

CINEMARK INC
Form 10-Q
November 10, 2008

Table of Contents

CINEMARK, INC. MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION (H)(1)(A) AND (B) OF FORM 10-Q AND THEREFORE IS FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

**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, 2008
Commission File Number: 001-31372
CINEMARK, INC.
(Exact name of registrant as specified in its charter)**

**Delaware
(State or other jurisdiction
of incorporation or organization)**

**01-0687923
(I.R.S. Employer
Identification No.)**

**3900 Dallas Parkway
Suite 500
Plano, Texas
(Address of principal executive offices)**

**75093
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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, 2008, 27,896,316 shares of common stock were outstanding.

**CINEMARK, INC. AND SUBSIDIARIES
TABLE OF CONTENTS**

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 4T. Controls and Procedures</u>	32
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	32
<u>Item 1A. Risk Factors</u>	32
<u>Item 5. Other Information</u>	32
<u>Item 6. Exhibits</u>	37
<u>SIGNATURES</u>	38
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents

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 28, 2008 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.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 334,230	\$ 233,402
Inventories	7,283	7,000
Accounts receivable	28,116	34,832
Income tax receivable		18,422
Current deferred tax asset	5,189	5,215
Prepaid expenses and other	9,051	10,070
Total current assets	383,869	308,941
THEATRE PROPERTIES AND EQUIPMENT		
Less accumulated depreciation and amortization	1,856,793	1,818,505
	585,425	504,439
Theatre properties and equipment net	1,271,368	1,314,066
OTHER ASSETS		
Goodwill	1,133,911	1,134,689
Intangible assets net	348,063	353,047
Investments in and advances to affiliates	23,452	5,071
Deferred charges and other assets net	52,234	77,393
Total other assets	1,557,660	1,570,200
TOTAL ASSETS	\$ 3,212,897	\$ 3,193,207

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES		
Current portion of long-term debt	\$ 12,671	\$ 9,166
Current portion of capital lease obligations	5,353	4,684
Current income tax payable	2,976	
Current FIN 48 payable	10,775	
Accounts payable and accrued expenses	181,798	204,327
Total current liabilities	213,573	218,177
LONG-TERM LIABILITIES		

Edgar Filing: CINEMARK INC - Form 10-Q

Long-term debt, less current portion	1,524,894	1,514,579
Capital lease obligations, less current portion	120,228	116,486
Deferred income taxes	152,774	168,475
Long-term portion FIN 48 liability	6,123	15,500
Deferred lease expenses	22,074	19,235
Deferred revenues NCM	190,335	172,696
Other long-term liabilities	21,355	36,214
Total long-term liabilities	2,037,783	2,043,185
COMMITMENTS AND CONTINGENCIES (see Note 18)		
MINORITY INTERESTS IN SUBSIDIARIES	18,392	16,182
STOCKHOLDERS EQUITY		
Class A common stock, \$0.001 par value: 40,000,000 shares authorized and 27,896,316 shares issued and outstanding	28	28
Additional paid-in-capital	818,679	806,742
Retained earnings	116,807	76,198
Accumulated other comprehensive income	7,635	32,695
Total stockholders equity	943,149	915,663
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 3,212,897	\$ 3,193,207

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

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
REVENUES				
Admissions	\$ 308,453	\$ 307,951	\$ 865,245	\$ 835,058
Concession	146,076	144,330	409,707	397,865
Other	21,694	19,218	59,521	56,634
Total revenues	476,223	471,499	1,334,473	1,289,557
COST OF OPERATIONS				
Film rentals and advertising	169,260	166,822	471,199	454,200
Concession supplies	24,489	22,546	66,443	62,671
Salaries and wages	47,405	45,691	135,313	131,317
Facility lease expense	58,936	54,943	171,382	159,841
Utilities and other	57,280	51,597	155,856	144,009
General and administrative expenses	22,490	20,499	67,064	57,436
Termination of profit participation agreement				6,952
Depreciation and amortization	38,115	37,606	113,362	111,201
Amortization of favorable leases	702	667	2,105	2,226
Impairment of long-lived assets	2,316	3,624	8,145	60,390
(Gain) loss on sale of assets and other	2,301	942	3,211	(617)
Total cost of operations	423,294	404,937	1,194,080	1,189,626
OPERATING INCOME	52,929	66,562	140,393	99,931
OTHER INCOME (EXPENSE)				
Interest expense	(27,613)	(34,968)	(89,747)	(111,766)
Interest income	3,473	2,777	8,723	8,826
Gain on NCM Transaction				210,773
Gain on Fandango Transaction				9,205
Foreign currency exchange gain	325	205	85	368
Loss on early retirement of debt		(3,584)	(40)	(11,536)
Distributions from NCM	3,592	4,392	12,177	5,754
Equity in loss of affiliates	(415)	(335)	(1,742)	(1,831)
Minority interests in income of subsidiaries	(1,531)	(1,132)	(3,775)	(2,027)
Total other income (expense)	(22,169)	(32,645)	(74,319)	107,766
INCOME BEFORE INCOME TAXES	30,760	33,917	66,074	207,697

Edgar Filing: CINEMARK INC - Form 10-Q

Income taxes	10,346	59,003	25,465	67,940
NET INCOME (LOSS)	\$ 20,414	\$ (25,086)	\$ 40,609	\$ 139,757

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

5

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

	Nine months ended September 30,	
	2008	2007
OPERATING ACTIVITIES		
Net income	\$ 40,609	\$ 139,757
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	110,372	108,122
Amortization of intangible and other assets	5,095	5,305
Amortization of long-term prepaid rents	1,292	826
Amortization of debt issue costs	3,526	3,543
Amortization of debt premium		(678)
Amortization of deferred revenues, deferred lease incentives and other	(2,739)	(1,649)
Impairment of long-lived assets	8,145	60,390
Share based award compensation expense	2,988	2,165
Gain on NCM Transaction		(210,773)
Gain on Fandango Transaction		(9,205)
(Gain) loss on sale of assets and other	3,211	(617)
Write-off unamortized bond premiums and unamortized debt issue costs related to the early retirement of debt	193	(16,109)
Accretion of interest on senior discount notes	30,310	31,467
Amortization of other comprehensive loss related to interest rate swap agreement	193	
Noncash gain related to fair value adjustment on interest rate swap agreement	(3,324)	
Deferred lease expenses	2,856	4,606
Deferred income tax expenses	(20,844)	(73,226)
Equity in loss of affiliates	1,742	1,831
Minority interests in income of subsidiaries	3,775	2,027
Changes in assets and liabilities:		
Inventories	(283)	(481)
Accounts receivable	6,715	(2,845)
Prepaid expenses and other	1,019	(904)
Other assets	1,467	(962)
Advances with affiliates	1,091	(824)
Accounts payable and accrued expenses	(46,625)	(46,374)
Interest paid on repurchased senior discount notes	(2,929)	(10,932)
Increase in deferred revenues related to NCM Transaction		174,001
Increase in deferred revenues related to Fandango Transaction		5,000
Other long-term liabilities	984	(3,730)
Income tax receivable/payable	22,796	61,109
Net cash provided by operating activities	171,635	220,840
INVESTING ACTIVITIES		

Edgar Filing: CINEMARK INC - Form 10-Q

Additions to theatre properties and equipment	(71,335)	(110,049)
Proceeds from sale of theatre properties and equipment	2,461	14,004
Increase in escrow deposits due to like-kind exchange	(2,089)	
Return of escrow deposits	24,828	
Acquisition of one U.S. theatre and two Brazil theatres	(10,111)	
Investment in joint venture DCIP	(2,500)	(1,500)
Net proceeds from sale of NCM stock		214,842
Net proceeds from sale of Fandango stock		11,347
Other	231	
Net cash provided by (used for) investing activities	(58,515)	128,644
FINANCING ACTIVITIES		
Capital contributions from parent	8,950	42,757
Retirement of senior discount notes	(6,174)	(29,331)
Retirement of senior subordinated notes	(3)	(332,066)
Repayments of long-term debt	(7,260)	(17,936)
Payments on capital leases	(3,617)	(2,705)
Other	(1,099)	(529)
Net cash used for financing activities	(9,203)	(339,810)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(3,089)	3,649
INCREASE IN CASH AND CASH EQUIVALENTS	100,828	13,323
CASH AND CASH EQUIVALENTS:		
Beginning of period	233,402	147,099
End of period	\$ 334,230	\$ 160,422

SUPPLEMENTAL INFORMATION (see Note 15)

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

Table of Contents

CINEMARK, 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, Inc. and subsidiaries (the Company) are leaders in the motion picture exhibition industry in terms of both revenues and the number of screens in operation, with theatres in the United States (U.S.), Canada, Mexico, Argentina, Brazil, Chile, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Colombia. The Company also managed additional theatres in the U.S., Brazil, and Colombia during the nine months ended September 30, 2008.

On August 2, 2006, Cinemark Holdings, Inc. was formed as the Delaware holding company of Cinemark, Inc. On August 7, 2006, the Cinemark, Inc. stockholders entered into a share exchange agreement pursuant to which they agreed to exchange their shares of Class A common stock for an equal number of shares of common stock of Cinemark Holdings, Inc. (Cinemark Share Exchange). The Cinemark Share Exchange was completed on October 5, 2006 and facilitated the acquisition of Century Theatres, Inc. (the Century Acquisition). On October 5, 2006, Cinemark, Inc. became a wholly owned subsidiary of Cinemark Holdings, Inc.

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 necessary to state fairly the financial position and results of operations as of, and for, the periods indicated. Majority-owned subsidiaries that the Company controls are consolidated while those subsidiaries of which the Company owns between 20% and 50% and does not control are accounted for as affiliates under the equity method. Those subsidiaries of which the Company owns less than 20% are generally accounted for as affiliates 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, 2007, included in the Annual Report on Form 10-K filed March 28, 2008 by the Company under the Securities Exchange Act of 1934, as amended (the Exchange Act). Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results to be achieved for the full year.

2. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* . Among other requirements, this statement defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS No. 157 became effective for the Company beginning January 1, 2008 (January 1, 2009 for nonfinancial assets and liabilities). Adoption of this statement did not have a significant impact on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* . This statement provides companies with an option to report selected financial assets and liabilities at fair value that are currently not required to be measured at fair value. SFAS No. 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for the Company beginning January 1, 2008. The Company elected not to measure eligible items at fair value upon initial adoption.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* . This statement requires all business combinations completed after the effective date to be accounted for by applying the acquisition method (previously referred to as the purchase method); expands the definition of transactions and events that qualify as business combinations; requires that the acquired assets and liabilities, including contingencies, be recorded at the fair value determined on the acquisition date and changes thereafter reflected in income, not goodwill; changes the

recognition timing for restructuring costs; and requires acquisition costs to be expensed as incurred. Adoption of SFAS No. 141(R) is required for business combinations that occur after December 15, 2008. Early adoption and

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

retroactive application of SFAS No. 141 (R) to fiscal years preceding the effective date is not permitted. The Company is evaluating the impact of SFAS No. 141(R) on its condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements*. This statement establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS No. 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. SFAS No. 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company is evaluating the impact of SFAS No. 160 on its condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161 *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133*. This statement intends to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures about their impact on an entity's financial position, financial performance, and cash flows. SFAS No. 161 requires disclosures regarding the objectives for using derivative instruments, the fair values of derivative instruments and their related gains and losses, and the accounting for derivatives and related hedged items. SFAS No. 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. The Company's adoption of SFAS No. 161 will not impact its condensed consolidated financial statements, however the Company is evaluating the impact of SFAS No. 161 on its disclosures.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. The issuance of SFAS No. 162 is not expected to have a significant impact on the Company's condensed consolidated financial statements.

3. Cinemark Holdings, Inc.'s Initial Public Offering

On April 24, 2007, Cinemark Holdings, Inc. completed an initial public offering of its common stock. Cinemark Holdings, Inc. and selling stockholders sold a combined 28,000,000 shares of their common stock at a price of \$17.955 (\$19 per share less underwriting discounts). The net proceeds, before expenses, received by Cinemark Holdings, Inc. were \$249,375 and Cinemark Holdings, Inc. paid approximately \$3,526 in legal, accounting and other fees during the nine months ended September 30, 2007, all of which were recorded in additional paid-in-capital. On May 21, 2007, the underwriters purchased an additional 269,100 shares out of an additional 2,800,000 shares that were authorized for sale by the selling stockholders. Cinemark Holdings, Inc. did not receive any proceeds from the sale of shares by the selling stockholders. Cinemark Holdings, Inc. has utilized and expects to continue to utilize the net proceeds to repurchase a portion of the Company's remaining 9/4% senior discount notes or repay debt outstanding under the senior secured credit facility. Cinemark Holdings, Inc. has significant flexibility in applying the net proceeds from its initial public offering. Cinemark Holdings, Inc. has invested the remaining net proceeds in short-term, investment-grade marketable securities or money market funds.

4. Investment in National CineMedia and Transaction Related to its Initial Public Offering

In March 2005, Regal Entertainment Inc. (Regal) and AMC Entertainment Inc. (AMC) formed National CineMedia, LLC, or NCM, and on July 15, 2005, the Company joined NCM, as one of the founding members. NCM operates the largest digital in-theatre network in the U.S. for providing cinema advertising and non-film events and

combines the cinema advertising and non-film events businesses of the three largest motion picture companies in the U.S. Upon joining NCM, the Company and NCM entered into an Exhibitor Services Agreement, pursuant to which NCM provides advertising, promotion and event services to the Company's theatres. On February 13, 2007, National CineMedia, Inc. (NCM, Inc.), a newly formed entity that now serves as a member and the sole

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

manager of NCM, completed an initial public offering of its common stock. In connection with the NCM, Inc. initial public offering, the Company amended its operating agreement with NCM and the Exhibitor Services Agreement pursuant to which NCM provides advertising, promotion and event services to the Company's theatres. In connection with NCM Inc.'s initial public offering and the transactions described below (the "NCM Transaction"), the Company received an aggregate of \$389,003.

Prior to pricing the initial public offering of NCM, Inc., NCM completed a recapitalization whereby (1) each issued and outstanding Class A unit of NCM was split into 44,291 Class A units, and (2) following such split of Class A Units, each issued and outstanding Class A Unit was recapitalized into one common unit and one preferred unit. As a result, the Company received 14,159,437 common units and 14,159,437 preferred units. All existing preferred units of NCM, or 55,850,951 preferred units, held by Regal, AMC and the Company were redeemed on a pro-rata basis on February 13, 2007. NCM utilized the proceeds of its new \$725,000 term loan facility and a portion of the proceeds it received from NCM, Inc. from its initial public offering to redeem all of its outstanding preferred units. Each preferred unit was redeemed for \$13.7782 and the Company received approximately \$195,092 as payment in full for redemption of all of the Company's preferred units in NCM. Upon payment of such amount, each preferred unit was cancelled and the holders of the preferred units ceased to have any rights with respect to the preferred units.

At the closing of the initial public offering, the underwriters exercised their over-allotment option to purchase additional shares of common stock of NCM, Inc. at the initial public offering price, less underwriting discounts and commissions. In connection with the over-allotment option exercise, Regal, AMC and the Company each sold to NCM, Inc. common units of NCM on a pro-rata basis at the initial public offering price, less underwriting discounts and expenses. The Company sold 1,014,088 common units to NCM, Inc. for proceeds of \$19,910, and upon completion of this sale of common units, the Company owned 13,145,349 common units of NCM. The net proceeds of \$215,002 from the above described stock transactions were applied against the Company's existing investment basis in NCM of \$4,069 until such basis was reduced to \$0 with the remaining \$210,933 of proceeds net of \$160 of transaction related costs, recorded as a gain of \$210,773 in the condensed consolidated statement of operations for the nine months ended September 30, 2007.

NCM also paid the Company a portion of the proceeds it received from NCM, Inc. in the initial public offering for agreeing to modify NCM's payment obligation under the prior Exhibitor Services Agreement. The modification agreed to by the Company reflects a shift from circuit share expense under the prior Exhibitor Services Agreement, which obligated NCM to pay the Company a percentage of revenue, to the monthly theatre access fee described below. The theatre access fee significantly reduced the contractual amounts paid to the Company by NCM. In exchange for the Company agreeing to so modify the agreement, NCM paid the Company approximately \$174,001 upon modification of the Exhibitor Services Agreement on February 13, 2007, the proceeds of which were recorded as deferred revenue on the Company's condensed consolidated balance sheet. The Company believes this payment approximates the fair value of the Exhibitor Services Agreement modification. The deferred revenue is being amortized into other revenues over the life of the agreement using the units of revenue method. Regal and AMC similarly amended their exhibitor service arrangements with NCM.

In consideration for NCM's exclusive access to the Company's theatre attendees for on-screen advertising and use of off-screen locations within the Company's theatres for the lobby entertainment network and lobby promotions, the Company receives a monthly theatre access fee under the Exhibitor Services Agreement. The theatre access fee is composed of a fixed payment per patron, initially seven cents, and a fixed payment per digital screen, which may be adjusted for certain enumerated reasons. The payment per theatre patron will increase by 8% every five years, with the first such increase taking effect after the end of fiscal 2011, and the payment per digital screen, initially eight hundred dollars per digital screen per year, will increase annually by 5%, beginning after 2007. For 2008, the annual payment per digital screen is eight hundred forty dollars. The theatre access fee paid in the aggregate to Regal, AMC and the Company will not be less than 12% of NCM's Aggregate Advertising Revenue (as defined in the Exhibitor Services Agreement), or it will be adjusted upward to reach this minimum payment. Additionally, with respect to any on-screen

advertising time provided to the Company's beverage concessionaire, the Company is required to purchase such time from NCM at a negotiated rate. The exhibitor services agreement has, except with respect to certain limited services, a term of 30 years.

Prior to the initial public offering of NCM Inc. common stock, the Company's ownership interest in NCM was approximately 25% and subsequent to the completion of the offering the Company held a 14% interest in NCM.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

Subsequent to NCM, Inc.'s initial public offering, the Company continues to account for its investment in NCM under the equity method of accounting due to its ability to exercise significant control over NCM. The Company has substantial rights as a founding member, including the right to designate a total of two nominees to the ten-member Board of Directors of NCM Inc., the sole manager. So long as the Company owns at least 5% of NCM's membership interests, approval of at least 90% (80% if the board has less than 10 directors) will be required before NCM, Inc. may take certain actions including but not limited to mergers and acquisitions, issuance of common or preferred shares, approval of NCM's budget, incurrence of indebtedness, entering into or terminating material agreements, and modifications to its articles of incorporation or bylaws. Additionally, if any of the Company's director designees are not appointed to the Board of Directors of NCM, Inc., nominated by NCM, Inc. or elected by NCM, Inc.'s stockholders, then the Company (so long as the Company continues to own at least 5% of NCM's membership interest) will be entitled to approve certain actions of NCM including without limitation, approval of the budget, incurrence of indebtedness, consummating or amending material agreements, approving dividends, amending the NCM operating agreement, hiring or termination of the chief executive officer, chief financial officer, chief technology officer or chief marketing officer of NCM and the dissolution or liquidation of NCM.

In 2008, NCM performed a common unit adjustment calculation in accordance with the Common Unit Adjustment Agreement dated as of February 13, 2007 between NCM, Inc. and the Company, Regal and AMC. The common unit adjustment is based on the change in the number of screens operated by and attendance of the Company, AMC and Regal. As a result of the common unit adjustment calculation, the Company received an additional 846,303 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 fair value as an investment with a corresponding adjustment to deferred revenue of \$19,020. The common unit adjustment resulted in an increase in the Company's ownership percentage in NCM from approximately 14.0% to approximately 14.5%.

During May 2008, Regal completed an acquisition of another theatre circuit that required an extraordinary common unit adjustment calculation by NCM in accordance with the Common Unit Adjustment Agreement. As a result of this extraordinary common unit adjustment, Regal was granted additional common units of NCM, which resulted in dilution of the Company's ownership interest in NCM from 14.5% to 14.1%. The Company recognized a change of interest loss of approximately \$75 during the nine months ended September 30, 2008 as a result of this extraordinary common unit adjustment, which is reflected in (gain) loss on sale of assets and other on the condensed consolidated statement of operations.

As of September 30, 2008, the Company owned a total of 13,991,652 common units of NCM.

During the nine months ended September 30, 2007 and 2008, the Company recorded equity income (losses) in NCM of (\$1,284) and \$567, respectively. The Company recognized \$5,021 and \$1,749 of other revenue from NCM during the nine months ended September 30, 2007 and 2008, respectively. The Company had a receivable due from NCM of \$225 and \$212 as of December 31, 2007 and September 30, 2008, respectively, related to screen advertising and other ancillary revenue. The Company is entitled to receive mandatory quarterly distributions of excess cash from NCM. During the nine months ended September 30, 2007 and 2008, the Company received distributions of approximately \$5,754 and \$12,177, respectively, which were in excess of the carrying value of its investment in NCM and are reflected as distributions from NCM on the condensed consolidated statement of operations.

Below is summary financial information for NCM for the three and nine month periods ended September 25, 2008:

	Three Months Ended September 25, 2008	Nine Months Ended September 25, 2008
Gross revenues	\$ 107,709	\$ 257,097

Edgar Filing: CINEMARK INC - Form 10-Q

Operating income	\$ 57,207	\$ 113,995
Net earnings	\$ 47,009	\$ 77,925

10

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

5. Investment in Digital Cinema Implementation Partners

On February 12, 2007, the Company, AMC and Regal entered into a joint venture known as Digital Cinema Implementation Partners LLC (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. Future digital cinema developments will be managed by DCIP, subject to the Company's approval along with the Company's partners, AMC and Regal. During June 2007, the Company invested \$1,500 for a one-third ownership interest in DCIP. During February 2008, the Company, AMC and Regal each invested an additional \$1,000 in DCIP. During July 2008, the Company, AMC and Regal each invested an additional \$1,500 in DCIP.

The Company is accounting for its investment in DCIP under the equity method of accounting. During the nine months ended September 30, 2007 and 2008, the Company recorded equity losses in DCIP of \$617 and \$2,303, respectively, relating to this investment. The Company's investment basis in DCIP was \$260 and \$456 at December 31, 2007 and September 30, 2008, respectively, which is included in investments in and advances to affiliates on the condensed consolidated balance sheets.

6. Sale of Investment in Fandango, Inc.

In May 2007, Fandango, Inc., an on-line ticketing distributor, executed a merger agreement, which resulted in the Company selling its investment in stock of Fandango, Inc. for approximately \$14,147 of consideration (the Fandango Transaction). The Company paid approximately \$2,800 of the consideration to Syufy Enterprises, LP in accordance with the terms of agreements entered into as part of the Century Acquisition. As a result of the sale of its investment, the Company recorded a gain of \$9,205 in the condensed consolidated statement of operations for the nine months ended September 30, 2007.

As part of the sale of its investment in stock of Fandango, Inc., the Company amended its exclusive ticketing and distribution agreement with Fandango, Inc and received proceeds of \$5,000. The proceeds were recorded as deferred revenue on the Company's condensed consolidated balance sheet and are being amortized over the term of the amended ticketing and distribution agreement.

7. Share Based Awards

During September 2004, Cinemark, Inc.'s board of directors approved the 2004 Long Term Incentive Plan (the 2004 Plan), under which 9,097,360 shares of Class A common stock were made available for issuance to selected employees, directors and consultants of the Company. The 2004 Plan provided for restricted share grants, incentive option grants and nonqualified option grants.

On August 2, 2006, Cinemark Holdings, Inc. was formed as the Delaware holding company of Cinemark, Inc. and the Cinemark Share Exchange was completed on October 5, 2006.

In November 2006, Cinemark Holdings, Inc.'s board of directors amended the 2004 Plan to provide that no additional awards may be granted under the 2004 Plan. At that time, the board of directors and the majority of its stockholders approved the Cinemark Holdings, Inc. 2006 Long Term Incentive Plan (the 2006 Plan) and all options to purchase shares of Cinemark, Inc.'s Class A common stock under the 2004 Plan were exchanged for an equal number of options to purchase shares of Cinemark Holdings, Inc.'s common stock under the 2006 Plan. The 2006 Plan is substantially similar to the 2004 Plan.

During September 2007, Cinemark Holdings, Inc. filed a registration statement with the Securities and Exchange Commission on Form S-8 for purposes of registering shares available for issuance under the 2006 Plan.

During October 2007, Cinemark Holdings, Inc.'s board of directors recommended and its stockholders approved an amendment to the 2006 Plan to provide for the ability to exercise an option on a cashless basis, by decreasing the number of shares deliverable upon the exercise of such option by an amount equal to the number of shares having an aggregate fair market value equal to the aggregate exercise price of such option.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

During March 2008, Cinemark Holdings, Inc.'s board of directors approved the Amended and Restated Cinemark Holdings, Inc. 2006 Long Term Incentive Plan (the "Restated Incentive Plan"). The Restated Incentive Plan amends and restates the 2006 Plan, to (i) increase the number of shares reserved for issuance from 9,097,360 shares of common stock to 19,100,000 shares of common stock and (ii) permit the compensation committee of Cinemark Holdings, Inc.'s board of directors (the "Compensation Committee") to award participants restricted stock units and performance awards. The right of a participant to exercise or receive a grant of a restricted stock unit or performance award may be subject to the satisfaction of such performance or objective business criteria as determined by the Compensation Committee. With the exception of the changes identified in (i) and (ii) above, the Restated Incentive Plan does not materially differ from the 2006 Plan. The Restated Incentive Plan was approved by Cinemark Holdings, Inc.'s stockholders at its annual meeting of stockholders held on May 15, 2008.

During August 2008, Cinemark Holdings, Inc. filed a registration statement with the Securities and Exchange Commission on Form S-8 for the purpose of registering the additional shares available for issuance under the Restated Incentive Plan.

Stock Options A summary of stock option activity and related information for the nine months ended September 30, 2008 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2007	6,323,429	\$7.63
Granted		
Exercised	(161,292)	\$7.63
Forfeited	(12,398)	\$7.63
Outstanding at September 30, 2008	6,149,739	\$7.63
Options exercisable at September 30, 2008	5,483,817	\$7.63

The Company recorded compensation expense of \$2,148 and a tax benefit of approximately \$825 during the nine months ended September 30, 2008, related to the outstanding stock options. As of September 30, 2008, the remaining unrecognized compensation expense related to outstanding stock options was \$1,432 and the weighted average period over which this remaining compensation expense will be recognized is approximately six months. All options outstanding at September 30, 2008 have an average remaining contractual life of approximately 6 years. The aggregate intrinsic value of stock options outstanding and stock options exercisable at September 30, 2008 was \$36,714 and \$32,738, respectively.

Restricted Stock - During October 2007, Cinemark Holdings, Inc. granted 21,880 shares of restricted stock to its independent directors at a purchase price of \$0.001 per share. The fair value of the shares was approximately \$400 based on the market value of Cinemark Holdings, Inc.'s stock on the date of grant, which was \$18.28 per share. These restricted stock awards fully vested on June 29, 2008. Cinemark Holdings, Inc. recorded compensation expense of \$200 related to these awards during the nine months ended September 30, 2008.

During the nine months ended September 30, 2008, Cinemark Holdings, Inc. granted 390,908 shares of restricted stock to its independent directors and employees of the Company. The fair value of the shares of restricted stock was determined based on the market value of Cinemark Holdings, Inc. s stock on the dates of grant, which ranged from \$12.89 to \$14.65 per share. The Company assumed forfeiture rates ranging from zero to 2% for the restricted stock awards. The restricted stock vests over periods ranging from one year to four years based on continued service by the independent director or employee. The Company recorded compensation expense of \$624 and Cinemark Holdings, Inc. recorded compensation expense of \$150 related to these restricted stock awards for employees and directors, respectively, during the nine months ended September 30, 2008. As of September 30, 2008, the remaining unrecognized compensation expense related to these restricted stock awards was approximately \$4,365 and the weighted average period over which this remaining compensation expense will be recognized is approximately 3 years. Upon vesting, the Company receives an income tax deduction. The recipients of restricted stock are entitled to receive dividends and to vote their respective shares, however the sale and transfer of the

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

restricted shares is prohibited during the restriction period.

A summary of restricted stock activity for the nine months ended September 30, 2008 is as follows:

	Shares of Restricted Stock
Outstanding at December 31, 2007	21,880
Granted	390,908
Vested	(21,880)
Forfeited	(3,988)
 Outstanding at September 30, 2008	 386,920
 Unvested restricted stock at September 30, 2008	 386,920

Restricted Stock Units During the nine months ended September 30, 2008, Cinemark Holdings, Inc. granted restricted stock units representing 204,361 hypothetical shares of common stock under the Restated Incentive Plan. 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 three fiscal year period ending December 31, 2010 based on a formula utilizing a multiple of Adjusted EBITDA subject to certain specified adjustments (as defined in the restricted stock unit award agreement). The financial performance factors for the restricted stock units have a threshold, target and maximum level of payment opportunity. If the IRR for the three year period is at least 8.5%, which is the threshold, one-third of the restricted stock units vest. If the IRR for the three year period is at least 10.5%, which is the target, two-thirds of the restricted stock units vest. If the IRR for the three year period is at least 12.5%, which is the maximum, 100% of the restricted stock units vest. All payouts of restricted stock units that vest are subject to an additional one year service requirement and will be paid in the form of common stock if the participant continues to provide services through the fourth anniversary of the grant date. Restricted stock unit award participants are eligible to receive dividend equivalent payments if and at the time the restricted stock unit awards become vested.

Below is a table summarizing the potential restricted stock unit awards at each of the three levels of financial performance (excluding forfeiture assumptions):

	Number of Shares Vesting	Value at Grant
at IRR of at least 8.5%	68,116	\$ 885
at IRR of at least 10.5%	136,239	\$1,771
at IRR of at least 12.5%	204,361	\$2,656

Due to the fact that the IRR for the three year period ending December 31, 2010 could not be determined at the time of grants, the Company estimated that the most likely outcome is the achievement of the mid-point IRR level. As a result, the total compensation expense to be recorded for the restricted stock unit awards is \$1,755 assuming a total of 135,027 units will vest at the end of the four year period, using a forfeiture rate ranging from zero to 2%. If during the service period, additional information becomes available to lead the Company to believe a different IRR level will be achieved for the three year period ending December 31, 2010, the Company will reassess the number of units that will vest and adjust its compensation expense accordingly on a prospective basis over the remaining service period. The fair value of the number of units expected to vest was determined based on the market value of Cinemark

Holdings, Inc. s stock on the dates of grant, which ranged from \$12.89 to \$13.14 per share. The Company recorded compensation expense of \$216 related to these awards during the nine months ended September 30, 2008. As of September 30, 2008, the remaining unrecognized compensation expense related to these restricted stock unit awards was \$1,539 and the weighted average period over which this remaining compensation expense will be recognized is approximately 3.4 years.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

8. Early Retirement of Long-Term Debt

On March 6, 2007, the Company commenced an offer to purchase for cash, on the terms and subject to the conditions set forth in an Offer to Purchase and Consent Solicitation Statement, any and all of its 9% senior subordinated notes, of which \$332,250 aggregate principal amount remained outstanding. In connection with the tender offer, the Company solicited consents for certain proposed amendments to the indenture to remove substantially all restrictive covenants and certain events of default provisions. On March 20, 2007, the early settlement date, approximately \$332,000 aggregate principal amount of the 9% senior subordinated notes were tendered and repurchased by the Company for approximately \$360,164, including accrued interest and premiums paid. On April 3, 2007, the Company repurchased an additional \$66 aggregate principal amount of the 9% senior subordinated notes tendered after the early settlement date. The Company funded the repurchases with the net proceeds received from the NCM Transaction (see Note 4). The Company recorded a loss on early retirement of debt of \$7,952 during the nine months ended September 30, 2007 related to these repurchases, which consisted of tender offer repurchase costs, including premiums paid and other fees, and the write-off of unamortized debt issue costs, partially offset by the write-off of the unamortized bond premium.

During July and August 2007, the Company repurchased in six open market purchases a total of \$47,000 aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately \$42,758, including accreted interest of \$10,932. The Company funded the transactions with proceeds from the initial public offering of Cinemark Holdings, Inc.'s common stock. The Company recorded a loss on early retirement of debt of \$3,584 during the three and nine months ended September 30, 2007 related to these repurchases, which consisted of tender offer repurchase costs, including premiums paid and other fees, and the write-off of unamortized debt issue costs.

On March 20, 2008, in one open market purchase, the Company repurchased \$10,000 aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately \$8,950, including accreted interest of \$2,929. The Company funded the transaction with proceeds from the initial public offering of Cinemark Holdings, Inc.'s common stock. As a result of the transaction, the Company recorded a loss on early retirement of debt of \$40 during the nine months ended September 30, 2008, which primarily includes the write-off of unamortized debt issue costs partially offset by a discount on the repurchased senior discount notes.

9. Interest Rate Swap Agreements

During March 2007, the Company entered into two interest rate swap agreements with effective dates of August 13, 2007 and terms of five years each. The interest rate swaps were designated to hedge approximately \$500,000 of the Company's variable rate debt obligations under its senior secured credit facility. Under the terms of the interest rate swap agreements, the Company pays fixed rates of 4.918% and 4.922% on \$375,000 and \$125,000, respectively, of variable rate debt and receives interest at a variable rate based on the 3-month LIBOR. The 3-month LIBOR rate on each reset date determines the variable portion of the interest rate swaps for the three-month period following the reset date. No premium or discount was incurred upon the Company entering into the interest rate swaps because the pay and receive rates on the interest rate swaps represented prevailing rates for each counterparty at the time the interest rate swaps were consummated. The fair values of the interest rate swaps are recorded on the Company's condensed consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps' gains or losses reported as a component of other comprehensive income and the ineffective portion reported in earnings. The Company estimates the fair values of the interest rate swaps by comparing estimated future interest payments to be made under forecasted future 3-month LIBOR to the fixed rates in accordance with the interest rate swaps.

The interest rate swap covering \$125,000 of the Company's variable rate debt obligations under its senior secured credit facility qualifies for cash flow hedge accounting treatment in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and therefore any changes in the fair value of the swap have been reported as a component of other comprehensive income. As of September 30, 2008, the fair value of this interest rate swap was a liability of approximately \$4,961, which has been reported as a component of other long-term

liabilities. This interest rate swap exhibited no ineffectiveness during the nine months ended September 30, 2008.

The interest rate swap covering \$375,000 of the Company's variable rate debt obligations under its senior secured credit facility qualified for cash flow hedge accounting treatment in accordance with SFAS No. 133 from

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

inception through September 14, 2008. On September 14, 2008, the counterparty to the interest rate swap agreement announced it was filing for bankruptcy. As a result, the Company determined that on September 15, 2008, when the counterparty's credit rating was downgraded, the interest rate swap was no longer highly effective. The change in fair value of this interest rate swap from inception to September 14, 2008 of \$18,147 has been reported as a component of other comprehensive income. As of September 30, 2008, the fair value of this interest rate swap was a liability of approximately \$14,822. The gain related to the change in fair value of the interest rate swap from September 14, 2008 to September 30, 2008 of \$3,325 has been reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three and nine months ended September 30, 2008. On October 1, 2008, this interest rate swap was terminated by the Company, therefore the liability of \$14,822 has been reported as a component of other current liabilities as of September 30, 2008. The Company has determined that the forecasted transactions hedged by this interest rate swap are still probable to occur, thus the total amount reported in other comprehensive income related to this swap of \$18,147 will be amortized on a straight-line basis to interest expense over the period during which the forecasted transactions are expected to occur, which is September 15, 2008 through August 13, 2012. The Company will amortize approximately \$4,633 to interest expense over the next twelve months.

The Company paid approximately \$13,804, including accrued interest, pursuant to the terms of the interest rate swap agreement as a result of the termination referred to above. A gain of approximately \$2,098 will be reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three months ending December 31, 2008.

10. Goodwill

The Company's goodwill was as follows:

	U.S. Operating Segment	International Operating Segment	Total
Balance at December 31, 2007	\$979,148	\$155,541	\$1,134,689
Acquisition of one U.S. theatre ⁽¹⁾	2,892		2,892
Acquisition of two Brazil theatres ⁽²⁾		2,247	2,247
Foreign currency translation adjustments		(5,917)	(5,917)
Balance at September 30, 2008	\$982,040	\$151,871	\$1,133,911

⁽¹⁾ The Company acquired one theatre in the U.S. during 2008 for approximately \$5,011, which resulted in \$2,892 of goodwill and \$2,119 of theatre properties and equipment.

- (2) The Company acquired two theatres in Brazil during 2008 for approximately \$5,100, which resulted in a preliminary allocation of \$2,247 to goodwill, \$2,368 to theatre properties and equipment, and \$485 to intangible assets.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company evaluates goodwill for impairment on an annual basis at fiscal year-end or whenever events or changes in circumstances indicate the carrying value of goodwill might exceed its estimated fair value. 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. The goodwill impairment evaluation is a two-step approach requiring the Company to compute the estimated fair value of a reporting unit and compare it with its carrying value. If the carrying value exceeds the estimated fair value, a second step is performed to measure the potential goodwill impairment. Fair values are determined based on a multiple of cash flows, which was eight times for the evaluations performed during 2007. Significant judgment is involved in estimating cash flows and fair value. Management's estimates are based on historical and projected operating performance as well as recent market transactions. Prior to January 1, 2008, the Company considered its theatres reporting units for purposes of evaluating goodwill for impairment. Recent changes in the organization, including changes in the structure of the Company's executive management team, Cinemark Holdings, Inc.'s initial public offering of common stock, the resulting changes in the level at which the Company's management team evaluates the business on a regular basis, and the Century Acquisition that increased the size of the Company's theatre base by approximately 25%, led the Company to conclude that its U.S. regions and international countries are now more reflective of how it manages and operates its business. Accordingly, the Company's U.S. regions and international countries represent the appropriate reporting units for purposes of evaluating goodwill for impairment.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

Consequently, effective January 1, 2008, the Company changed the reporting unit to sixteen regions in the U.S. and eight countries internationally from approximately four hundred theatres. The goodwill impairment test performed during December 2007 that resulted in the recording of impairment charges during the year ended December 31, 2007 reflects the final calculation utilizing theatres as reporting units.

11. Other Intangible Assets

Intangible assets consisted of the following:

	Balance at December 31, 2007	Amortization	Foreign Currency Translation Adjustments & Other ⁽¹⁾	Balance at September 30, 2008
<i>Intangible assets with finite lives:</i>				
Capitalized licensing fees:				
Gross carrying amount	\$ 5,138	\$	\$	\$ 5,138
Accumulated amortization	(1,565)	(319)		(1,884)
Net carrying amount	3,573	(319)		3,254
Vendor contracts:				
Gross carrying amount	56,973		400	57,373
Accumulated amortization	(23,342)	(2,548)		(25,890)
Net carrying amount	33,631	(2,548)	400	31,483
Net favorable leases:				
Gross carrying amount	20,691		(279)	20,412
Accumulated amortization	(15,581)	(2,105)	38	(17,648)
Net carrying amount	5,110	(2,105)	(241)	2,764
Other intangible assets:				
Gross carrying amount	69			69
Accumulated amortization	(20)	(3)		(23)
Net carrying amount	49	(3)		46
Total net intangible assets with finite lives	42,363	(4,975)	159	37,547
<i>Intangible assets with indefinite lives:</i>				
Tradename	310,681		(168)	310,513
Other unamortized intangible assets	3			3
Total intangible assets net	\$353,047	\$ (4,975)	\$ (9)	\$348,063

- (1) Includes approximately \$485 of vendor contracts recorded as a result of the acquisition of two theatres in Brazil during 2008.

Aggregate amortization expense of \$5,095 for the nine months ended September 30, 2008 consisted of \$4,975 of amortization of intangible assets and \$120 of amortization of other assets. Estimated aggregate future amortization expense for intangible assets is as follows:

For the three months ended December 31, 2008	\$ 1,365
For the twelve months ended December 31, 2009	5,031
For the twelve months ended December 31, 2010	4,749
For the twelve months ended December 31, 2011	4,440
For the twelve months ended December 31, 2012	3,647
Thereafter	18,315
 Total	 \$ 37,547

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

12. Impairment of Long-Lived Assets

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company reviews long-lived assets for impairment on a quarterly basis or whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable.

The Company considers actual theatre level cash flows, future years budgeted theatre level cash flows, theatre property and equipment carrying values, amortizing intangible assets carrying values, the age of a recently built theatre, competitive theatres in the marketplace, changes in foreign currency exchange rates, the impact of recent ticket price changes, available lease renewal options and other factors in its assessment of impairment of individual theatre assets. Long-lived assets are evaluated for impairment on an individual theatre basis, which the Company believes is the lowest applicable level for which there are identifiable cash flows. The impairment evaluation is based on the estimated cash flows from continuing use through the remainder of the theatre's useful life. The remainder of the useful life correlates with the available remaining lease period, which includes the probability of renewal periods for leased properties and a period of twenty years for fee owned properties. If the estimated cash flows are not sufficient to recover a long-lived asset's carrying value, the Company then compares the carrying value of the asset group (theatre) with its estimated fair value. Fair value is determined based on a multiple of cash flows, which was eight times for the evaluations performed during the nine months ended September 30, 2007 and September 30, 2008. When estimated fair value is determined to be lower than the carrying value of the asset group (theatre), the asset group (theatre) is written down to its estimated fair value. Significant judgment is involved in estimating cash flows and fair value. Management's estimates are based on historical and projected operating performance as well as recent market transactions.

The Company's long-lived asset impairment losses of \$8,145 for the nine months ended September 30, 2008 were primarily for theatre properties located in the U.S. and Mexico. The Company's long-lived asset impairment losses of \$60,390 for the nine months ended September 30, 2007 consisted of \$9,821 for theatre properties, \$46,706 of goodwill related to theatre properties and \$3,863 of intangible assets associated with theatre properties. As a result of the NCM Transaction discussed in Note 4, and more specifically the modification of the NCM Exhibitor Services Agreement with the Company, which significantly reduced the contractual amounts paid to the Company, the Company evaluated the carrying value of its goodwill as of March 31, 2007 leading to a majority of the goodwill impairment charges recorded during the nine months ended September 30, 2007.

13. Foreign Currency Translation

The accumulated other comprehensive income account in stockholders' equity of \$32,695 and \$7,635 at December 31, 2007 and September 30, 2008, respectively, includes the cumulative foreign currency adjustments from translating the financial statements of the Company's international subsidiaries into U.S. dollars.

In 2007 and 2008, all foreign countries where the Company has operations were deemed non-highly inflationary. Thus, any fluctuation in the currency results in a cumulative foreign currency translation adjustment to the accumulated other comprehensive income account recorded as an increase in, or reduction of, stockholders' equity.

On September 30, 2008, the exchange rate for the Brazilian real was 1.90 reals to the U.S. dollar (the exchange rate was 1.77 reals to the U.S. dollar at December 31, 2007). As a result, the effect of translating the September 30, 2008 Brazilian financial statements into U.S. dollars is reflected as a cumulative foreign currency translation adjustment to the accumulated other comprehensive income account as a decrease in stockholders' equity of \$14,271. At September 30, 2008, the total assets of the Company's Brazilian subsidiaries were U.S. \$207,220.

On September 30, 2008, the exchange rate for the Mexican peso was 10.87 pesos to the U.S. dollar (the exchange rate was 10.92 pesos to the U.S. dollar at December 31, 2007). As a result, the effect of translating the September 30, 2008 Mexican financial statements into U.S. dollars is reflected as a cumulative foreign currency translation adjustment to the accumulated other comprehensive income account as an increase in stockholders' equity of \$473. At September 30, 2008, the total assets of the Company's Mexican subsidiaries were U.S. \$159,377.

Edgar Filing: CINEMARK INC - Form 10-Q

On September 30, 2008, the exchange rate for the Chilean peso was 550.59 pesos to the U.S. dollar (the exchange rate was 497.70 pesos to the U.S. dollar at December 31, 2007). As a result, the effect of translating the

17

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

September 30, 2008 Chilean financial statements into U.S. dollars is reflected as a cumulative foreign currency translation adjustment to the accumulated other comprehensive income account as a decrease in stockholders' equity of \$1,653. At September 30, 2008, the total assets of the Company's Chilean subsidiaries were U.S. \$23,851.

14. Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income*, establishes standards for the reporting and display of comprehensive income and its components in the condensed consolidated financial statements. The Company's comprehensive income (loss) was as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ 20,414	\$(25,086)	\$ 40,609	\$139,757
Fair value adjustments on interest rate swap agreements (see Note 9)	(10,748)	(8,484)	(9,662)	(2,062)
Foreign currency translation adjustment (see Note 13)	(42,838)	7,310	(15,398)	24,436
Comprehensive income (loss)	\$(33,172)	\$(26,260)	\$ 15,549	\$162,131

15. Supplemental Cash Flow Information

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

	Nine Months Ended	
	September 30,	
	2008	2007
Cash paid for interest	\$61,824	\$102,839
Cash paid for income taxes, net of refunds received	\$26,904	\$101,445
Noncash investing and financing activities:		
Change in construction lease obligations related to construction of theatres	\$	\$ (2,404)
Change in accounts payable and accrued expenses for the acquisition of theatre properties and equipment	\$ 1,798	\$ (7,788)
Theatre properties acquired under capital lease	\$ 7,911	\$ 2,943
Investment in NCM (see Note 4)	\$19,020	\$
Noncash capital contribution from Cinemark Holdings, Inc. related to income taxes	\$	\$ 21,850

During December 2007, the Company elected to use the proceeds of approximately \$22,739 from the sale of real property to pursue the purchase of a like-kind property in accordance with the Internal Revenue Code and as a result, the proceeds were deposited to an escrow account. During 2008, the Company elected to use the proceeds of approximately \$2,089 from the sale of real properties to pursue the purchase of like-kind properties in accordance with the Internal Revenue Code and as a result, the proceeds were deposited to an escrow account. The Company did not

purchase like-kind properties and the deposits of approximately \$24,828 were returned to the Company during the nine months ended September 30, 2008.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

16. Segments

At September 30, 2008, the Company operates its international market and its U.S. market as separate reportable operating segments. The international segment consists of operations in Mexico, Argentina, Brazil, Chile, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Colombia. The U.S. segment includes U.S. and Canada operations. Each segment's revenue is derived from admissions and concession sales and other ancillary revenues, primarily screen advertising. The primary measure of segment profit and loss the Company uses to evaluate performance and allocate its resources is Adjusted EBITDA, as defined in the reconciliation table below. The Company's management evaluates the performance of its assets on a consolidated basis.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
U.S.	\$ 358,935	\$ 378,417	\$ 1,027,982	\$ 1,033,835
International	118,448	93,910	309,457	257,961
Eliminations	(1,160)	(828)	(2,966)	(2,239)
Total Revenues	\$ 476,223	\$ 471,499	\$ 1,334,473	\$ 1,289,557
Adjusted EBITDA				
U.S.	\$ 75,288	\$ 94,850	\$ 219,248	\$ 237,901
International	26,975	21,268	67,281	55,533
Total Adjusted EBITDA	\$ 102,263	\$ 116,118	\$ 286,529	\$ 293,434
Capital Expenditures				
U.S.	\$ 12,296	\$ 28,802	\$ 50,681	\$ 81,847
International	7,123	8,099	20,654	28,202
Total Capital Expenditures	\$ 19,419	\$ 36,901	\$ 71,335	\$ 110,049

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ 20,414	\$ (25,086)	\$ 40,609	\$ 139,757
Add (deduct):				
Income taxes	10,346	59,003	25,465	67,940
Interest expense ⁽¹⁾	27,613	34,968	89,747	111,766
Gain on NCM Transaction				(210,773)

Edgar Filing: CINEMARK INC - Form 10-Q

Gain on Fandango Transaction				(9,205)
Loss on early retirement of debt		3,584	40	11,536
Other income ⁽²⁾	(1,852)	(1,515)	(3,291)	(5,336)
Termination of profit participation agreement				6,952
Depreciation and amortization	38,115	37,606	113,362	111,201
Amortization of favorable leases	702	667	2,105	2,226
Impairment of long-lived assets	2,316	3,624	8,145	60,390
(Gain) loss on sale of assets and other	2,301	942	3,211	(617)
Deferred lease expenses	710	1,295	2,856	4,606
Amortization of long-term prepaid rents	463	314	1,292	826
Share based awards compensation expense	1,135	716	2,988	2,165
Adjusted EBITDA	\$102,263	\$116,118	\$286,529	\$ 293,434

(1) Includes amortization of debt issue costs.

(2) Includes interest income, foreign currency exchange gain, equity in loss of affiliates and minority interests in income of subsidiaries and excludes distributions from NCM.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

Financial Information About Geographic Areas

The Company has operations in the U.S., Canada, Mexico, Argentina, Brazil, Chile, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Colombia, which are reflected in the condensed consolidated financial statements. Below is a breakdown of selected financial information by geographic area:

Revenues	Three Months Ended		Nine Months Ended September	
	September 30,		30,	
	2008	2007	2008	2007
U.S. and Canada	\$358,935	\$378,417	\$1,027,982	\$1,033,835
Brazil	57,780	41,945	149,414	117,970
Mexico	23,290	20,429	63,694	58,317
Other foreign countries	37,378	31,536	96,349	81,674
Eliminations	(1,160)	(828)	(2,966)	(2,239)
Total	\$476,223	\$471,499	\$1,334,473	\$1,289,557

Theatre Properties and Equipment-net	September 30,	December 31,
	2008	2007
U.S. and Canada	\$1,104,220	\$1,137,244
Brazil	71,337	72,635
Mexico	54,818	59,201
Other foreign countries	40,993	44,986
Total	\$1,271,368	\$1,314,066

17. Related Party Transactions

The Company leases one theatre from Plitt Plaza Joint Venture (Plitt Plaza) on a month-to-month basis. Plitt Plaza is indirectly owned by Lee Roy Mitchell, who owns approximately 12% of Cinemark Holdings, Inc.'s issued and outstanding shares of common stock. Annual rent is approximately \$118 plus certain taxes, maintenance expenses and insurance. The Company recorded \$91 and \$95 of facility lease and other operating expenses payable to Plitt Plaza joint venture during the nine months ended September 30, 2007 and 2008, respectively.

The Company manages one theatre 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. 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 \$63 and \$72 of management fee revenues during the nine months ended September 30, 2007 and 2008, respectively. All such amounts are included in the Company's condensed consolidated financial statements with the intercompany amounts eliminated in consolidation.

The Company leases 24 theatres and two parking facilities from Syufy Enterprises, LP (Syufy) or affiliates of Syufy, which owns approximately 8% of Cinemark Holdings, Inc.'s issued and outstanding shares of common stock. Raymond Syufy is one of Cinemark Holdings, Inc.'s directors and is an officer of the general partner of Syufy. Of these 26 leases, 21 have fixed minimum annual rent in an aggregate amount of approximately \$22,059. The five leases

without minimum annual rent have rent based upon a specified percentage of gross sales as defined in the lease with no minimum annual rent.

The Company entered into an amended and restated profit participation agreement on March 12, 2004 with its CEO, Alan Stock, which became effective on April 2, 2004, and amended the profit participation agreement with Mr. Stock in effect since May 2002. Under the agreement, Mr. Stock received a profit interest in two theatres once the Company recovered its capital investment in these theatres plus its borrowing costs. During the nine months ended September 30, 2007, the Company recorded \$114 in profit participation expense payable to Mr. Stock, which is included in general and administrative expenses on the Company's condensed consolidated statement of operations. After Cinemark Holdings, Inc.'s initial public offering of common stock in April 2007, the Company exercised its option to terminate the amended and restated profit participation agreement and purchased Mr. Stock's interest in the theatres on May 3, 2007 for a price of \$6,853 pursuant to the terms of the agreement. The Company

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

also paid payroll taxes of approximately \$99 related to the payment made to terminate the amended and restated profit participation agreement.

18. Commitments and Contingencies

Effective June 16, 2008, Cinemark Holdings, Inc. entered into new employment agreements (the New Employment Agreements) with Alan W. Stock, Timothy Warner, Robert Copple and Michael Cavalier. Each of Messers. Stock, Warner, Copple and Cavalier had an employment agreement with the Company, which became effective as of March 12, 2004 (the Original Employment Agreements). The New Employment Agreements replace the Original Employment Agreements. The New Employment Agreements have an initial term of three years, ending on June 16, 2011, subject to an automatic extension for a one-year period, unless the employment agreements are terminated. Messers. Stock, Warner, Copple and Cavalier will receive base salaries of \$603, \$442, \$416, and \$338, respectively, during 2008, which are subject to review during the term of the employment agreements for increase (but not decrease) each year by Cinemark Holdings, Inc.'s Compensation Committee. In addition, Messers. Stock, Warner, Copple and Cavalier are eligible to receive annual cash incentive bonuses upon the Company meeting certain performance targets established by Cinemark Holdings, Inc.'s Compensation Committee for the fiscal year. Messers. Stock, Warner, Copple and Cavalier qualify for the Company's 401(k) matching program and are also entitled to certain additional benefits including life insurance and disability insurance. The New Employment Agreements provide for severance payments upon termination of employment, the amount and nature of which depends upon the reason for the termination of employment. Effective June 16, 2008, the Company terminated its employment agreement with Tandy Mitchell.

From time to time, the Company is involved in various legal proceedings arising from the ordinary course of its business operations, such as personal injury claims, employment matters, landlord-tenant disputes 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.

19. Subsequent Event Share Exchange with Minority Partners

During May 2008, the Company's partners in Central America (the Central American Partners) exercised an option available to them under an Exchange Option Agreement dated February 7, 2007 between the Company and the Central American Partners. Under this option, which was triggered by completion of an initial public offering of common stock by Cinemark Holdings, Inc., the Central American Partners are entitled to exchange their shares in Cinemark Equity Holdings Corporation, which is the Company's Central American holding company, for shares of Cinemark Holdings, Inc.'s common stock. The number of shares to be exchanged is determined based on Cinemark Holdings, Inc.'s equity value and the equity value of the Central American Partner's interest in Cinemark Equity Holdings Corporation, both of which are defined in the Exchange Option Agreement. As a result of this exchange on October 1, 2008, Cinemark Holdings, Inc. issued 902,981 shares of its common stock to the Central American Partners. The Company will account for the transaction as a step acquisition. The purchase price of the shares in Cinemark Equity Holdings Corporation will be recorded based on the fair value of the shares issued plus related transaction costs. Prior to the exchange, the Company owned 51% of the shares in Cinemark Equity Holdings Corporation and subsequent to the exchange, the Company owns 100% of the shares in Cinemark Equity Holdings Corporation.

During July 2008, the Company's partners in Ecuador (the Ecuador Partners) exercised an option available to them under an Exchange Option Agreement dated April 24, 2007 between the Company and the Ecuador Partners. Under this option, which was triggered by completion of an initial public offering of common stock by Cinemark Holdings, Inc., the Ecuador Partners are entitled to exchange their shares in Cinemark del Ecuador S.A. for shares of Cinemark Holdings, Inc.'s common stock. The number of shares to be exchanged is determined based on Cinemark Holdings, Inc.'s equity value and the equity value of the Ecuador Partner's interest in Cinemark del Ecuador S.A., both of which are defined in the Exchange Option Agreement. As a result of this exchange, Cinemark Holdings, Inc. will issue

393,615 shares of its common stock to the Ecuador partners. The exchange of shares occurred during November 2008. The Company will account for the transaction as a step acquisition. The purchase price of the shares in Cinemark del Ecuador S.A. will be recorded based on the fair value of the shares issued plus related transaction costs. Prior to the exchange, the Company owned 60% of the shares in Cinemark del Ecuador S.A. and subsequent to the exchange, the Company owns 100% of the shares in Cinemark del Ecuador S.A.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In thousands, except share and per share data

20. Subsequent Event Termination of Existing Interest Rate Swap Agreement and New Interest Rate Swap Agreement

On October 1, 2008, the Company terminated its interest rate swap that covered \$375,000 of variable rate debt. The Company paid approximately \$13,804, including accrued interest, pursuant to the terms of the interest rate swap agreement as a result of this termination. A gain of approximately \$2,098 will be reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three months ending December 31, 2008.

On October 3, 2008, the Company entered into one interest rate swap agreement with an effective date of November 14, 2008 and a term of four years. The interest rate swap was designated to hedge approximately \$100,000 of the Company's variable rate debt obligations under its senior secured credit facility for three years and \$75,000 of the Company's variable rate debt obligations under its senior secured credit facility for four years. Under the terms of the interest rate swap agreement, the Company pays a fixed rate of 3.63% on \$175,000 of variable rate debt and receives interest at a variable rate based on the 1-month LIBOR. The 1-month LIBOR rate on each reset date determines the variable portion of the interest rate swap for the one-month period following the reset date. No premium or discount was incurred upon the Company entering into the interest rate swap because the pay and receive rates on the interest rate swap represented prevailing rates for the counterparty at the time the interest rate swap was consummated. The interest rate swap qualifies for cash flow hedge accounting treatment in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and as such, the Company has effectively hedged its exposure to variability in the future cash flows attributable to the 1-month LIBOR on \$175,000 of variable rate debt.

21. Subsequent Event Repurchases of Senior Discount Notes

During October 2008, in seven open market purchases, the Company repurchased approximately \$30,000 aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately \$27,340, including accreted interest of approximately \$9,764. As a result of the repurchases, the Company will record a gain on early retirement of debt of approximately \$981 during the three months ending December 31, 2008, which includes a gain on the repurchases, partially offset by the write-off of unamortized debt issue costs associated with the repurchased notes.

Table of Contents

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 one of the leaders in the motion picture exhibition industry, in terms of both revenues and the number of screens in operation, with theatres in the U.S., Canada, Mexico, Argentina, Brazil, Chile, Ecuador, Peru, Honduras, El Salvador, Nicaragua, Costa Rica, Panama and Colombia. For financial reporting purposes at September 30, 2008, we have two reportable operating segments, our U.S. operations and our international operations.

Recent Developments

On October 1, 2008, we terminated our interest rate swap that covered \$375 million of our variable rate debt. We paid approximately \$13.8 million, including accrued interest, pursuant to the terms of the interest rate swap agreement as a result of this termination. A gain of approximately \$2.1 million will be reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three months ending December 31, 2008.

On October 3, 2008, we entered into one interest rate swap agreement with an effective date of November 14, 2008 and a term of four years. The interest rate swap was designated to hedge approximately \$100.0 million of our variable rate debt obligations under our senior secured credit facility for three years and \$75.0 million of our variable rate debt obligations under our senior secured credit facility for four years. Under the terms of the interest rate swap agreement, we pay a fixed rate of 3.63% on \$175.0 million of variable rate debt and receive interest at a variable rate based on the 1-month LIBOR. The 1-month LIBOR rate on each reset date determines the variable portion of the interest rate swap for the one-month period following the reset date. No premium or discount was incurred upon us entering into the interest rate swap because the pay and receive rates on the interest rate swap represented prevailing rates for the counterparty at the time the interest rate swap was consummated. The interest rate swap qualifies for cash flow hedge accounting treatment in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and as such, we have effectively hedged our exposure to variability in the future cash flows attributable to the 1-month LIBOR on \$175.0 million of variable rate debt.

During October 2008, in seven open market purchases, we repurchased approximately \$30.0 million aggregate principal amount at maturity of our 9 3/4% senior discount notes for approximately \$27.3 million, including accreted interest of approximately \$9.8 million. As a result of the repurchases, we will record a gain on early retirement of debt of approximately \$1.0 million during the three months ending December 31, 2008, which includes a gain on the repurchases, partially offset by the write-off of unamortized debt issue costs associated with the repurchased notes.

Table of Contents**Results of Operations**

The following table sets forth, for the periods indicated, the percentage of revenues represented by certain items reflected in our condensed consolidated statements of operations:

Operating data (in millions):	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Admissions	\$ 308.5	\$ 308.0	\$ 865.3	\$ 835.1
Concession	146.1	144.3	409.7	397.9
Other	21.6	19.2	59.5	56.6
Total revenues	\$ 476.2	\$ 471.5	\$ 1,334.5	\$ 1,289.6
Theatre operating costs ⁽¹⁾				
Film rentals and advertising	\$ 169.3	\$ 166.8	\$ 471.2	\$ 454.2
Concession supplies	24.5	22.5	66.4	62.7
Salaries and wages	47.4	45.7	135.3	131.3
Facility lease expense	58.9	54.9	171.4	159.8
Utilities and other	57.3	51.6	155.9	144.0
Total theatre operating costs	\$ 357.4	\$ 341.5	\$ 1,000.2	\$ 952.0
Operating data as a percentage of revenues:				
Revenues				
Admissions	64.8%	65.3%	64.8%	64.8%
Concession	30.7%	30.6%	30.7%	30.9%
Other	4.5%	4.1%	4.5%	4.3%
Total revenues	100.0%	100.0%	100.0%	100.0%
Theatre operating costs ^{(1) (2)}				
Film rentals and advertising	54.9%	54.2%	54.5%	54.4%
Concession supplies	16.8%	15.6%	16.2%	15.8%
Salaries and wages	10.0%	9.7%	10.1%	10.2%
Facility lease expense	12.4%	11.7%	12.8%	12.4%
Utilities and other	12.0%	10.9%	11.7%	11.2%
Total theatre operating costs	75.0%	72.4%	75.0%	73.8%
Average screen count (month end average)	4,709	4,590	4,683	4,532
Revenues per average screen (in dollars)	\$101,136	\$102,717	\$284,943	\$284,520

(1) Excludes depreciation and amortization

expense.

- (2) All costs are expressed as a percentage of total revenues, except film rentals and advertising, which are expressed as a percentage of admissions revenues and concession supplies, which are expressed as a percentage of concession revenues.

Table of Contents**Three months ended September 30, 2008 and 2007**

Revenues. Total revenues increased \$4.7 million to \$476.2 million for the three months ended September 30, 2008 (third quarter of 2008) from \$471.5 million for the three months ended September 30, 2007 (third quarter of 2007), representing a 1.0% increase. The table below, presented by reportable operating segment, summarizes our year-over-year revenue performance and certain key performance indicators that impact our revenues.

	U.S. Operating Segment Three Months Ended September 30,			International Operating Segment Three Months Ended September 30,			Consolidated Three Months Ended September 30,		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Admissions revenues (in millions)	\$ 235.4	\$ 249.0	(5.5%)	\$ 73.1	\$ 59.0	23.9%	\$ 308.5	\$ 308.0	0.2%
Concession revenues (in millions)	\$ 112.5	\$ 118.0	(4.7%)	\$ 33.6	\$ 26.3	27.8%	\$ 146.1	\$ 144.3	1.2%
Other revenues (in millions) ⁽¹⁾	\$ 9.9	\$ 10.6	(6.6%)	\$ 11.7	\$ 8.6	36.0%	\$ 21.6	\$ 19.2	12.5%
Total revenues (in millions) ⁽¹⁾	\$ 357.8	\$ 377.6	(5.2%)	\$ 118.4	\$ 93.9	26.1%	\$ 476.2	\$ 471.5	1.0%
Attendance (in millions)	39.4	43.0	(8.4%)	18.4	17.2	7.0%	57.8	60.2	(4.0%)
Revenues per screen (in dollars) ⁽¹⁾	\$97,011	\$104,711	(7.4%)	\$116,040	\$95,437	21.6%	\$101,136	\$102,717	(1.5%)

⁽¹⁾ U.S. operating segment revenues include eliminations of intercompany transactions with the international operating segment. See Note 16 of our condensed consolidated financial statements.

Consolidated. The increase in admissions revenues of \$0.5 million was primarily attributable to a 4.5% increase in average ticket price from \$5.11 for the third quarter of 2007 to \$5.34 for the third quarter of 2008, partially offset by a 4.0% decline in attendance. The increase in concession revenues of \$1.8 million was primarily attributable to a

5.4% increase in concession revenues per patron from \$2.40 for the third quarter of 2007 to \$2.53 for the third quarter of 2008, partially offset by the decline in attendance. The increases in average ticket price and concession revenues per patron were primarily due to price increases and the favorable impact of exchange rates in certain countries in which we operate. The 12.5% increase in other revenues was primarily due to increased screen advertising and other ancillary revenues in certain of our international locations and the favorable impact of exchange rates in certain countries in which we operate.

U.S. The decrease in admissions revenues of \$13.6 million was primarily attributable to an 8.4% decline in attendance, partially offset by a 3.1% increase in average ticket price from \$5.79 for the third quarter of 2007 to \$5.97 for the third quarter of 2008. The decrease in concession revenues of \$5.5 million was primarily attributable to the decline in attendance, partially offset by a 4.0% increase in concession revenues per patron from \$2.75 for the third quarter of 2007 to \$2.86 for the third quarter of 2008. The increases in average ticket price and concession revenues per patron were primarily due to price increases.

International. The increase in admissions revenues of \$14.1 million was primarily attributable to a 16.4% increase in average ticket price from \$3.41 for the third quarter of 2007 to \$3.97 for the third quarter of 2008, and a 7.0% increase in attendance. The increase in concession revenues of \$7.3 million was primarily attributable to a 20.4% increase in concession revenues per patron from \$1.52 for the third quarter of 2007 to \$1.83 for the third quarter of 2008, and the increase in attendance. The increases in average ticket price and concession revenues per patron were primarily due to price increases and the favorable impact of exchange rates in certain countries in which we operate. The 36.0% increase in other revenues was primarily due to increased screen advertising and other ancillary revenues and the favorable impact of exchange rates in certain countries in which we operate.

Table of Contents

Theatre Operating Costs (excludes depreciation and amortization expense). Theatre operating costs were \$357.4 million, or 75.0% of revenues, for the third quarter of 2008 compared to \$341.5 million, or 72.4% of revenues, for the third quarter of 2007. The table below, presented by reportable operating segment, summarizes our year-over-year theatre operating costs.

	U.S. Operating Segment		International Operating Segment		Consolidated	
	Three Months Ended		Three Months Ended		Three Months Ended	
	September 30,		September 30,		September 30,	
	2008	2007	2008	2007	2008	2007
Film rentals and advertising	\$132.5	\$137.1	\$36.8	\$29.7	\$169.3	\$166.8
Concession supplies	15.6	16.0	8.9	6.5	24.5	22.5
Salaries and wages	38.2	38.6	9.2	7.1	47.4	45.7
Facility lease expense	42.1	41.3	16.8	13.6	58.9	54.9
Utilities and other	41.8	39.4	15.5	12.2	57.3	51.6
Total theatre operating costs	\$270.2	\$272.4	\$87.2	\$69.1	\$357.4	\$341.5

Consolidated. Film rentals and advertising costs were \$169.3 million, or 54.9% of admissions revenues, for the third quarter of 2008 compared to \$166.8 million, or 54.2% of admissions revenues, for the third quarter of 2007. Our film rentals and advertising rate for the third quarter of 2008 was impacted by higher film rental on the record-breaking *Dark Knight*, which grossed over \$500 million in domestic box office. Concession supplies expense was \$24.5 million, or 16.8% of concession revenues, for the third quarter of 2008 compared to \$22.5 million, or 15.6% of concession revenues, for the third quarter of 2007. The increased rate was primarily due to the relative increase in concession revenues from our international operations and increases in product costs from some of our international concession suppliers.

Salaries and wages increased to \$47.4 million for the third quarter of 2008 from \$45.7 million for the third quarter of 2007, facility lease expense increased to \$58.9 million for the third quarter of 2008 from \$54.9 million for the third quarter of 2007, and utilities and other costs increased to \$57.3 million for the third quarter of 2008 from \$51.6 million for the third quarter of 2007, all of which increased primarily due to new theatre openings and the impact of exchange rates in certain countries in which we operate. Utilities and other costs also reflected increased utility costs and increased repairs and maintenance expenses for our U.S. locations.

U.S. Film rentals and advertising costs were \$132.5 million, or 56.3% of admissions revenues, for the third quarter of 2008 compared to \$137.1 million, or 55.1% of admissions revenues, for the third quarter of 2007. The decrease in film rentals and advertising costs of \$4.6 million was primarily due to a \$13.6 million decrease in admissions revenues, partially offset by the higher film rentals and advertising rate. Our rate for the third quarter of 2008 was impacted by higher film rental on the record-breaking *Dark Knight*, which grossed over \$500 million in domestic box office. Concession supplies expense was \$15.6 million, or 13.9% of concession revenues, for the third quarter of 2008 compared to \$16.0 million, or 13.6% of concession revenues, for the third quarter of 2007.

Salaries and wages decreased to \$38.2 million for the third quarter of 2008 from \$38.6 million for the third quarter of 2007 primarily due to improved operating efficiencies. Facility lease expense increased to \$42.1 million for the third quarter of 2008 from \$41.3 million for the third quarter of 2007 primarily due to new theatre openings. Utilities and other costs increased to \$41.8 million for the third quarter of 2008 from \$39.4 million for the third quarter of 2007 primarily due to new theatre openings, increased utility costs and increased repairs and maintenance expenses.

International. Film rentals and advertising costs were \$36.8 million, or 50.3% of admissions revenues, for the third quarter of 2008 compared to \$29.7 million, or 50.3% of admissions revenues, for the third quarter of 2007.

Edgar Filing: CINEMARK INC - Form 10-Q

Concession supplies expense was \$8.9 million, or 26.5% of concession revenues, for the third quarter of 2008 compared to \$6.5 million, or 24.7% of concession revenues, for the third quarter of 2007. The increased rate was primarily due to increases in product costs from some of our concession suppliers.

Salaries and wages increased to \$9.2 million for the third quarter of 2008 from \$7.1 million for the third quarter of 2007, facility lease expense increased to \$16.8 million for the third quarter of 2008 from \$13.6 million for the third quarter of 2007, and utilities and other costs increased to \$15.5 million for the third quarter of 2008 from

Table of Contents

\$12.2 million for the third quarter of 2007, all of which increased primarily due to increased revenues, new theatre openings and the impact of exchange rates in certain countries in which we operate.

General and Administrative Expenses. General and administrative expenses increased to \$22.5 million for the third quarter of 2008 from \$20.5 million for the third quarter of 2007. The increase was primarily due to increased incentive compensation expense, increased share based award compensation expense, increased service charges related to increased credit card activity and increased professional fees.

Depreciation and Amortization. Depreciation and amortization expense, including amortization of favorable leases, was \$38.8 million for the third quarter of 2008 compared to \$38.3 million for the third quarter of 2007 primarily due to new theatre openings.

Impairment of Long-Lived Assets. We recorded asset impairment charges on assets held and used of \$2.3 million for the third quarter of 2008 compared to \$3.6 million during the third quarter of 2007. Impairment charges for the third quarter of 2008 were primarily for U.S. and Mexico theatre properties. Impairment charges for the third quarter of 2007 consisted of \$1.8 million of theatre properties, \$1.6 million of goodwill and \$0.2 million of intangible assets associated with theatre properties.

Loss on Sale of Assets and Other. We recorded a loss on sale of assets and other of \$2.3 million during the third quarter of 2008 compared to a loss of \$0.9 million during the third quarter of 2007. The loss recorded during the third quarter of 2008 was primarily due to the write-off of theatre equipment that was replaced and damages to certain of our theatres in Texas related to Hurricane Ike.

Interest Expense. Interest costs incurred, including amortization of debt issue costs, were \$27.6 million for the third quarter of 2008 compared to \$35.0 million for the third quarter of 2007. The decrease was primarily due to the repurchase of a portion of our 9 3/4% senior discount notes since the third quarter of 2007 and a reduction in the variable interest rates on a portion of our long-term debt. In addition, during the third quarter of 2008, we recorded a gain of approximately \$3.3 million related to the change in fair value of one of our interest rate swap agreements. See Note 9 to our condensed consolidated financial statements for further discussion of our interest rate swap agreements.

Loss on Early Retirement of Debt. We recorded a loss on early retirement of debt of \$3.6 million during the third quarter of 2007, which consisted of repurchase costs, including premiums paid and other fees, and the write-off of unamortized debt issue costs associated with the repurchase of approximately \$47.0 million aggregate principal amount at maturity of our 9 3/4% senior discount notes. See Note 8 to our condensed consolidated financial statements.

Distributions from NCM. We recorded distributions from NCM of \$3.6 million during the third quarter of 2008 and \$4.4 million during the third quarter of 2007, which were in excess of the carrying value of our investment. See Note 4 to our condensed consolidated financial statements.

Income Taxes. Income tax expense of \$10.3 million was recorded for the third quarter of 2008 compared to income tax expense of \$59.0 million for the third quarter of 2007. The effective tax rate was 33.6% for the third quarter of 2008 compared to a rate of 174.0% for the third quarter of 2007. The effective rate for the third quarter of 2007 was primarily due to the gain related to the NCM Transaction. Income tax provisions for interim (quarterly) periods are based on estimated annual income tax rates and are adjusted for the effects of significant, infrequent or unusual items occurring during the interim period. As a result, the interim rate may vary significantly from the normalized annual rate.

Table of Contents**Nine months ended September 30, 2008 and 2007**

Revenues. Total revenues increased \$44.9 million to \$1,334.5 million for the nine months ended September 30, 2008 (the 2008 period) from \$1,289.6 million for the nine months ended September 30, 2007 (the 2007 period), representing a 3.5% increase. The table below, presented by reportable operating segment, summarizes our year-over-year revenue performance and certain key performance indicators that impact our revenues.

	U.S. Operating Segment Nine Months Ended September 30,			International Operating Segment Nine Months Ended September 30,			Consolidated Nine Months Ended September 30,		
	2008	2007	% Change	2008	2007	% Change	2008	2007	% Change
Admissions revenues (in millions)	\$ 672.5	\$ 671.6	0.1%	\$ 192.8	\$ 163.5	17.9%	\$ 865.3	\$ 835.1	3.6%
Concession revenues (in millions)	\$ 323.5	\$ 326.4	(0.9%)	\$ 86.2	\$ 71.5	20.6%	\$ 409.7	\$ 397.9	3.0%
Other revenues (in millions) ⁽¹⁾	\$ 29.0	\$ 33.6	(13.7%)	\$ 30.5	\$ 23.0	32.6%	\$ 59.5	\$ 56.6	5.1%
Total revenues (in millions) ⁽¹⁾	\$ 1,025.0	\$ 1,031.6	(0.6%)	\$ 309.5	\$ 258.0	20.0%	\$ 1,334.5	\$ 1,289.6	3.5%
Attendance (in millions)	112.2	116.8	(3.9%)	48.7	48.3	0.8%	160.9	165.1	(2.5%)
Revenues per screen (in dollars) ⁽¹⁾	\$279,372	\$289,490	(3.5%)	\$305,094	\$266,241	14.7%	\$284,943	\$284,520	0.1%

(1) U.S. operating segment revenues include eliminations of intercompany transactions with the international operating segment. See Note 16 of our condensed consolidated financial statements.

Consolidated. The increase in admissions revenues of \$30.2 million was primarily attributable to a 6.3% increase in average ticket price from \$5.06 for the 2007 period to \$5.38 for the 2008 period, partially offset by a 2.5% decline

in attendance. The increase in concession revenues of \$11.8 million was primarily attributable to a 5.8% increase in concession revenues per patron from \$2.41 for the 2007 period to \$2.55 for the 2008 period, partially offset by the decline in attendance. The increases in average ticket price and concession revenues per patron were primarily due to price increases and the favorable impact of exchange rates in certain countries in which we operate. The 5.1% increase in other revenues was primarily due to increased screen advertising and other ancillary revenues in certain of our international locations and the favorable impact of exchange rates in certain countries in which we operate. U.S. The increase in admissions revenues of \$0.9 million was primarily attributable to a 4.2% increase in average ticket price from \$5.75 for the 2007 period to \$5.99 for the 2008 period, partially offset by a 3.9% decline in attendance. The decrease in concession revenues of \$2.9 million was primarily attributable to the decline in attendance, partially offset by a 3.2% increase in concession revenues per patron from \$2.79 for the 2007 period to \$2.88 for the 2008 period. The increases in average ticket price and concession revenues per patron were primarily due to price increases. The 13.7% decrease in other revenues was primarily attributable to reduced screen advertising revenues earned under the amended Exhibitor Services Agreement with NCM. See Note 4 to the condensed consolidated financial statements.

International. The increase in admissions revenues of \$29.3 million was primarily attributable to a 17.2% increase in average ticket price from \$3.38 for the 2007 period to \$3.96 for the 2008 period and a 0.8% increase in attendance. The increase in concession revenues of \$14.7 million was primarily attributable to a 19.6% increase in concession revenues per patron from \$1.48 for the 2007 period to \$1.77 for the 2008 period and the increase in attendance. The increases in average ticket price and concession revenues per patron were primarily due to price increases and the favorable impact of exchange rates in certain countries in which we operate. The 32.6% increase in other revenues was primarily due to increased screen advertising and other ancillary revenues and the favorable impact of exchange rates in certain countries in which we operate.

Table of Contents

Theatre Operating Costs (excludes depreciation and amortization expense). Theatre operating costs were \$1,000.2 million, or 75.0% of revenues, for the 2008 period compared to \$952.0 million, or 73.8% of revenues, for the 2007 period. The table below, presented by reportable operating segment, summarizes our year-over-year theatre operating costs.

	U.S. Operating Segment		International Operating Segment		Consolidated	
	Nine Months Ended September 30,		Nine Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007	2008	2007
Film rentals and advertising	\$375.7	\$372.3	\$ 95.5	\$ 81.9	\$ 471.2	\$454.2
Concession supplies	44.4	44.7	22.0	18.0	66.4	62.7
Salaries and wages	111.0	111.6	24.3	19.7	135.3	131.3
Facility lease expense	124.9	121.5	46.5	38.3	171.4	159.8
Utilities and other	113.5	110.0	42.4	34.0	155.9	144.0
Total theatre operating costs	\$769.5	\$760.1	\$230.7	\$191.9	\$1,000.2	\$952.0

Consolidated. Film rentals and advertising costs were \$471.2 million, or 54.5% of admissions revenues, for the 2008 period compared to \$454.2 million, or 54.4% of admissions revenues, for the 2007 period. The increase in film rentals and advertising costs of \$17.0 million is due to a \$30.2 million increase in admissions revenues, which contributed \$15.2 million and an increase in our film rental and advertising rate, which contributed \$1.8 million. Concession supplies expense was \$66.4 million, or 16.2% of concession revenues, for the 2008 period, compared to \$62.7 million, or 15.8% of concession revenues, for the 2007 period. The increased rate was primarily due to the relative increase in concession revenues from our international operations and increases in product costs from some of our international concession suppliers.

Salaries and wages increased to \$135.3 million for the 2008 period from \$131.3 million for the 2007 period, facility lease expense increased to \$171.4 million for the 2008 period from \$159.8 million for the 2007 period, and utilities and other costs increased to \$155.9 million for the 2008 period from \$144.0 million for the 2007 period, all of which increased primarily due to new theatre openings and the impact of exchange rates in certain countries in which we operate. Utilities and other costs also reflected increased utility costs for our U.S. locations.

U.S. Film rentals and advertising costs were \$375.7 million, or 55.9% of admissions revenues, for the 2008 period compared to \$372.3 million, or 55.4% of admissions revenues, for the 2007 period. The increase in our film rentals and advertising rate is primarily due to the higher film rental rate on the record-breaking *Dark Knight*, which grossed over \$500 million in domestic box office. Concession supplies expense was \$44.4 million, or 13.7% of concession revenues, for the 2008 period, compared to \$44.7 million, or 13.7% of concession revenues, for the 2007 period.

Salaries and wages decreased to \$111.0 million for the 2008 period from \$111.6 million for the 2007 period primarily due to improved operating efficiencies. Facility lease expense increased to \$124.9 million for the 2008 period from \$121.5 million for the 2007 period primarily due to new theatre openings. Utilities and other costs increased to \$113.5 million for the 2008 period from \$110.0 million for the 2007 period primarily due to new theatre openings and increased utility costs.

International. Film rentals and advertising costs were \$95.5 million, or 49.5% of admissions revenues, for the 2008 period compared to \$81.9 million, or 50.1% of admissions revenues, for the 2007 period. The increase in film rentals and advertising costs is primarily due to increased admissions revenues, partially offset by a decrease in the film rentals and advertising rate. Concession supplies expense was \$22.0 million, or 25.5% of concession revenues, for the 2008 period compared to \$18.0 million, or 25.2% of concession revenues, for the 2007 period. The increased rate was primarily due to increases in product costs from some of our concession suppliers.

Salaries and wages increased to \$24.3 million for the 2008 period from \$19.7 million for the 2007 period, facility lease expense increased to \$46.5 million for the 2008 period from \$38.3 million for the 2007 period, and utilities and other costs increased to \$42.4 million for the 2008 period from \$34.0 million for the 2007 period, all of which increased primarily due to increased revenues, new theatre openings and the impact of exchange rates in certain countries in which we operate.

Table of Contents

General and Administrative Expenses. General and administrative expenses increased to \$67.1 million for the 2008 period from \$57.4 million for the 2007 period. The increase was primarily due to increased incentive compensation expense, increased share based award compensation expense, increased service charges related to increased credit card activity, increased professional fees, including audit fees related to SOX compliance, and increased legal fees. Legal fees increased as a result of the preparation of our first proxy statement and related disclosures required under the Securities Exchange Act of 1934, as amended, particularly relating to compensation discussion and analysis, and defense costs related to a lawsuit that we vigorously defended and has been dismissed with prejudice.

Termination of Profit Participation Agreement. Upon consummation of our initial public offering on April 24, 2007, we exercised our option to terminate the amended and restated profit participation agreement with our CEO Alan Stock and purchased Mr. Stock's interest in the theatres on May 3, 2007 for a price of \$6.9 million pursuant to the terms of the agreement. In addition, the Company incurred \$0.1 million of payroll taxes related to the termination. See Note 17 to our condensed consolidated financial statements.

Depreciation and Amortization. Depreciation and amortization expense, including amortization of favorable leases, was \$115.5 million for the 2008 period compared to \$113.4 million for the 2007 period primarily due to new theatre openings.

Impairment of Long-Lived Assets. We recorded asset impairment charges on assets held and used of \$8.1 million for the 2008 period compared to \$60.4 million during the 2007 period. Impairment charges for the 2008 period were primarily for U.S. and Mexico theatre properties. Impairment charges for the 2007 period consisted of \$9.8 million of theatre properties, \$46.7 million of goodwill associated with theatre properties and \$3.9 million of intangible assets associated with theatre properties. As a result of the NCM Transaction and more specifically the modification of the NCM Exhibitor Services Agreement, which significantly reduced the contractual amounts paid to us, we evaluated the carrying value of our goodwill as of March 31, 2007, leading to a majority of the goodwill impairment charges recorded during the 2007 period (see Note 4).

(Gain) Loss on Sale of Assets and Other. We recorded a loss on sale of assets and other of \$3.2 million during the 2008 period compared to a gain of \$0.6 million during the 2007 period. The loss recorded during the 2008 period was primarily due to the write-off of theatre equipment that was replaced, the write-off of prepaid rent for an international theatre, and damages to certain of our theatres in Texas related to Hurricane Ike, partially offset by a gain on sale of land parcels.

Interest Expense. Interest costs incurred, including amortization of debt issue costs, were \$89.7 million for the 2008 period compared to \$111.8 million for the 2007 period. The decrease was primarily due to the repurchase of substantially all of our outstanding 9% senior subordinated notes that occurred during March and April 2007, the repurchase of a portion of our 9 3/4% senior discount notes since the third quarter of 2007, and a reduction in the variable interest rates on a portion of our long-term debt. In addition, during the 2008 period, we recorded a gain of approximately \$3.3 million related to the change in fair value of one of our interest rate swap agreements. See Note 9 to our condensed consolidated financial statements for further discussion of our interest rate swap agreements.

Gain on NCM transaction. We recorded a gain of \$210.8 million on the sale of a portion of our equity investment in NCM in conjunction with the initial public offering of NCM, Inc. common stock during the 2007 period. Our ownership interest in NCM was reduced from approximately 25% to approximately 14% as part of this sale of stock in the offering. See Note 4 to our condensed consolidated financial statements.

Gain on Fandango transaction. We recorded a gain of \$9.2 million as a result of the sale of our investment in stock of Fandango, Inc. in the 2007 period. See Note 6 to our condensed consolidated financial statements.

Loss on Early Retirement of Debt. We recorded a loss on early retirement of debt of \$11.5 million during the 2007 period, which consisted of tender offer repurchase costs, including premiums paid and other fees, and the write-off of unamortized debt issue costs, partially offset by the write-off of the unamortized bond premium, associated with the repurchase of a total of \$332.1 million aggregate principal amount of our 9% senior subordinated notes during March and April 2007 and the repurchase of \$47.0 million aggregate principal amount at maturity of our 9 3/4% senior discount notes during July and August 2007. See Note 8 to our condensed consolidated financial statements.

Table of Contents

Distributions from NCM. We recorded distributions from NCM of \$12.2 million during the 2008 period and \$5.8 million during the 2007 period, which were in excess of the carrying value of our investment. See Note 4 to our condensed consolidated financial statements.

Income Taxes. Income tax expense of \$25.5 million was recorded for the 2008 period compared to \$67.9 million for the 2007 period. The effective tax rate was 38.5% for the 2008 period compared to 32.7% for the 2007 period. The change in the effective rate from the 2007 period was primarily due to the gain related to the NCM Transaction in 2007. Income tax provisions for interim (quarterly) periods are based on estimated annual income tax rates and are adjusted for the effects of significant, infrequent or unusual items occurring during the interim period. As a result, the interim rate may vary significantly from the normalized annual rate.

Table of Contents**Item 4T. Controls and Procedures****Evaluation of the Effectiveness of Disclosure Controls and Procedures**

As of September 30, 2008, we carried out an evaluation required by the Securities Exchange Act of 1934, as amended (1934 Act), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of September 30, 2008, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and were effective to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting

There have been no changes in our system of internal controls over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 of the 1934 Act that was conducted during the quarter ended September 30, 2008 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II OTHER INFORMATION**Item 1. Legal Proceedings**

Previously reported under Business Legal Proceedings in the Company s Annual Report on Form 10-K filed March 28, 2008.

Item 1A. Risk Factors

There have been no material changes from risk factors previously disclosed in Risk Factors in the Company s Annual Report on Form 10-K filed March 28, 2008.

Item 5. Other Information

Supplemental Schedules specified by our senior discount notes Indenture:

	Page
<u>Condensed Consolidating Balance Sheets Information as of September 30, 2008 (unaudited)</u>	34
<u>Condensed Consolidating Statements of Income Information for the nine months ended September 30, 2008 (unaudited)</u>	35
<u>Condensed Consolidating Statements of Cash Flows Information for the nine months ended September 30, 2008 (unaudited)</u>	36

Table of Contents

**SUPPLEMENTAL SCHEDULES REQUIRED BY THE INDENTURE FOR THE
SENIOR DISCOUNT NOTES**

As required by the Indenture governing the Company's 9/4% senior discount notes, the Company has included in this filing, interim financial information for its subsidiaries that have been designated as unrestricted subsidiaries, as defined by the indenture. As required by the Indenture, the Company has included condensed consolidating balance sheets and condensed consolidating statements of income and cash flows for the Company and its subsidiaries. These supplementary schedules separately identify the Company's restricted subsidiaries and unrestricted subsidiaries as required by the Indenture.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEETS
SEPTEMBER 30, 2008
(In thousands, unaudited)

	Restricted Group	Unrestricted Group	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 320,870	\$13,360	\$	\$ 334,230
Other current assets	49,592	47		49,639
Total current assets	370,462	13,407		383,869
THEATRE PROPERTIES AND EQUIPMENT net	1,271,368			1,271,368
OTHER ASSETS	1,549,323	16,562	(8,225)	1,557,660
TOTAL ASSETS	\$3,191,153	\$29,969	\$(8,225)	\$3,212,897
 LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Current portion of long-term debt	\$ 12,671	\$	\$	\$ 12,671
Current portion of capital lease obligations	5,353			5,353
Accounts payable and accrued expenses	195,549			195,549
Total current liabilities	213,573			213,573
LONG-TERM LIABILITIES				
Long-term debt, less current portion	1,524,894			1,524,894
Other long-term liabilities	512,889			512,889
Total long-term liabilities	2,037,783			2,037,783
COMMITMENTS AND CONTINGENCIES				
MINORITY INTERESTS IN SUBSIDIARIES				
	18,392			18,392
STOCKHOLDERS EQUITY	921,405	29,969	(8,225)	943,149
	\$3,191,153	\$29,969	\$(8,225)	\$3,212,897

TOTAL LIABILITIES AND
STOCKHOLDERS EQUITY

Note: Restricted Group and Unrestricted Group are defined in the Indenture for the senior discount notes.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008

(In thousands, unaudited)

	Restricted Group	Unrestricted Group	Eliminations	Consolidated
REVENUES	\$1,334,473	\$	\$	\$1,334,473
COST OF OPERATIONS				
Theatre operating costs	1,000,193			1,000,193
General and administrative expenses	67,058	6		67,064
Depreciation and amortization	115,467			115,467
Impairment of long-lived assets	8,145			8,145
Loss on sale of assets and other	3,136	75		3,211
Total cost of operations	1,193,999	81		1,194,080
OPERATING INCOME (LOSS)	140,474	(81)		140,393
OTHER INCOME (EXPENSE)	(84,689)	10,370		(74,319)
INCOME BEFORE INCOME TAXES	55,785	10,289		66,074
Income taxes	21,514	3,951		25,465
NET INCOME	\$ 34,271	\$ 6,338	\$	\$ 40,609

Note: Restricted Group and Unrestricted Group are defined in the Indenture for the senior discount notes.

Table of Contents

CINEMARK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In thousands, unaudited)

	Restricted Group	Unrestricted Group	Eliminations	Consolidated
OPERATING ACTIVITIES				
Net income	\$ 34,271	\$ 6,338	\$	\$ 40,609
Adjustments to reconcile net income to cash provided by (used for) operating activities	144,980	1,811		146,791
Changes in assets and liabilities	38	(15,803)		(15,765)
Net cash provided by (used for) operating activities	179,289	(7,654)		171,635
INVESTING ACTIVITIES				
Additions to theatre properties and equipment	(71,335)			(71,335)
Proceeds from sale of theatre properties and equipment	2,461			2,461
Increase in escrow deposits due to like-kind exchange	(2,089)			(2,089)
Return of escrow deposits	24,828			24,828
Acquisition of one U.S. theatre and two Brazil theatres	(10,111)			(10,111)
Investment in joint venture DCIP		(2,500)		(2,500)
Other		231		231
Net cash used for investing activities	(56,246)	(2,269)		(58,515)
FINANCING ACTIVITIES				
Capital contributions from parent	8,950			8,950
Repurchase of senior discount notes	(6,174)			(6,174)
Retirement of senior subordinated notes	(3)			(3)
Repayments of long-term debt	(7,260)			(7,260)
Payment on capital leases	(3,617)			(3,617)
Other	(1,099)			(1,099)
Net cash used for financing activities	(9,203)			(9,203)
Effect of exchange rate changes on cash and cash equivalents	(3,089)			(3,089)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	110,751	(9,923)		100,828
Beginning of period	210,119	23,283		233,402

Edgar Filing: CINEMARK INC - Form 10-Q

End of period	\$320,870	\$ 13,360	\$	\$334,230
---------------	-----------	-----------	----	-----------

Note: Restricted Group and Unrestricted Group are defined in the Indenture for the senior discount notes.

36

Table of Contents

Item 6. Exhibits

- *31.1 Certification of Alan Stock, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - *31.2 Certification of Robert Copple, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - *32.1 Certification of Alan Stock, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - *32.2 Certification of Robert Copple, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINEMARK, INC.

Registrant

DATE: November 10, 2008

/s/ Alan W. Stock

Alan W. Stock
Chief Executive Officer

/s/ Robert Copple

Robert Copple
Chief Financial Officer

38

Table of Contents

EXHIBIT INDEX

- *31.1 Certification of Alan Stock, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 Certification of Robert Copple, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1 Certification of Alan Stock, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- *32.2 Certification of Robert Copple, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- * filed herewith.