other	(620)	1,282
Net cash used for financing activities	(114,153)	(111,289)
Effect of exchange rate changes on cash and cash equivalents	1,051	2,081
Decrease in cash and cash equivalents	(91,789)	(61,428)
Cash and cash equivalents:		
Beginning of period	561,235	588,539
End of period	$469,446	$527,111
Supplemental information (see Note 13)		

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”) 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, 2016, 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, 2016, included in the Annual Report on Form 10-K filed February 23, 2017 by the Company under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Operating results for the three and nine months ended September 30, 2017 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 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASU 2014-09”). The purpose of ASU 2014-09 is to clarify the principles for recognizing revenue and create a common revenue standard for U.S. GAAP and International Financial Reporting Standards. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The following subsequent Accounting Standards Updates either clarified or revised guidance set forth in ASU 2014-09:

- In August 2015, the FASB issued Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, ("ASU 2015-14"). ASU 2015-14 deferred the effective date of ASU 2014-09. The guidance in ASU 2014-09 is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period.
- In March 2016, the FASB issued Accounting Standards Update 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenues Gross versus Net), ("ASU 2016-08"). The purpose of ASU 2016-08 is to clarify the implementation of revenue recognition guidance for principal versus agent considerations.
- In April 2016, the FASB issued Accounting Standards Update 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, ("ASU 2016-10"). The purpose of ASU 2016-10 is to clarify certain aspects of identifying performance obligations and licensing implementation guidance.
- In May 2016, the FASB issued Accounting Standards Update 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, ("ASU 2016-12"). The purpose of ASU 2016-12 is to address certain narrow aspects of Accounting Standards Codification ("ASC") Topic 606 including assessing collectability, presentation of sales taxes, noncash considerations, contract modifications and completed contracts at transition.
- In December 2016, the FASB issued Accounting Standards Update 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, ("ASU 2016-20"). The purpose of ASU 2016-20 is to amend certain narrow aspects of the guidance issued in ASU 2014-09 related to the disclosure of performance obligations, as well as

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other amendments related to loan guarantee fees, contract costs, refund liabilities, advertising costs and the clarification of certain examples.

The amendments in these accounting standards updates may be applied either using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective or retrospectively to each period presented. Early adoption is permitted.

The Company will adopt the amendments within these accounting standards updates in the first quarter of 2018 using the modified retrospective transition method. The Company is continuing to evaluate the impact of these accounting standards updates on its condensed consolidated financial statements, specifically with respect to the Company's Exhibitor Services Agreement ("ESA") with NCM, loyalty program accounting, breakage income for stored value cards as well as other ancillary and contractual revenues. The Company believes its ESA with NCM includes a significant financing component and, as a result, other revenues will increase with a similar offsetting increase in interest expense each year until the ESA term expires. In addition, the amortization method used to amortize the deferred revenue associated with the ESA will change to straight-line under the new accounting standards due to the nature of the Company's performance obligation under the ESA. The change in amortization method will result in a cumulative effect adjustment upon adoption, the value of which the Company is currently evaluating.

In February 2016, the FASB issued Accounting Standards Update 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 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 purpose of ASU 2016-09 is to simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of such activity on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within that year. Prospective, retrospective, or modified retrospective application may be used dependent on the specific requirements of the amendments within ASU 2016-09. Effective January 1, 2017, the Company adopted ASU 2016-09 on a prospective basis (see Note 3). As such, prior periods have not been adjusted.

In August 2016, the FASB issued Accounting Standards Update 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. Early adoption is permitted. The Company does not expect ASU 2016-15 to have a material impact on its condensed consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, (“ASU 2017-04”). The purpose of ASU 2017-04 is to simplify the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendments should be applied on a prospective basis. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, including interim periods within that year. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company adopted the amendments in ASU 2017-04 during the second quarter of 2017 in order to reduce the complexity of performing its goodwill impairment tests. As discussed in Note 9, these tests are generally performed in the fourth quarter of each year. The Company does not expect ASU 2017-04 to have a material impact on its condensed consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update 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

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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 does not expect ASU 2017-09 to have a material impact on its condensed consolidated financial statements.

In August 2017, the FASB issued Accounting Standards Update 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, ("ASU 2017-12"). The amendments in ASU 2017-12 improve the financial reporting of hedging relationships to better reflect the economic results of an entity's risk management activities in its financial statements. Additionally, the amendments in ASU 2017-12 simplify certain steps of applying hedge accounting guidance. ASU 2017-04 is effective for fiscal years beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted. The Company does not expect ASU 2017-12 to have a material impact on its condensed consolidated financial statements.

3. 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.

Effective January 1, 2017, the Company adopted ASU 2016-09 on a prospective basis. In accordance with the amendments in ASU 2016-09, the Company's diluted earnings per share calculation for the three and nine months ended September 30, 2017 excludes the estimated income tax benefits and deficiencies in the application of the treasury stock method. Excess income tax benefits or deficiencies related to share based awards are recognized as discrete items in the income statement during the period in which they occur. See Note 8 for a discussion of share based awards and related income tax benefits recognized during the nine months ended September 30, 2017 and 2016.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net income attributable to Cinemark Holdings, Inc.	$38,139	$65,655	$169,106	$178,086
Earnings allocated to participating share-based awards [1]	(209)	(336)	(842)	(805)
Net income attributable to common stockholders	$37,930	$65,319	$168,264	$177,281
Denominator (shares in thousands):				
Basic weighted average common stock outstanding	115,823	115,601	115,746	115,475
Common equivalent shares for restricted stock units	281	192	317	231

Diluted	116,104	115,793	116,063	115,706
Basic earnings per share attributable to common stockholders	$0.33	$0.56	$1.45	$1.53
Diluted earnings per share attributable to common stockholders	$0.33	$0.56	$1.45	$1.53

(1) For the three months ended September 30, 2017 and 2016, a weighted average of approximately 643 and 596 shares of unvested restricted stock, respectively, were considered participating securities. For the nine months ended September 30, 2017 and 2016, a weighted average of approximately 581 and 526 shares of unvested restricted stock, respectively, were considered participating securities.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

4. Long Term Debt Activity

Senior Secured Credit Facility

On June 16, 2017, Cinemark USA, Inc., our wholly-owned subsidiary, amended its senior secured credit facility to reduce the rate at which the term loan bears interest by 0.25% and to modify certain covenant definitions within the agreement. The Company incurred debt issue costs of approximately $521 in connection with the amendment, which are reflected as a reduction of long term debt on the condensed consolidated balance sheet as of September 30, 2017. In addition, the Company incurred approximately $246 in legal fees that are reflected as loss on debt amendments and refinancing on the condensed consolidated statements of income for the nine months ended September 30, 2017.

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 Topic 820. The carrying value of the Company’s long-term debt was $1,820,112 and $1,822,966 as of September 30, 2017 and December 31, 2016, respectively, excluding unamortized debt discounts and debt issue costs. The fair value of the Company’s long-term debt was $1,840,641 and $1,850,212 as of September 30, 2017 and December 31, 2016, respectively.

5. Equity

Below is a summary of changes in stockholders’ equity attributable to Cinemark Holdings, Inc., noncontrolling interests and total equity for the nine months ended September 30, 2017 and 2016:

	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	9,487	—	9,487
Stock withholdings related to share based awards that vested during the nine months ended September 30, 2017	(2,943)	—	(2,943)
Tax expense related to share based awards vesting	(32)		(32)
Dividends paid to stockholders [1]	(101,304)	—	(101,304)
Dividends accrued on unvested restricted stock unit awards [1]	(423)	—	(423)
Dividends paid to noncontrolling interests	—	(588)	(588)
Net income	169,106	1,438	170,544
Other comprehensive income in equity method investees	92	—	92
Foreign currency translation adjustments (see Note 12)	4,027	—	4,027

Balance at September 30, 2017	$ 1,339,828	$ 11,992	$1,351,820

(1) Below is a summary of dividends paid to stockholders and accrued on unvested restricted stock unit awards during the nine months ended September 30, 2017:

Declaration Date	Record Date	Payable Date	Amount per Share of Common Stock	Total
2/23/2017	3/8/2017	3/20/2017	$ 0.29	$33,912
5/25/2017	6/8/2017	6/22/2017	0.29	33,904
8/10/2017	8/31/2017	9/13/2017	0.29	33,911
		Total	$ 0.87	$101,727

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

	Cinemark Holdings, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2016	$ 1,099,708	$ 11,105	$ 1,110,813
Share based awards compensation expense	10,247		10,247
Stock withholdings related to share based awards that vested during the nine months ended September 30, 2016	(6,828)		(6,828)
Issuance of common stock related to restricted stock units that vested during the nine months ended September 30, 2016	1		1
Tax benefit related to share based awards vesting	1,797		1,797
Dividends paid to stockholders (2)	(94,117)		(94,117)
Dividends accrued on unvested restricted stock unit awards (2)	(360)		(360)
Dividends paid to noncontrolling interests		(515)	(515)
Net income	178,086	1,454	179,540
Fair value adjustments on interest rate swap agreements designated as hedges, net of settlements, net of taxes of $138	234		234
Gain realized on available-for-sale securities, net of taxes of $1,180	(2,011)		(2,011)
Other comprehensive loss in equity method investees	(183)		(183)
Foreign currency translation adjustments	34,974	24	34,998
Balance at September 30, 2016	$ 1,221,548	$ 12,068	$ 1,233,616

(2) Below is a summary of dividends paid to stockholders and accrued on unvested restricted stock unit awards during the nine months ended September 30, 2016:

Declaration Date	Record Date	Payable Date	Amount per Share of Common Stock	Total
2/24/2016	3/7/2016	3/18/2016	$ 0.27	$ 31,367
5/26/2016	6/8/2016	6/22/2016	0.27	31,373

8/18/2016	8/31/2016	9/13/2016	0.27	31,737
		Total	$ 0.81	$94,477

6. Investment in National CineMedia

The Company has an investment in National CineMedia, LLC ("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 2016 Annual Report on Form 10-K, on February 13, 2007, National CineMedia, Inc. ("NCM, Inc."), an entity that serves as the sole manager of NCM, completed an initial public offering ("IPO") of its common stock. In connection with the NCM, Inc. 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 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.

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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 Income	Other Revenue	Cash Received
Balance as of January 1, 2017	$ 189,995	$ (343,928)				
Receipt of common units due to annual common unit adjustment	18,363	(18,363)	$ —	$ —	$—	$—
Revenues earned under ESA [1]	—	—	—	—	(8,446)	8,446
Receipt of excess cash distributions	(10,020)	—	(9,630)	—	—	19,650
Receipt under tax receivable agreement	(2,089)	—	(2,074)	—	—	4,163
Equity in earnings	8,098	—	—	(8,098)	—	—
Amortization of deferred revenue	—	7,872	—	—	(7,872)	—
Balance as of and for the nine months ended September 30, 2017	$ 204,347	$ (354,419)	$ (11,704)	$ (8,098)	$ (16,318)	$ 32,259

(1) 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 $8,382.

During the three months ended September 30, 2017 and 2016, the Company recorded equity in earnings of approximately $5,032 and $5,815, respectively. During the nine months ended September 30, 2017 and 2016, the Company recorded equity in earnings of approximately $8,098 and $7,660, respectively.

The Company made payments to NCM of approximately $75 and $41 during the nine months ended September 30, 2017 and 2016, 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 NCM, Inc. 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 2016 Annual Report on Form 10-K, the common units received are recorded at fair value as an increase in the Company's investment in NCM with an offset to deferred revenue. The deferred revenue is amortized over the remaining term of the ESA. During March 2017, NCM performed its annual common unit adjustment calculation under the Common Unit Adjustment Agreement. As a result of the calculation, on March 30, 2017, the Company received an additional 1,487,218 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 $18,363. 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 over the remaining term of the ESA, which is approximately 19 years.

As of September 30, 2017, the Company owned a total of 27,871,862 common units of NCM, representing an ownership interest of approximately 18%. The estimated fair value of the Company's investment in NCM was approximately $194,546 based on NCM, Inc.'s stock price as of September 30, 2017 of $6.98 per share (Level 1 input as defined in FASB ASC Topic 820), which was less than the Company's carrying value of $204,347. 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 nine months ended September 30, 2017. 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.

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Below is summary financial information for NCM for the three and six months ended June 29, 2017 (the financial information for the three and nine months ended September 28, 2017 is not yet available) and the three and nine months ended September 29, 2016:

	Three Months Ended June 29, 2017	Six Months Ended June 29, 2017	Three Months Ended September 29, 2016	Nine Months Ended September 29, 2016
Gross revenues	$ 97,042	$168,962	$ 113,476	$ 305,101
Operating income	$ 28,430	$33,500	$ 48,481	$ 100,911
Net income	$ 15,377	$7,465	$ 23,909	$ 49,619

7. Other Investments

Below is a summary of activity for each of the Company's other investments for the nine months ended September 30, 2017:

	DCIP	AC JV, LLC	DCDC	Other	Total
Balance at January 1, 2017	$87,819	$5,980	$2,750	$1,768	$98,317
Cash contributions	1,109	—	—	68	1,177
Cash distributions	(5,212)	—	—	—	(5,212)
Equity in income	16,820	996	853	—	18,669
Equity in other comprehensive income	92	—	—	—	92
Other	—	—	—	(165)	(165)
Balance at September 30, 2017	$100,628	$6,976	$3,603	$1,671	$112,878

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 September 30, 2017, 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 three and nine months ended September 30, 2017 and 2016.

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Gross revenues	$39,961	$ 48,274	$132,535	$ 133,675
Operating income	$22,702	$ 31,180	$80,574	$ 82,369
Net income	$19,701	$ 26,949	$69,458	$ 67,728

As of September 30, 2017, the Company had 3,796 digital projection systems being leased under the master equipment lease agreement with Kasima LLC, which is an indirect subsidiary of DCIP and a related party to the Company. The Company had the following transactions, reflected in utilities and other costs on the condensed consolidated income statement, with DCIP during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Equipment lease payments	$ 1,452	$ 1,333	$4,333	$ 3,864
Warranty reimbursements from DCIP	$ (2,234)	$ (1,608)	$(6,141)	$ (4,367)
Management service fees	$ 207	$ 207	$619	$ 619

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AC JV, LLC

During December 2013, the Company, Regal, AMC (the “AC Founding Members”) and NCM entered into a series of agreements that resulted in the formation of AC JV, LLC (“AC”), a joint venture that owns “Fathom Events” (consisting of Fathom Events and Fathom Consumer Events) formerly operated by NCM. The Fathom Events business focuses on the marketing and distribution of live and pre-recorded entertainment programming to various theatre operators to provide additional programs that augment their feature film schedule. The Fathom Consumer Events business includes live and pre-recorded concerts featuring contemporary music, opera and symphony, DVD product releases and marketing events, theatrical premieres, Broadway plays, live sporting events and other special events. The Company paid event fees to AC of $9,448 and $7,808 for the nine months ended September 30, 2017 and 2016, respectively, which are included in film rentals and advertising costs on the condensed consolidated statements of income.

AC was formed by the AC Founding Members and NCM. NCM, under a contribution agreement, contributed the assets associated with its Fathom Events division to AC in exchange for 97% ownership of the Class A Units of AC. Under a separate contribution agreement, the Founding Members each contributed cash of approximately $268 to AC in exchange for 1% of the Class A Units of AC. Subsequently, NCM and the Founding Members entered into a Membership Interest Purchase Agreement, under which NCM sold each of the Founding Members 31% of its Class A Units in AC, the aggregate value of which was determined to be $25,000, in exchange for a six-year promissory note. Each of the Founding Members’ promissory notes were originally for $8,333, bear interest at 5% per annum and require annual principal and interest payments. The remaining outstanding balance of the note payable from the Company to NCM as of September 30, 2017 was $4,167.

Digital Cinema Distribution Coalition

Digital Cinema Distribution Coalition (“DCDC”) is a joint venture among the Company, Universal, Warner Bros., AMC and Regal. DCDC operates a satellite distribution network that distributes all digital content to U.S. theatres via satellite. The Company has an approximate 14.6% ownership in DCDC. The Company paid approximately $637 and $707 to DCDC during the nine months ended September 30, 2017 and 2016, respectively, related to content delivery services provided by DCDC. These fees are included in film rentals and advertising costs on the condensed consolidated statements of income.

8. Treasury Stock and Share Based Awards

Treasury Stock — Treasury stock represents shares of common stock repurchased or withheld by the Company and not yet retired. The Company has applied the cost method in recording its treasury shares. Below is a summary of the Company’s treasury stock activity for the nine months ended September 30, 2017:

	Number of Treasury Shares	Cost
Balance at January 1, 2017	4,447,002	$73,411
Restricted stock withholdings (1)	68,523	2,943

Restricted stock forfeitures	9,550	—
Balance at September 30, 2017	4,525,075	$76,354

(1) The Company withheld restricted shares as a result of the election by certain employees to satisfy their tax liabilities upon vesting in restricted stock and restricted stock units. The Company determined the number of shares to be withheld based upon market values ranging from $33.36 to $44.44 per share.

As of September 30, 2017, the Company had no plans to retire any shares of treasury stock.

Restricted Stock – During the nine months ended September 30, 2017, the Company granted 237,933 shares of restricted stock to directors and employees. The fair value of the restricted stock granted was determined based on the market value of the Company's common stock on the dates of grant, which ranged from $38.65 to $42.37 per share. The Company assumed forfeiture rates that ranged from 0% to 10% for the restricted stock awards. The restricted stock granted to directors vests over a one year service period. The restricted stock granted to employees vests over a four year service period. The recipients of restricted stock are entitled to receive non-forfeitable dividends and to vote their respective shares, however, the sale and transfer of the restricted shares is prohibited during the restriction period.

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Below is a summary of restricted stock activity for the nine months ended September 30, 2017:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2017	606,618	$ 33.51
Granted	237,933	$ 41.94
Vested	(192,152)	$ 36.26
Forfeited	(9,550)	$ 33.00
Outstanding at September 30, 2017	642,849	$ 35.82
Unvested restricted stock at September 30, 2017	642,849	$ 35.82

	Nine Months Ended September 30, 2017	2016
Compensation expense recognized during the period	$6,298	$6,551
Fair value of restricted shares that vested during the period	$8,169	$14,662
Income tax benefit recognized upon vesting of restricted stock awards	$2,665	$5,555

As of September 30, 2017, the estimated remaining unrecognized compensation expense related to unvested restricted stock awards was $15,335 and the weighted average period over which this remaining compensation expense will be recognized is approximately two years.

Restricted Stock Units – During the nine months ended September 30, 2017, the Company granted restricted stock units representing 175,634 hypothetical shares of common stock to employees. The restricted stock units vest based on a combination of financial performance factors and continued service. The financial performance factors are based on an implied equity value concept that determines an internal rate of return (“IRR”) during the two fiscal year periods ending December 31, 2018 based on a formula utilizing a multiple of Adjusted EBITDA subject to certain specified adjustments as specified by the Compensation Committee prior to the grant date. The financial performance factors for the restricted stock units have a threshold, target and maximum level of payment opportunity and vest on a prorata basis according to the IRR achieved by the Company during the performance period. If the IRR for the two-year period is at least 7%, which is the threshold, one-third of the maximum restricted stock units vest. If the IRR for the two-year period is at least 9.5%, which is the target, two-thirds of the maximum restricted stock units vest. If the IRR for the two-year period is at least 13%, which is the maximum, 100% of the maximum restricted stock units vest. Grantees are eligible to receive a ratable portion of the common stock issuable if the IRR is within the targets previously noted. Further, as an example, if the Company achieves an IRR equal to 11%, the number of restricted stock units that shall vest will be greater than the target but less than the maximum number that would have vested had the Company achieved the highest IRR. All restricted stock units granted during 2017 will vest subject to an additional two-year service requirement and will be paid in the form of common stock if the participant continues to provide services through February 2021, which is the fourth anniversary of the grant date. Restricted stock unit award participants are eligible to receive dividend equivalent payments from the grant date if, and at the time that, the restricted stock unit awards vest.

Below is a table summarizing the potential number of shares that could vest under restricted stock unit awards granted during the nine months ended September 30, 2017 at each of the three target levels of financial performance (excluding forfeiture assumptions):

	Number of Shares Vesting	Value at Grant
at IRR of at least 7%	58,545	$2,481
at IRR of at least 9.5%	117,089	$4,961
at IRR of at least 13%	175,634	$7,442

Due to the fact that the IRR for the two-year performance period could not be determined at the time of the 2017 grant, the Company estimated that the most likely outcome is the achievement of the target IRR level. The fair value of the restricted stock unit

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awards was determined based on the closing price of the Company's common stock on the date of grant, which was $42.37 per share. The Company assumed a forfeiture rate of 5% for the restricted stock unit awards. If during the service period, additional information becomes available to lead the Company to believe a different IRR level will be achieved for the two-year performance period, the Company will reassess the number of units that will vest for the grant and adjust its compensation expense accordingly on a prospective basis over the remaining service period.

	Nine Months Ended September 30,	
	2017	2016
Number of restricted stock unit awards that vested during the period	97,115	213,984
Fair value of restricted stock unit awards that vested during the period	$4,155	$7,260
Accumulated dividends paid upon vesting of restricted stock unit awards	$313	$662
Compensation expense recognized during the period	$3,189	$3,696
Income tax benefit recognized upon vesting of restricted stock unit awards	$1,745	$3,049

As of September 30, 2017, the estimated remaining unrecognized compensation expense related to the outstanding restricted stock unit awards was $8,314. The weighted average period over which this remaining compensation expense will be recognized is approximately two years. As of September 30, 2017, the Company had restricted stock units outstanding that represented a total of 628,189 hypothetical shares of common stock, net of actual cumulative forfeitures of 7,407 units, assuming the maximum IRR level is achieved for all grants outstanding.

9. Goodwill and Other Intangible Assets

The Company's goodwill was as follows:

	U.S. Operating Segment	International Operating Segment	Total

Balance at January 1, 2017 [1]	$1,164,163	$ 98,800	$1,262,963
Acquisitions of theatres [2]	9,878	20,401	30,279
Foreign currency translation adjustments	—	1,100	1,100
Balance at September 30, 2017 [1]	$1,174,041	$ 120,301	$1,294,342

(1) Balances are presented net of accumulated impairment losses of $214,031 for the U.S. operating segment and $27,622 for the international operating segment.
(2) Represents preliminary purchase price allocations associated with the acquisitions of theatres.

The Company evaluates goodwill for impairment annually during the fourth quarter or whenever events or changes in circumstances indicate the carrying value of the goodwill may not be fully recoverable. The Company evaluates goodwill for impairment at the reporting unit level and has allocated goodwill to the reporting unit based on an estimate of its relative fair value. Management considers the reporting unit to be each of its nineteen regions in the U.S. and seven countries internationally with Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Guatemala considered one reporting unit (the Company does not have goodwill recorded for all of its international locations). For the year ended December 31, 2016, the Company performed a qualitative goodwill impairment assessment on all reporting units, in accordance with ASC Topic 350-20-35. No events or changes in circumstances occurred during the nine months ended September 30, 2017 that indicated the carrying value of goodwill might exceed its estimated fair value.

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Intangible assets consisted of the following:

	Balance at January 1, 2017	Additions [(1)]	Amortization	Other [(2)]	Balance at September 30, 2017
Intangible assets with finite lives:					
Gross carrying amount	$99,796	$ 4,453	$ —	$(1,332)	$ 102,917
Accumulated amortization	(64,606)		(3,606)	1,162	(67,050)
Total net intangible assets with finite lives	$35,190	$ 4,453	$ (3,606)	$(170)	$ 35,867
Intangible assets with indefinite lives:					
Tradename	299,709			81	299,790
Total intangible assets — net	$334,899	$ 4,453	$ (3,606)	$(89)	$ 335,657

(1) Amount represents preliminary fair values allocated to intangible assets acquired as part of the acquisitions of theatres.

(2) Amounts represent foreign currency translation adjustments and the write-off of a favorable lease associated with a closed domestic theatre.

For the year ended December 31, 2016, the Company performed a qualitative assessment for all indefinite-lived tradename assets other than its tradename in Ecuador, for which the Company performed a quantitative assessment. For the year ended December 31, 2016, the Company also performed a quantitative test on its definite-lived tradename associated with certain of its Rave-branded theatres acquired in 2013. No events or changes in circumstances occurred during the nine months ended September 30, 2017 that indicated the carrying value of its tradename assets might exceed their estimated fair values.

Estimated aggregate future amortization expense for intangible assets is as follows:

For the three months ended December 31, 2017	$1,668
For the twelve months ended December 31, 2018	5,964
For the twelve months ended December 31, 2019	5,101
For the twelve months ended December 31, 2020	4,995
For the twelve months ended December 31, 2021	2,444
Thereafter	15,695
Total	$35,867

10. Impairment of Long-Lived Assets

The Company reviews long-lived assets for impairment indicators on a quarterly basis or whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. See discussion of the Company's long-lived asset impairment evaluation process in "Critical Accounting Policies" in its Annual Report on Form 10-K for the year ended December 31, 2016, filed February 23, 2017. As noted in the discussion, fair value is determined based on a multiple of cash flows, which was six and a half times for the evaluations performed during the nine months ended September 30, 2017 and 2016. As of September 30, 2017, the estimated aggregate fair value of the long-lived assets impaired during the nine months ended September 30, 2017 was approximately $5,367.

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The long-lived asset impairment charges recorded during each of the periods presented are specific to theatres that were directly and individually impacted by increased competition, adverse changes in market demographics or adverse changes in the development or the conditions of the areas surrounding the theatre.

Below is a summary of impairment charges for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
U.S. theatre properties	$ 1,054	$ 406	$1,411	$1,500
International theatre properties	3,972	—	8,189	823
Impairment of long-lived assets	$ 5,026	$ 406	$9,600	$2,323

11. Fair Value Measurements

The Company determines fair value measurements in accordance with FASB ASC Topic 820: Fair Value Measurements (“ASC Topic 820”), which establishes a fair value hierarchy under which an asset or liability is categorized based on the lowest level of input significant to its fair value measurement. The levels of input defined by ASC Topic 820 are as follows:

Level 1 – quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date;

Level 2 – other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 – unobservable and should be used to measure fair value to the extent that observable inputs are not available.

The Company did not have any assets or liabilities measured at fair value on a recurring basis under ASC Topic 820 as of December 31, 2016 or September 30, 2017.

Below is a reconciliation of the beginning and ending balance for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2016:

	Liabilities (1)
	2016
Beginning balance - January 1	$ 373

Total loss included in accumulated other comprehensive loss		71
Settlements included in interest expense		(444)
Ending balance - September 30	$	—

(1) The Company was previously party to an interest rate swap agreement, which expired in April 2016.

The Company uses the market approach for fair value measurements on a nonrecurring basis in the impairment evaluations of its long-lived assets (see Note 9 and Note 10). See additional explanation of fair value measurement techniques used for long-lived assets, goodwill and intangible assets in “Critical Accounting Policies” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, filed February 23, 2017. There were no changes in valuation techniques and there were no transfers in or out of Level 1, Level 2 or Level 3 during the nine months ended September 30, 2017.

12. Foreign Currency Translation

The accumulated other comprehensive loss account in stockholders’ equity of $242,894 and $247,013 as of September 30, 2017 and December 31, 2016, respectively, primarily includes cumulative foreign currency adjustments of $243,020 and $247,047, respectively, from translating the financial statements of the Company’s international subsidiaries.

All foreign countries where the Company has operations are non-highly inflationary, and the local currency is the same as the functional currency in all of the locations. Thus, any fluctuation in the currency results in a cumulative foreign currency translation adjustment recorded to accumulated other comprehensive loss.

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A highly inflationary economy is defined as an economy with a cumulative inflation rate of approximately 100 percent or more over a three-year period. If a country's economy is classified as highly inflationary, the financial statements of the foreign entity operating in that country must be remeasured to the functional currency of the reporting entity. There has been a steady devaluation of the Argentine peso relative to the U.S. dollar in recent years. The official cumulative inflation rate for Argentina over the last three years has not definitively reached 100 percent and remeasurement is not required. The Company will continue to monitor the inflation on a quarterly basis to determine whether remeasurement is necessary.

Below is a summary of the impact of translating the September 30, 2017 financial statements of the Company's international subsidiaries:

	Exchange Rate as of		Other Comprehensive Income (Loss) for The Nine Months Ended
Country	September 30, 2017	December 31, 2016	September 30, 2017
Brazil	3.17	3.26	$ 6,700
Argentina	17.70	16.04	(5,918)
Peru	3.35	3.45	1,133
Chile	640.60	679.09	3,136
All other			527
			$ 5,578

During the nine months ended September 30, 2017, the Company reclassified $1,551 of cumulative foreign currency translation adjustments, related to a Canadian subsidiary that was liquidated, from accumulated other comprehensive loss to foreign currency exchange gain on the condensed consolidated statement of income.

13. Supplemental Cash Flow Information

The following is provided as supplemental information to the condensed consolidated statements of cash flows:

Nine Months Ended

	September 30,	
	2017	2016
Cash paid for interest	$58,334	$68,552
Cash paid for income taxes, net of refunds received	$81,271	$66,757
Noncash investing and financing activities:		
Change in accounts payable and accrued expenses for the acquisition of theatre properties and equipment (1)	$(5,947)	$132
Theatre properties acquired under capital lease	$30,517	$11,292
Investment in NCM – receipt of common units (see Note 6)	$18,363	$11,111
Dividends accrued on unvested restricted stock unit awards	$(423)	$(360)

(1) Additions to theatre properties and equipment included in accounts payable as of September 30, 2017 and December 31, 2016 were $34,678 and $40,625, respectively.

14. Segments

The Company manages its international market and its U.S. market as separate reportable operating segments, with the international segment consisting of operations in Brazil, Argentina, Chile, Colombia, Peru, Ecuador, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Guatemala, Bolivia, Curacao and Paraguay. Each segment’s revenue is derived from admissions and concession sales and other ancillary revenues. The Company uses Adjusted EBITDA, as shown in the reconciliation table below, as the primary measure of segment profit and loss to evaluate performance and allocate its resources. The Company does not report total assets by segment because that information is not used to evaluate the performance of or allocate resources between segments.

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Below is a breakdown of selected financial information by reportable operating segment:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues				
U.S.	$514,376	$572,916	$1,650,514	$1,677,365
International	200,122	199,476	602,116	551,212
Eliminations	(3,750)	(3,818)	(11,077)	(10,730)
Total revenues	$710,748	$768,574	$2,241,553	$2,217,847
Adjusted EBITDA				
U.S.	$108,854	$137,540	$402,902	$409,018
International	44,818	47,351	133,329	128,915
Total Adjusted EBITDA	$153,672	$184,891	$536,231	$537,933
Capital expenditures				
U.S.	$65,612	$75,839	$221,604	$175,218
International	14,318	22,984	41,126	55,128
Total capital expenditures	$79,930	$98,823	$262,730	$230,346

The following table sets forth a reconciliation of net income to Adjusted EBITDA:

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net income	$38,540	$66,126	$170,544	$179,540
Add (deduct):				
Income taxes	24,630	40,926	98,475	106,002
Interest expense (1)	26,317	26,659	79,208	81,980
Other income (2)	(13,168)	(14,540)	(33,180)	(32,510)
Loss on debt amendments and refinancing			246	13,284
Other cash distributions from equity investees (3)	2,402	1,391	17,321	9,660
Depreciation and amortization	58,052	54,187	174,545	155,874
Impairment of long-lived assets	5,026	406	9,600	2,323
Loss on sale of assets and other	8,576	6,940	9,464	10,985
Deferred lease expenses	(297)	(162)	(1,019)	(809)
Amortization of long-term prepaid rents	551	371	1,540	1,357
Share based awards compensation expense	3,043	2,587	9,487	10,247
Adjusted EBITDA	$153,672	$184,891	$536,231	$537,933

(1) Includes amortization of debt issue costs.
(2) Includes interest income, foreign currency exchange gain and equity in income of affiliates and excludes distributions from NCM.
(3) Includes cash distributions received from equity investees that were recorded as a reduction of the respective investment balances (see Notes 6 and 7). These distributions are reported entirely within the U.S. operating segment.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

Financial Information About Geographic Areas

Below is a breakdown of selected financial information by geographic area:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Revenues	2017	2016	2017	2016
U.S.	$514,376	$572,916	$1,650,514	$1,677,365
Brazil	81,545	85,051	264,085	231,556
Other international countries	118,577	114,425	338,031	319,656
Eliminations	(3,750)	(3,818)	(11,077)	(10,730)
Total	$710,748	$768,574	$2,241,553	$2,217,847

Theatre Properties and Equipment-net	September 30, 2017	December 31, 2016
U.S.	$ 1,392,429	$ 1,306,643
Brazil	194,171	197,896
Other international countries	205,006	199,997
Total	$ 1,791,606	$ 1,704,536

15 Related Party Transactions

The Company manages theatres for Laredo Theatre, Ltd. (“Laredo”). The Company is the sole general partner and owns 75% of the limited partnership interests of Laredo. Lone Star Theatres, Inc. owns the remaining 25% of the limited partnership interests in Laredo and is 100% owned by Mr. David Roberts, Lee Roy Mitchell’s son-in-law. Lee Roy Mitchell is the Company’s Chairman of the Board of Directors and directly and indirectly owns approximately 9% of the Company’s common stock. Under the agreement, management fees are paid by Laredo to the Company at a rate of 5% of annual theatre revenues up to $50,000 and 3% of annual theatre revenues in excess of $50,000. The Company recorded $451 and $410 of management fee revenues during the nine months ended September 30, 2017 and 2016, respectively. All such amounts are included in the Company’s condensed consolidated financial statements with the intercompany amounts eliminated in consolidation.

The Company has an Aircraft Time Sharing Agreement with Copper Beech Capital, LLC to use, on occasion, a private aircraft owned by Copper Beech Capital, LLC. Copper Beech Capital, LLC is owned by Mr. Mitchell and his wife, Tandy Mitchell. The private aircraft is used by Mr. Mitchell and other executives who accompany Mr. Mitchell to business meetings for the Company. The Company reimburses Copper Beech Capital, LLC for the actual costs of fuel usage and the expenses of the pilots, landing fees, storage fees and similar expenses incurred during the trip. For the nine months ended September 30, 2017 and 2016, the aggregate amounts paid to Copper Beech Capital, LLC for the use of the aircraft was $89 and $94, respectively.

The Company leases 14 theatres and one parking facility from Syufy Enterprises, LP ("Syufy") or affiliates of Syufy. Raymond Syufy is one of the Company's directors and is an officer of the general partner of Syufy. Of these 15 leases, 14 have fixed minimum annual rent. The one lease without minimum annual rent has rent based upon a specified percentage of gross sales as defined in the lease. For the nine months ended September 30, 2017 and 2016, the Company paid total rent of approximately $18,844 and $17,806, respectively, to Syufy.

16. Commitments and Contingencies

Joseph Amey, et al. v. Cinemark USA, Inc., Case No. 3:13cv05669, In the United States District Court for the Northern District of California, San Francisco Division. The case presents putative class action claims for damages and attorney's fees arising from employee wage and hour claims under California law for alleged meal period, rest break, reporting time pay, unpaid wages, pay upon termination, and wage statements violations. The claims are also asserted as a representative action under the California Private Attorney General Act ("PAGA"). The Company denies the claims, denies that class certification is appropriate and denies that a PAGA representative action is appropriate, and is vigorously defending against the claims. The Company denies any violation of law and plans to vigorously defend against all claims. The Court recently determined that class certification is not appropriate and determined that a PAGA representative action is not appropriate. The plaintiff has appealed these rulings. The Company is unable to predict the outcome of this litigation or the range of potential loss.

CINEMARK HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

Flagship Theatres of Palm Desert, LLC d/b/a Cinemas Palme D'Or v. Century Theatres, Inc., and Cinemark USA, Inc.; Superior Court of the State of California, County of Los Angeles. Plaintiff in this case alleges that the Company violated California antitrust and unfair competition laws by engaging in "circuit dealing" with various motion picture distributors and tortuously interfered with Plaintiff's business relationships. Plaintiff seeks compensatory damages, trebling of those damages under California law, punitive damages, injunctive relief, attorneys' fees, costs and interest. Plaintiff also alleges that the Company's conduct ultimately resulted in closure of its theatre in June 2016. The Company denied the allegations. In 2008, the Company moved for summary judgment on Plaintiff's claims, arguing primarily that clearances between the theatres at issue were lawful and that Plaintiff lacked proof sufficient to support certain technical elements of its antitrust claims. The trial court granted that motion and dismissed Plaintiff's claims. Plaintiff appealed and, in 2011, the Court of Appeal reversed, holding, among other things, that Plaintiff's claims were not about the illegality of clearances but were focused, instead, on "circuit dealing." Having re-framed the claims in that manner, the Court of Appeal held that the trial court's decision to limit discovery to the market where the theatres at issue operated was an error, as "circuit dealing" necessarily involves activities in different markets. Upon return to the trial court, the parties engaged in additional, broadened discovery related to Plaintiff's "circuit dealing" claim. Thereafter, the Company moved again for summary judgment on all of Plaintiff's claims. That new motion for summary judgment was pending when, on or about April 11, 2014, the trial court granted the Company's motion for terminating sanctions and entered a judgment dismissing the case with prejudice. Plaintiff then appealed that second dismissal, seeking to have the judgment reversed and the case remanded to the trial court. The Court of Appeal issued a ruling on May 24, 2016, reversing the granting of terminating sanctions and instead imposed a lesser evidentiary and damages preclusion sanction. The case returned to the trial court on October 6, 2016. The Company has denied Plaintiff's allegations and is vigorously defending these claims. The Company is unable to predict the outcome of this litigation or the range of potential loss.

The Company received a Civil Investigative Demand ("CID") from the Antitrust Division of the United States Department of Justice. The CID relates to an investigation under Sections 1 and 2 of the Sherman Act. The Company also received CIDs from the Antitrust Section of the Office of the Attorney General of the State of Ohio and later from other states regarding similar inquiries under state antitrust laws. The CIDs request the Company to answer interrogatories, and produce documents, or both, related to the investigation of matters including film clearances, potential coordination and/or communication with other major theatre circuits and related joint ventures. The Company intends to fully cooperate with all federal and state government agencies. Although the Company does not believe that it has violated any federal or state antitrust or competition laws, it cannot predict the ultimate scope, duration or outcome of these investigations.

From time to time, the Company is involved in various other legal proceedings arising from the ordinary course of its business operations, such as personal injury claims, employment matters, landlord-tenant disputes, patent claims and contractual disputes, some of which are covered by insurance. The Company believes its potential liability with respect to proceedings currently pending is not material, individually or in the aggregate, to the Company's financial position, results of operations and cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes and schedules included elsewhere in this report.

We are a leader in the motion picture exhibition industry, with theatres in the U.S., Brazil, Argentina, Chile, Colombia, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Guatemala, Bolivia, Curacao and Paraguay. As of September 30, 2017, we managed our business under two reportable operating segments – U.S. markets and international markets. See Note 14 to our condensed consolidated financial statements.

We generate revenues primarily from filmed entertainment box office receipts and concession sales with additional revenues from screen advertising sales and other revenue streams, such as vendor marketing promotions, studio trailer placements, meeting rentals and electronic video games located in some of our theatres. NCM provides our domestic theatres with various forms of in-theatre advertising. We also offer alternative entertainment, such as live and pre-recorded sports programs, concert events, the Metropolitan Opera, in-theatre gaming and other special events in our theatres through our joint venture, AC JV, LLC. Our Flix Media initiative has also allowed us to expand our screen advertising and alternative content within our international circuit and to other international exhibitors.

Films leading the box office during the nine months ended September 30, 2017 included the carryover of Rogue One: A Star Wars Story and Hidden Figures and new releases such as Beauty and the Beast, Wonder Woman, Guardians of the Galaxy Vol. 2, Spider Man: Homecoming, It, Despicable Me 3, Logan, The Fate of the Furious, Dunkirk, The LEGO Batman Movie, Get Out, The Boss Baby, Pirates of the Caribbean: Dead Men Tell No Tales, Kong: Skull Island and other films. Films scheduled for release during the remainder of 2017 include Jumanji: Welcome to the Jungle and Coco and well-known franchise films such as Star Wars: The Last Jedi, Justice League, Pitch Perfect 3 and Thor: Ragnarok among other films.

Film rental costs are variable in nature and fluctuate with our admissions revenues. Film rental costs as a percentage of revenues are generally higher for periods in which more blockbuster films are released. Advertising costs, which are expensed as incurred, are primarily related to campaigns for new and renovated theatres and brand advertising that vary depending on the timing of such campaigns.

Concession supplies expense is variable in nature and fluctuates with our concession revenues. We negotiate prices for concession supplies directly with concession vendors and manufacturers to obtain volume rates.

Although salaries and wages include a fixed cost component (i.e. the minimum staffing costs to operate a theatre facility during non-peak periods), salaries and wages move in relation to revenues as theatre staffing is adjusted to respond to changes in attendance. In some international locations, staffing levels are also subject to local regulations.

Facility lease expense is primarily a fixed cost at the theatre level as most of our facility leases require a fixed monthly minimum rent payment. Certain leases are subject to percentage rent only, while others are subject to percentage rent in addition to their fixed monthly rent if a target annual performance level is achieved. Facility lease expense as a percentage of revenues is also affected by the number of theatres under operating leases, the number of theatres under capital leases and the number of fee-owned theatres.

Utilities and other costs include both fixed and variable costs and primarily consist of utilities, expenses for projection and sound equipment maintenance and monitoring, property taxes, janitorial costs, repairs, maintenance and security services.

Results of Operations

The following table sets forth, for the periods indicated, certain operating data and the percentage of revenues represented by certain items reflected in our condensed consolidated statements of income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating data (in millions):				
Revenues				
Admissions	$425.1	$472.9	$1,351.5	$1,364.8
Concession	247.1	261.4	777.6	752.8
Other	38.6	34.3	112.5	100.3