

**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 June 27, 2019

OR

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

For the transition period from to

Commission file number: 333-176056



NATIONAL CINEMEDIA, LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

20-2632505
(I.R.S. Employer Identification No.)

6300 S. Syracuse Way, Suite 300
Centennial, Colorado
(Address of Principal Executive Offices)

80111
(Zip Code)

Registrant's telephone number, including area code: (303) 792-3600
Securities registered pursuant to Section 12(b) of the Act: None

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 *

* The registrant is a voluntary filer and not subject to the filing requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934. Although not subject to these filing requirements, the registrant has filed all reports that would have been required during the preceding 12 months had it been subject to such filing requirements.

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
	<input checked="" type="checkbox"/>		
Non-accelerated filer		Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

As of August 3, 2019, 159,024,458 shares of the registrant's common stock (including unvested restricted shares), par value of \$0.01 per share, were outstanding.

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PART I

Item 1. Financial Statements

NATIONAL CINEMEDIA, LLC
CONDENSED BALANCE SHEETS
(In millions)
(UNAUDITED)

	June 27, 2019	December 27, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4.5	\$ 7.2
Receivables, net of allowance of \$6.0 and \$6.0, respectively	124.9	149.9
Prepaid administrative fees to managing member	0.5	0.6
Amounts due from founding members, net	3.1	5.8
Current portion of notes receivable - founding members (including receivables from related parties of \$2.8 and \$4.2, respectively)	4.2	5.6
Prepaid expenses and other current assets	3.9	3.6
Total current assets	141.1	172.7
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of \$66.7 and \$62.5, respectively	32.4	33.6
Intangible assets, net of accumulated amortization of \$186.2 and \$172.7, respectively	669.6	684.5
Other investments	3.2	3.0
Debt issuance costs, net	4.5	5.0
Other assets	23.2	0.7
Total non-current assets	732.9	726.8
TOTAL ASSETS	\$ 874.0	\$ 899.5
LIABILITIES AND MEMBERS' EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members, net	\$ 17.9	\$ 30.0
Amounts due to managing member, net	15.5	27.7
Accrued expenses	17.6	21.3
Accrued payroll and related expenses	8.5	10.0
Accounts payable	14.2	16.2
Deferred revenue	10.7	7.3
Short-term debt	2.7	2.7
Other current liabilities	1.3	—
Total current liabilities	88.4	115.2
NON-CURRENT LIABILITIES:		
Long-term debt, net of debt issuance costs of \$6.9 and \$7.8, respectively	915.4	920.9
Other liabilities	23.9	4.0
Total non-current liabilities	939.3	924.9
Total liabilities	1,027.7	1,040.1
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
MEMBERS' EQUITY/(DEFICIT)	(153.7)	(140.6)
TOTAL LIABILITIES AND EQUITY/(DEFICIT)	\$ 874.0	\$ 899.5

See accompanying notes to the unaudited Condensed Financial Statements.

NATIONAL CINEMEDIA, LLC
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In millions)
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 27, 2019	June 28, 2018	June 27, 2019	June 28, 2018
REVENUE (including revenue from related parties of \$6.5, \$8.6, \$11.8 and \$16.6 respectively)	\$ 110.2	\$ 113.7	\$ 187.1	\$ 193.9
OPERATING EXPENSES:				
Advertising operating costs	9.9	9.2	17.2	16.2
Network costs	3.4	3.3	6.9	6.8
Theater access fees—founding members (including fees to related parties of \$14.5, \$21.5, \$27.4 and \$42.1, respectively)	21.6	21.5	40.7	42.1
Selling and marketing costs	16.2	16.7	31.4	32.7
Administrative and other costs	7.7	8.0	15.2	16.8
Administrative fee—managing member	3.4	4.8	6.6	8.6
Depreciation expense	3.3	3.0	6.6	5.9
Amortization expense	—	7.0	—	13.6
Amortization of intangibles recorded for network theater screen leases	7.0	—	13.9	—
Total	72.5	73.5	138.5	142.7
OPERATING INCOME	37.7	40.2	48.6	51.2
NON-OPERATING EXPENSES:				
Interest on borrowings	14.2	14.1	28.6	27.9
Interest income	—	(0.1)	(0.1)	(0.2)
Loss (gain) on early retirement of debt, net	—	1.2	(0.3)	1.2
Other non-operating income	(0.1)	—	(0.3)	—
Total	14.1	15.2	27.9	28.9
INCOME BEFORE INCOME TAXES	23.6	25.0	20.7	22.3
Income tax expense	0.1	—	0.1	0.3
NET INCOME	\$ 23.5	\$ 25.0	\$ 20.6	\$ 22.0
COMPREHENSIVE INCOME	\$ 23.5	\$ 25.0	\$ 20.6	\$ 22.0

See accompanying notes to the unaudited Condensed Financial Statements.

NATIONAL CINEMEDIA, LLC
CONDENSED STATEMENTS OF CASH FLOWS
(In millions)
(UNAUDITED)

	Six Months Ended	
	June 27, 2019	June 28, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 20.6	\$ 22.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	6.6	5.9
Amortization expense	—	13.6
Amortization of intangibles recorded for network theater screen leases	13.9	—
Non-cash share-based compensation	1.4	2.8
Impairment on investment	—	0.4
Amortization of debt issuance costs	1.3	1.3
Gain on early retirement of debt, net	(0.3)	—
Write-off of debt issuance costs	—	0.8
Other	(0.2)	0.2
Proceeds from disposition of intangible assets by network affiliates	0.5	—
Founding member integration and other encumbered theater payments (including payments from related parties of \$0.6 in 2019)	10.6	—
Changes in operating assets and liabilities:		
Receivables, net	25.0	34.9
Accounts payable and accrued expenses	(4.8)	(6.0)
Amounts due to/from founding members and managing member, net	0.5	(0.4)
Deferred revenue	3.4	3.1
Other, net	(2.5)	1.5
Net cash provided by operating activities	<u>76.0</u>	<u>80.1</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6.8)	(7.2)
Proceeds from notes receivable - founding members	1.4	—
Net cash used in investing activities	<u>(5.4)</u>	<u>(7.2)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	71.0	106.2
Repayments of revolving credit facility	(71.0)	(88.0)
Repayments of Notes due 2026	(4.6)	270.0
Repayment of term loan facility	(1.4)	(270.0)
Payment of debt issuance costs	—	(6.3)
Founding member integration and other encumbered theater payments (including payments from related parties of \$11.5 in 2018)	—	11.5
Distributions to founding members and managing member	(66.5)	(91.0)
Repurchase of stock for restricted stock tax withholding	(0.8)	(1.6)
Net cash used in financing activities	<u>(73.3)</u>	<u>(69.2)</u>
CHANGE IN CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents at beginning of period	7.2	4.6
Cash and cash equivalents at end of period	<u>\$ 4.5</u>	<u>\$ 8.3</u>

See accompanying notes to the unaudited Condensed Financial Statements.

NATIONAL CINEMEDIA, LLC
CONDENSED STATEMENTS OF CASH FLOWS (CONTINUED)
(In millions)
(UNAUDITED)

	Six Months Ended	
	June 27, 2019	June 28, 2018
Supplemental disclosure of non-cash financing and investing activity:		
Purchase of an intangible asset with NCM LLC equity	\$ 7.6	\$ 15.9
Accrued distributions to founding members and managing member	\$ 30.0	\$ 33.1
Accrued integration and other encumbered theater payments due from founding members (including accrued payments due from related parties of \$0.2 and \$5.3, respectively)	\$ 5.3	\$ 5.3
Accrued debt issuance costs	\$ —	\$ 0.5
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 27.3	\$ 27.0
Cash paid for income taxes, net of refunds	\$ 0.2	\$ —

See accompanying notes to the unaudited Condensed Financial Statements.

NATIONAL CINEMEDIA, LLC
CONDENSED STATEMENTS OF MEMBERS' EQUITY/ (DEFICIT)
(In millions, except unit amounts)
(UNAUDITED)

	Three Months Ended	
	Units	Amount
Balance—March 29, 2018	157,564,977	\$ (119.7)
Distribution to managing member	—	(16.2)
Distribution to founding members	—	(16.9)
Comprehensive income	—	25.0
Unit settlement for share-based compensation	11,377	—
Share-based compensation expense/capitalized	—	1.1
Balance—June 28, 2018	<u>157,576,354</u>	<u>\$ (126.7)</u>
Balance—March 28, 2019	159,024,458	\$ (148.2)
Distribution to managing member	—	(14.6)
Distribution to founding members	—	(15.4)
Comprehensive income	—	23.5
Unit settlement for share-based compensation	30,657	0.1
Share-based compensation expense/capitalized	—	0.9
Balance—June 27, 2019	<u>159,055,115</u>	<u>\$ (153.7)</u>
	Six Months Ended	
	Units	Amount
Balance—December 28, 2017	154,081,334	\$ (116.0)
Cumulative-effect adjustment due to adoption of ASU 2014-09	—	(0.2)
Distribution to managing member	—	(24.3)
Distribution to founding members	—	(25.3)
Units issued for purchase of intangible asset	2,821,710	15.9
Comprehensive loss	—	22.0
Unit settlement for share-based compensation	673,310	(1.7)
Share-based compensation expense/capitalized	—	2.9
Balance—June 28, 2018	<u>157,576,354</u>	<u>\$ (126.7)</u>
Balance—December 27, 2018	157,637,220	\$ (140.6)
Distribution to managing member	—	(20.4)
Distribution to founding members	—	(21.5)
Units issued for purchase of intangible asset	1,044,665	7.6
Comprehensive loss	—	20.6
Unit settlement for share-based compensation	373,230	(0.8)
Share-based compensation expense/capitalized	—	1.4
Balance—June 27, 2019	<u>159,055,115</u>	<u>\$ (153.7)</u>

See accompanying notes to the unaudited Condensed Financial Statements.

NATIONAL CINEMEDIA, LLC
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. THE COMPANY

Description of Business

National CineMedia, LLC (“NCM LLC”, “the Company” or “we”) commenced operations on April 1, 2005 and is owned by National CineMedia, Inc. (“NCM, Inc.”, “manager” or “managing member”), Regal Cinemas, Inc. and Regal CineMedia Corporation, wholly owned subsidiaries of Cineworld Group plc and Regal Entertainment Group (“Regal”), Cinemark Media, Inc. and Cinemark USA, Inc., wholly owned subsidiaries of Cinemark Holdings, Inc. (“Cinemark”) and American Multi-Cinema, Inc., a wholly owned subsidiary of AMC Entertainment, Inc. (“AMC”). AMC, Regal, Cinemark and their affiliates are referred to in this document as “founding members”.

NCM LLC operates the largest cinema advertising network reaching movie audiences in North America, allowing NCM LLC to sell advertising under long-term exhibitor services agreements (“ESAs”) with the founding members (approximately 18 years remaining as of June 27, 2019) and certain third-party theater circuits, referred to in this document as “network affiliates” under long-term network affiliate agreements, which expire at various dates between September 2019 and July 2031. The weighted average remaining term (based on attendance) of the ESAs and the network affiliate agreements is 15.5 years as of June 27, 2019.

As of June 27, 2019, NCM LLC had 159,055,115 common membership units outstanding, of which 77,349,628 (48.6%) were owned by NCM, Inc., 41,770,669 (26.3%) were owned by Regal, 39,737,700 (25.0%) were owned by Cinemark and 197,118 (0.1%) were owned by AMC. The membership units held by the founding members are exchangeable into NCM, Inc. common stock on a one-for-one basis.

Basis of Presentation

The Company has prepared the unaudited Condensed Financial Statements and related notes of NCM LLC in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain reclassifications have been made to the prior year's financial statements to conform to the current presentation (refer to the Condensed Statements of Income and Condensed Statement of Cash Flows whereby the Company presented depreciation expense and amortization expense as two separate lines and refer to the Condensed Statements of Income, whereby the Company presented loss (gain) on retirement of debt, net as a separate line). Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. The balance sheet as of December 27, 2018 is derived from the audited financial statements of NCM LLC. Therefore, the unaudited Condensed Financial Statements should be read in conjunction with the NCM LLC audited Financial Statements and notes thereto included in the Company's annual report on Form 10-K filed for the fiscal year ended December 27, 2018.

In the opinion of management, all adjustments necessary to present fairly in all material respects the financial position, results of operations and cash flows for all periods presented have been made. The Company's business is seasonal and for this and other reasons operating results for interim periods may not be indicative of the Company's full year results or future performance. As a result of the various related party agreements discussed in Note 4—*Related Party Transactions*, the operating results as presented are not necessarily indicative of the results that might have occurred if all agreements were with non-related third parties. The Company manages its business under one reportable segment of advertising.

Estimates—The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those related to the reserve for uncollectible accounts receivable and share-based compensation. Actual results could differ from those estimates.

Significant Accounting Policies

The Company's annual financial statements included in its Form 10-K filed for the fiscal year ended December 27, 2018 contain a complete discussion of the Company's significant accounting policies. Following is additional information related to the Company's accounting policies.

Revenue Recognition—The Company derives revenue principally from the advertising business, which includes on-screen and lobby network (LEN) advertising and lobby promotions and advertising on websites and mobile applications owned by the Company and other companies. Revenue is recognized over time as the customer receives the benefits provided by the Company's advertising services and the Company has the right to payment for performance to date. The Company considers the terms of each arrangement to determine the appropriate accounting treatment.

NATIONAL CINEMEDIA, LLC
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Concentration of Credit Risk and Significant Customers—Bad debts are provided for using the allowance for doubtful accounts method based on historical experience and management’s evaluation of outstanding receivables at the end of the period. Receivables are written off when management determines amounts are uncollectible. Trade accounts receivable are uncollateralized and represent a large number of geographically dispersed debtors. The collectability risk with respect to national and regional advertising is reduced by transacting with founding members or large, national advertising agencies that have strong reputations in the advertising industry and clients with stable financial positions. The Company has smaller contracts with thousands of local clients that are not individually significant. As of June 27, 2019 and December 27, 2018, there were no advertising agency groups or individual customers through which the Company sources national advertising revenue representing more than 10% of the Company’s outstanding gross receivable balance. During the three and six months ended June 27, 2019 and June 28, 2018, the Company had no customers that accounted for more than 10% of revenue.

Share-Based Compensation—The management services agreement between NCM LLC and NCM, Inc. provides that NCM LLC may participate in the NCM, Inc. Equity Incentive Plan. NCM, Inc. has issued stock options and restricted stock to certain employees and restricted stock units to its independent directors under the NCM, Inc. Equity Incentive Plan. The Company has not granted stock options since 2012. In 2018 and 2019, the restricted stock grants for Company management vest upon the achievement of NCM, Inc. performance measures and/or service conditions, while non-management grants vest only upon the achievement of service conditions. Compensation expense of restricted stock that vests upon the achievement of NCM, Inc. performance measures is based on management’s financial projections and the probability of achieving the projections, which require considerable judgment. A cumulative adjustment is recorded to share-based compensation expense in periods that management changes its estimate of the number of shares of restricted stock expected to vest. Ultimately, the Company adjusts the expense recognized to reflect the actual vested shares following the resolution of the performance conditions. The recognized expense, including equity based compensation costs of NCM, Inc. employees, is included in the operating results of NCM LLC. Upon the exercise of options or the vesting of restricted stock, NCM, Inc. has the right to acquire from NCM LLC a number of common units equal to the number of NCM, Inc. shares being issued. In consideration for such units, NCM, Inc. contributes to NCM LLC the consideration received for the exercise of options or vesting of shares of restricted stock. During the three months ended June 27, 2019 and June 28, 2018 and six months ended June 27, 2019 and June 28, 2018, NCM, Inc. acquired 30,657, 11,377, 373,230 and 673,310 units, respectively, due to the vesting of restricted stock and restricted stock units.

Recently Adopted Accounting Pronouncements

During the first quarter of 2019, the Company adopted Accounting Standards Update 2016-2 and subsequent amendments, *Leases (Topic 842)* (together “ASC 842”) utilizing the Comparatives Under 840 option where only the current period financial statements and related disclosures are presented in accordance with the new standard. As of the adoption date of December 28, 2018 the Company recognized the following on the unaudited Condensed Balance Sheets: a right-of-use (“ROU”) asset of \$21.7 million within 'Other assets', a short-term lease liability of \$1.4 million within 'Other current liabilities', a long-term lease liability of \$24.5 million within 'Other liabilities' and reversed the related deferred rent liability balance of \$4.2 million for all leases with terms longer than twelve months related to its building operating leases. The Company elected to utilize the following practical expedients: (i) not being required to separate lease and non-lease components when accounting for the lease for all asset classes; and (ii) not accounting for short-term leases under the new standard. The Company also determined that the ESA and affiliate agreements are considered leases under ASC 842. However, the identification of the asset and determination of the period of control is dependent upon the scheduling of the showtimes by the exhibitors. As the schedules are typically not determined until one week in advance of the showtime, on average, the leases are considered short term in nature, specifically less than one month. As such, no ROU assets or lease liabilities were recognized for these agreements. The issuance of NCM LLC membership units to the founding members in accordance with NCM LLC’s Common Unit Adjustment Agreement and upfront cash payments to affiliates for the contractual rights to provide services within their theaters will continue to be classified as intangible assets. However, the amortization of these intangible assets is now considered lease expense and has been reclassified within the current period from 'Depreciation and amortization expense' to 'Amortization of intangibles recorded for network theater screen leases' on the unaudited Condensed Statement of Income. Additionally, these upfront cash payments to affiliates and receipt of integration payments from the founding members, as defined within Note 3 - Intangible Assets, will be considered cash flows from operating activities on the unaudited Condensed Statement of Cash Flows when incurred as they are related to operating leases and will be reclassified from cash flows from investing and financing activities, respectively. The Company has also incorporated additional disclosures in Note 6 - *Commitments and Contingencies* to comply with ASC 842.

During the first quarter of 2019, the Company adopted Accounting Standards Update 2018-7, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting* (“ASU 2018-7”), which amends Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The adoption of ASU 2018-7 had no impact on the unaudited Condensed Financial statements or notes thereto.

NATIONAL CINEMEDIA, LLC
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

During the first quarter of 2019, the Company adopted a final rule issued by the SEC in March 2019 simplifying certain Regulation S-K requirements. The rule eliminated the following requirements in certain circumstances: (1) to disclose discussion of the earliest year of three years of audited financial statements presented within Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations section of the Form 10-K, (2) to request permission from the SEC to redact confidential information from exhibits in the event the information is not material to the agreement and would cause competitive harm, (3) to disclose immaterial physical property and (4) to disclose schedules and attachments to exhibits which do not contain material information. The applicable amended disclosure requirements have been incorporated within this Quarterly Report on Form 10-Q.

During the fourth quarter of 2018, the Company adopted a final rule issued by the SEC amending certain disclosure requirements deemed by the SEC to be redundant, duplicative, overlapping, outdated or superseded. The rule also added requirements to disclose (1) the changes in each caption of stockholders' equity and non-controlling interests for the current and comparative year-to-date periods, with subtotals for each interim period and (2) the amount of dividends per share for each class of shares. The Company's adoption of the guidance resulted in changes to the presentation of the unaudited Statement of Equity as a quarter to date equity rollforward is now also required for the current and comparable period. The Company has implemented the amended disclosure requirements.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Statements* ("ASU 2016-13"), which requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted and is to be adopted on a modified retrospective basis. The Company is currently evaluating the impact that adopting this guidance will have on the unaudited Condensed Financial Statements or notes thereto.

In August 2018, the FASB issued Accounting Standards Update 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which modifies the disclosure requirements on fair value measurements. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with partial early adoption permitted for eliminated disclosures. The method of adoption varies by the disclosure. The Company is currently evaluating the impact that adopting this guidance will have on the unaudited Condensed Financial Statements or notes thereto.

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

2. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue Recognition

The Company derives revenue principally from the sale of advertising to national, regional and local businesses in *Noovie*, the Company's cinema advertising and entertainment pre-show. The Company also sells advertising through the LEN, a series of strategically-placed screens located in movie theater lobbies, as well as other forms of advertising and promotions in theater lobbies. In addition, the Company sells online and mobile advertising through *Cinema Accelerator* and NCM's digital gaming products including *Noovie Arcade*, *Fantasy Movie League* and *Noovie Shuffle*, which can be played on the mobile apps or at *Noovie.com*. The Company also has a long-term agreement to exhibit the advertising of the founding members' beverage suppliers.

The Company makes contractual guarantees to deliver a specified number of impressions to view the customers' advertising. If the contracted number of impressions are not delivered, the Company will run additional advertising to deliver the contracted impressions at a later date. The deferred portion of the revenue associated with undelivered impressions is referred to as a make-good provision. The Company defers the revenue associated with the make-good until the advertising airs to the theater attendance specified in the advertising contract. The make-good provision is recorded within accrued expenses in the Condensed Balance Sheet. As of June 27, 2019 and December 27, 2018, the Company had a make-good provision of \$5.7 million and \$8.0 million, respectively.

The Company has certain contracts with two-year terms that are noncancelable following a specified date within the contract period. The estimated revenue expected to be recognized in the future related to these contracted performance obligations that are unsatisfied (or partially unsatisfied) as of June 27, 2019, was \$47.7 million, which is expected to be recognized in 2019. Agreements with a duration less than one year are not included within this disclosure as the Company

NATIONAL CINEMEDIA, LLC
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

elected to use the practical expedient in ASC 606-10-50-14 for those contracts. In addition, other of the Company's contracts longer than one year that are cancelable are not included within this disclosure.

Disaggregation of Revenue

The Company disaggregates revenue based upon the type of customer: national; local and regional; and beverage concessionaire. This method of disaggregation is in alignment with how revenue is reviewed by management and discussed with and historically disclosed to investors.

The following table summarizes revenue from contracts with customers for the three and six months ended June 27, 2019 and June 28, 2018:

	Three Months Ended		Six Months Ended	
	June 27, 2019	June 28, 2018	June 27, 2019	June 28, 2018
National advertising revenue	\$ 77.6	\$ 78.8	\$ 131.6	\$ 133.6
Local advertising revenue	17.7	18.1	30.5	31.6
Regional advertising revenue	6.7	8.2	10.1	12.1
Founding member advertising revenue from beverage concessionaire agreements	8.2	8.6	14.9	16.6
Total revenue	\$ 110.2	\$ 113.7	\$ 187.1	\$ 193.9

Deferred Revenue and Unbilled Accounts Receivable

The changes in deferred revenue for the six months ended June 27, 2019 were as follows (in millions):

	Six Months Ended June 27, 2019
Balance at beginning of period	\$ (7.3)
Performance obligations satisfied	7.3
New contract liabilities	(10.7)
Balance at end of period	<u>\$ (10.7)</u>

As of June 27, 2019 and December 27, 2018, the Company had \$14.1 million and \$6.0 million in unbilled accounts receivable, respectively.

3. INTANGIBLE ASSETS

Intangible assets consist of contractual rights to provide the Company's services within the theaters of the founding members and network affiliates and are stated at cost, net of accumulated amortization. The Company's intangible assets with its founding members are recorded at fair market value of NCM, Inc.'s publicly traded stock as of the date on which the common membership units were issued. The common membership units are fully convertible into NCM, Inc.'s common stock. In addition, the Company records intangible assets for up-front fees paid to network affiliates upon commencement of a network affiliate agreement. The Company's intangible assets have a finite useful life and the Company amortizes the assets over the remaining useful life corresponding with the ESAs or the term of the network affiliate agreement.

Common Unit Adjustments—In accordance with the Common Unit Adjustment Agreement with the founding members, on an annual basis the Company determines the amount of common membership units to be issued to or returned by the founding members based on theater additions or dispositions during the previous year. In addition, the Common Unit Adjustment Agreement requires that a Common Unit Adjustment occur for a specific founding member if its acquisition or disposition of theaters, in a single transaction or cumulatively since the most recent Common Unit Adjustment, results in an attendance increase or decrease in excess of two percent of the annual total attendance at the prior adjustment date.

During the first quarter of 2019, the Company issued 1,044,665 common membership units to the founding members for the rights to exclusive access to the theater screens and attendees added, net of dispositions by the founding members to the Company's network during the 2018 fiscal year and NCM LLC recorded a net intangible asset of \$7.6 million during the first quarter of 2019 as a result of the Common Unit Adjustment.

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During the first quarter of 2018, the Company issued 2,821,710 (3,736,860 issued, net of 915,150 returned) common membership units to the founding members for the rights to exclusive access to the theater screens and attendees added, net of dispositions by the founding members to the Company's network during the 2017 fiscal year and NCM LLC recorded a net intangible asset of \$15.9 million during the first quarter of 2018 as a result of the Common Unit Adjustment.

Integration Payments and Other Encumbered Theater Payments—If an existing on-screen advertising agreement with an alternative provider is in place with respect to any acquired theaters ("encumbered theaters"), the founding members may elect to receive common membership units related to those encumbered theaters in connection with the Common Unit Adjustment. If the founding members make this election, then they are required to make payments on a quarterly basis in arrears in accordance with certain run-out provisions pursuant to the ESAs ("integration payments"). Because the Carmike Cinemas, Inc. ("Carmike") theaters acquired by AMC are subject to an existing on-screen advertising agreement with an alternative provider, AMC will make integration payments to NCM LLC. The integration payments will continue until the earlier of (i) the date the theaters are transferred to the Company's network or (ii) the expiration of the ESA. Integration payments are calculated based upon the advertising cash flow that the Company would have generated if it had exclusive access to sell advertising in the theaters with pre-existing advertising agreements. The ESA additionally entitles the Company to payments related to the founding members' on-screen advertising commitments under their beverage concessionaire agreements for encumbered theaters. These payments are also accounted for as a reduction to the intangible asset. During the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, the Company recorded a reduction to net intangible assets of \$5.7 million, \$5.6 million, \$8.1 million and \$7.8 million respectively, related to integration and other encumbered theater payments. These payments received from AMC related to its acquisitions of theaters from Carmike and Rave Cinemas and from Cinemark related primarily to its acquisition of theaters from Rave Cinemas. During the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, AMC and Cinemark paid a total of \$2.5 million, \$2.2 million, \$10.6 million and \$11.5 million respectively, in integration and other encumbered theater payments (as payments are made one quarter and one month in arrears, respectively). If common membership units are issued to a founding member for newly acquired theaters that are subject to an existing on-screen advertising agreement with an alternative provider, the amortization of the intangible asset commences after the existing agreement expires and NCM LLC can utilize the theaters for all of its services.

4. RELATED PARTY TRANSACTIONS

Founding Member and Managing Member Transactions—In connection with NCM, Inc.'s initial public offering ("IPO"), the Company entered into several agreements to define and regulate the relationships among NCM LLC, NCM, Inc. and the founding members which are outlined below. As AMC owns less than 5% of NCM LLC as of June 27, 2019, AMC is no longer a related party. AMC remains a party to the ESA, Common Unit Adjustment Agreement and certain other original agreements and is a member under the terms of the NCM LLC Operating Agreement, subject to fulfilling the requirements of Section 3.1 of the NCM LLC Operating Agreement. AMC will continue to participate in the annual Common Unit Adjustment and receive available cash distributions or allocation of earnings and losses in NCM LLC (as long as its ownership is greater than zero) TRA payments and theater access fees. Further, AMC will continue to pay beverage revenue, among other things. AMC's ownership percentage does not impact future integration payments and other encumbered theater payments owed to NCM LLC by AMC. AMC is considered a related party through the date its ownership fell below the 5% threshold (July 5, 2018) and related party transactions with AMC through this period are included within the disclosures below (specifically the first quarter and first six months of 2018).

The agreements with the founding members are as follows:

- **ESAs.** Under the ESAs, NCM LLC is the exclusive provider within the United States of advertising services in the founding members' theaters (subject to pre-existing contractual obligations and other limited exceptions for the benefit of the founding members). The advertising services include the use of the digital content network ("DCN") equipment required to deliver the on-screen advertising and other content included in the *Noovie* pre-show, use of the LEN and rights to sell and display certain lobby promotions. Further, 30 to 60 seconds of advertising included in the *Noovie* pre-show is sold to the founding members to satisfy the founding members' on-screen advertising commitments under their beverage concessionaire agreements. In consideration for access to the founding members' theaters, theater patrons, the network equipment required to display on-screen and LEN video advertising and the use of theaters for lobby promotions, the founding members receive a monthly theater access fee. These agreements are considered leases with related parties under ASC 842.
- **Common Unit Adjustment Agreement.** The Common Unit Adjustment Agreement provides a mechanism for increasing or decreasing the membership units held by the founding members based on the acquisition or construction of new theaters or sale or closure of theaters that are operated by each founding member and included in the Company's network.

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- **Software License Agreement.** At the date of NCM, Inc.'s IPO, NCM LLC was granted a perpetual, royalty-free license from the founding members to use certain proprietary software that existed at the time for the delivery of digital advertising and other content through the DCN to screens in the U.S. NCM LLC has made improvements to this software since NCM, Inc.'s IPO date and the Company owns those improvements, except for improvements that were developed jointly by NCM LLC and the founding members, if any.

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

Included in the unaudited Condensed Statements of Income: (1)	Three Months Ended		Six Months Ended	
	June 27, 2019	June 28, 2018	June 27, 2019	June 28, 2018
Revenue:				
Beverage concessionaire revenue (included in advertising revenue) (2)	\$ 6.5	\$ 8.6	\$ 11.8	\$ 16.6
Operating expenses:				
Theater access fee (3)	14.5	21.5	27.4	42.1
Purchase of movie tickets and concession products and rental of theater space (included in selling and marketing costs) (4)	0.1	0.3	0.2	0.7
Administrative fee - managing member (5)	3.4	4.8	6.6	8.6
Non-operating expenses:				
Interest income from notes receivable (included in interest income) (6)	—	0.1	0.1	0.2

- (1) AMC is no longer considered a related party as of July 5, 2018, as described further above. As such, the figures within the table above only include related party activity with AMC for the three and six months ended June 28, 2018.
- (2) For the three and six months ended June 27, 2019 and June 28, 2018, two of the founding members purchased 60 seconds of on-screen advertising time and one founding member purchased 30 seconds (with all three founding members having a right to purchase up to 90 seconds) from NCM LLC to satisfy their obligations under their beverage concessionaire agreements at a 30 seconds equivalent CPM rate specified by the ESA.
- (3) Comprised of payments per theater attendee and payments per digital screen with respect to the founding member theaters included in the Company's network, including payments for access to higher quality digital cinema equipment.
- (4) Used primarily for marketing to NCM LLC's advertising clients.
- (5) Pursuant to the Management Services Agreement between NCM, Inc. and NCM LLC, NCM, Inc. provides certain specific management services to NCM LLC, including the services of the Interim Chief Executive Officer - President, Chief Financial Officer, Executive Vice President, Chief Revenue Officer and Senior Vice President - General Counsel. In exchange for these services, NCM LLC reimburses NCM, Inc. for compensation paid to the officers (including share based compensation) and other expenses of the officers and for certain out-of-pocket costs.
- (6) On December 26, 2013, the Company sold its Fathom Events business to a newly formed limited liability company (AC JV, LLC) owned 32% by each of the founding members and 4% by NCM LLC. In consideration for the sale, the Company received a total of \$25.0 million in promissory notes from its founding members (one-third or approximately \$8.3 million from each founding member). The notes bear interest at a fixed rate of 5.0% per annum, compounded annually. Interest and principal payments are due annually in six equal installments commencing on the first anniversary of the closing.

Included in the unaudited Condensed Balance Sheets:	As of	
	June 27, 2019	December 27, 2018
Purchase of movie tickets and concession products (included in prepaid expenses) (1)	\$ 0.1	\$ —
Current portion of notes receivable - related parties (1) (2)	2.8	4.2
Interest receivable on notes receivable (included in other current assets) (1) (2)	0.1	0.1
Prepaid administrative fees to managing member (3)	0.5	0.6
Common unit adjustments, net of amortization and integration payments (included in intangible assets) (4)	644.8	657.6

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- (1) AMC is no longer considered a related party as of July 5, 2018, as described further above. As such, the figures as of June 27, 2019 and December 27, 2018 do not include AMC.
- (2) Refer to the discussion of notes receivable from the founding members above.
- (3) The payments to NCM, Inc. for estimated management services related to employment are made one month in advance. NCM LLC also provides administrative and support services to NCM, Inc. such as office facilities, equipment, supplies, payroll, accounting and financial reporting at no charge. Based on the limited activities of NCM, Inc. as a standalone entity, the Company does not believe such unreimbursed costs are significant.
- (4) Refer to Note 3—*Intangible Assets* for further information on common unit adjustments and integration payments. This balance includes common unit adjustments issued to all of the founding members (including AMC) as the Company's intangible balance is considered one asset inclusive of all common unit adjustment activity.

Pursuant to the terms of the NCM LLC Operating Agreement in place since the completion of NCM, Inc.'s IPO, the Company is required to make mandatory distributions on a proportionate basis to its members of available cash, as defined in the NCM LLC Operating Agreement, on a quarterly basis in arrears. Mandatory distributions of available cash for the three and six months ended June 27, 2019 and June 28, 2018 were as follows (in millions):

	Three Months Ended		Six Months Ended	
	June 27, 2019	June 28, 2018	June 27, 2019	June 28, 2018
AMC	\$ —	\$ —	\$ —	\$ 2.2
Cinemark	7.5	8.3	10.5	11.3
Regal	7.9	8.6	11.0	11.8
Total founding members	15.4	16.9	21.5	25.3
NCM, Inc.	14.6	16.2	20.4	24.3
Total	<u>\$ 30.0</u>	<u>\$ 33.1</u>	<u>\$ 41.9</u>	<u>\$ 49.6</u>

The mandatory distributions of available cash by the Company to Regal and Cinemark for the three months ended June 27, 2019 of \$15.4 million is included in amounts due to founding members, net on the unaudited Condensed Balance Sheets as of June 27, 2019 and will be made in the third quarter of 2019. AMC's distribution for the three months ended June 28, 2018 was split equally between Cinemark and Regal because NCM LLC used a record date of July 6, 2018 (following the sale of AMC's membership units to Cinemark and Regal) to accommodate an agreement between AMC and Cinemark and AMC and Regal. These agreements entitled AMC to half of the second quarter of 2018 available cash distribution, or approximately \$2.2 million, of which Cinemark and Regal each independently paid AMC approximately \$1.1 million. The mandatory distributions to NCM, Inc. are eliminated in consolidation.

Amounts due to founding members, net as of June 27, 2019 were comprised of the following (in millions):

	Cinemark	Regal	Total
Theater access fees, net of beverage revenues and other encumbered theater payments	\$ 1.2	\$ 1.6	\$ 2.8
Distributions payable to founding members	7.5	7.9	15.4
Integration payments due from founding members	(0.2)	—	(0.2)
Cost and other reimbursement	(0.1)	—	(0.1)
Total amounts due to founding members, net	<u>\$ 8.4</u>	<u>\$ 9.5</u>	<u>\$ 17.9</u>

Amounts due to founding members, net as of December 27, 2018 were comprised of the following (in millions):

	Cinemark	Regal	Total
Theater access fees, net of beverage revenues and other encumbered theater payments	\$ 1.0	\$ 1.5	\$ 2.5
Distributions payable to founding members	13.7	14.2	27.9
Integration payments due from founding members	(0.4)	—	(0.4)
Total amounts due to founding members, net	<u>\$ 14.3</u>	<u>\$ 15.7</u>	<u>\$ 30.0</u>

Amounts due to/from managing member, net were comprised of the following (in millions):

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	As of	
	June 27, 2019	December 27, 2018
Distributions payable to managing member	\$ 14.6	\$ 26.6
Cost and other reimbursement	0.9	1.1
Total amounts due to managing member, net	<u>\$ 15.5</u>	<u>\$ 27.7</u>

The Amounts due from founding members, net balance as of June 27, 2019 and December 27, 2018 per the Condensed Balance Sheets relates to payments due from AMC to NCM LLC. Given that AMC ceased being a related party as of July 5, 2018, the detail of that balance has not been included within the tables above.

As of June 28, 2018, AMC owned 1.0 million shares of NCM, Inc. common stock. During the three and six months ended June 28, 2018, AMC received cash dividends of approximately \$0.1 million and \$0.3 million, respectively on its shares of NCM, Inc. common stock held at that time.

AC JV, LLC Transactions—In December 2013, the Company sold its Fathom Events business to a newly formed limited liability company, AC JV, LLC, owned 32% by each of the founding members and 4% by NCM LLC. The Company accounts for its investment in AC JV, LLC under the equity method of accounting in accordance with ASC 323-30, *Investments—Equity Method and Joint Ventures* (“ASC 323-30”) because AC JV, LLC is a limited liability company with the characteristics of a limited partnership and ASC 323-30 requires the use of equity method accounting unless the Company’s interest is so minor that it would have virtually no influence over partnership operating and financial policies. Although NCM LLC does not have a representative on AC JV, LLC’s Board of Directors or any voting, consent or blocking rights with respect to the governance or operations of AC JV, LLC, the Company concluded that its interest was more than minor under the accounting guidance. The Company’s investment in AC JV, LLC was \$1.1 million and \$0.9 million as of June 27, 2019 and December 27, 2018, respectively. During the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, NCM LLC received cash distributions from AC JV, LLC of \$0.1 million, \$0.0 million, \$0.1 million and \$0.0 million respectively. Equity in earnings from AC JV, LLC for the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, were \$0.1 million, \$0.1 million, \$0.3 million and \$0.1 million, respectively, and is included in non-operating expenses in the unaudited Condensed Statements of Income. NCM LLC also received fees from AC JV, LLC of \$0.0 million, \$0.1 million, \$0.0 million, and \$0.1 million in the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, respectively, related to the transition services agreement with AC JV, LLC whereby the Company provides certain corporate overhead or creative services or use of facilities in exchange for a fee. These fees received by NCM LLC are included as an offset to network costs in the unaudited Condensed Consolidated Statements of Income.

5. BORROWINGS

The following table summarizes the Company’s total outstanding debt as of June 27, 2019 and December 27, 2018 and the significant terms of its borrowing arrangements (in millions):

Borrowings	Outstanding Balance as of		Maturity Date	Interest Rate
	June 27, 2019	December 27, 2018		
Senior secured notes due 2022	\$ 400.0	\$ 400.0	April 15, 2022	6.000%
Revolving credit facility	27.0	27.0	June 20, 2023	(1)
Term loan	268.0	269.4	June 20, 2025	(1)
Senior unsecured notes due 2026	230.0	235.0	August 15, 2026	5.750%
Total borrowings	<u>925.0</u>	<u>931.4</u>		
Less: debt issuance costs related to term loan and senior notes	(6.9)	(7.8)		
Total borrowings, net	<u>918.1</u>	<u>923.6</u>		
Less: current portion of debt	(2.7)	(2.7)		
Carrying value of long-term debt	<u>\$ 915.4</u>	<u>\$ 920.9</u>		

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

Senior Secured Credit Facility—On June 20, 2018, the Company entered into a credit agreement to replace the Company's senior secured credit facility, dated as of February 13, 2007, as amended (the "previous facility"). Consistent with the structure of the previous facility, the agreement consists of a term loan facility and a revolving credit facility. As of June 27, 2019, the Company's senior secured credit facility consisted of a \$175.0 million revolving credit facility and a \$268.0 million term loan. The obligations under the senior secured credit facility are secured by a lien on substantially all of the assets of NCM LLC.

Revolving Credit Facility—The revolving credit facility portion of the Company's total borrowings is available, subject to certain conditions, for general corporate purposes of the Company in the ordinary course of business and for other transactions permitted under the senior secured credit facility, and a portion is available for letters of credit. As of June 27, 2019, the Company's total availability under the \$175.0 million revolving credit facility was \$143.2 million, net of \$27.0 million outstanding and \$4.8 million in letters of credit. The unused line fee is 0.50% per annum which is consistent with the previous facility. Borrowings under the revolving credit facility bear interest at the Company's option of either the LIBOR index plus an applicable margin ranging from 1.75% to 2.25% or the base rate plus an applicable margin ranging from 0.75% to 1.25%. The applicable margin for the revolving credit facility is determined quarterly and is subject to adjustment based upon a consolidated net senior secured leverage ratio for the Company (the ratio of secured funded debt less unrestricted cash and cash equivalents of up to \$100.0 million, divided by Adjusted EBITDA for debt purposes, defined as NCM LLC's net income before depreciation and amortization expense adjusted to also exclude non-cash share based compensation costs for NCM LLC plus integration payments received). The revolving credit facility will mature on June 20, 2023, which is contingent upon the refinancing of the Company's Notes due 2022 (defined below, see "Senior Secured Notes due 2022") on or prior to October 30, 2021. If the Notes due 2022 are not refinanced on or prior to October 30, 2021, then the revolving credit facility will instead mature on December 30, 2021. The weighted-average interest rate on the revolving credit facility as of June 27, 2019 was 5.35%.

Term Loan—The interest rate on the term loan is a rate chosen at the Company's option of either the LIBOR index plus 3.00% or the base rate plus 2.00%. The interest rate on the term loan as of June 27, 2019 was 5.44%. The term loan amortizes at a rate equal to 1.00% annually, to be paid in equal quarterly installments. As of June 27, 2019, NCM LLC has paid principal of \$2.0 million, reducing the outstanding balance to \$268.0 million. The term loan will mature on June 20, 2025 contingent upon the refinancing of the Notes due 2022 on or prior to October 30, 2021. If the Notes due 2022 are not refinanced on or prior to October 30, 2021, then the term loan will instead mature on December 30, 2021.

The senior secured credit facility contains a number of covenants and various financial ratio requirements, including, (i) a consolidated net total leverage ratio covenant of 6.25 times for each quarterly period and (ii) with respect to the revolving credit facility, maintaining a consolidated net senior secured leverage ratio of equal to or less than 4.50 times on a quarterly basis for each quarterly period in which a balance is outstanding on the revolving credit facility. In addition, NCM LLC is permitted to make quarterly dividend payments and other restricted payments with its available cash as long as NCM LLC's consolidated net senior secured leverage ratio (after giving effect to any such payment) is below 5.50 times and no default or event of default has occurred and continues to occur under the senior secured credit facility. As of June 27, 2019, the Company's consolidated net senior secured leverage ratio was 3.14 times (versus the dividend payment restriction of 5.50 times and the covenant of 4.50 times) the Company's consolidated net total leverage ratio was 4.24 times (versus the covenant of 6.25 times).

Senior Secured Notes due 2022—On April 27, 2012, the Company completed a private placement of \$400.0 million in aggregate principal amount of 6.000% Senior Secured Notes (the "Notes due 2022") for which the registered exchange offering was completed on November 26, 2012. The Notes due 2022 pay interest semi-annually in arrears on April 15 and October 15 of each year, which commenced on October 15, 2012. The Notes due 2022 share in the same collateral that secures NCM LLC's obligations under the senior secured credit facility.

Senior Unsecured Notes due 2026—On August 19, 2016, the Company completed a private placement of \$250.0 million in aggregate principal amount of 5.750% Senior Unsecured Notes (the "Notes due 2026") for which the registered exchange offering was completed on November 8, 2016. The Notes due 2026 pay interest semi-annually in arrears on February 15 and August 15 of each year, which commenced on February 15, 2017. The Notes due 2026 were issued at 100% of the face amount thereof and are the senior unsecured obligations of the Company. NCM LLC repurchased and canceled a total of \$5.0 million and \$15.0 million of the Notes due 2026 during 2019 and 2018, respectively, reducing the principal amount to \$230.0 million as of June 27, 2019. These repurchases were treated as partial debt extinguishments and resulted in the realization of a non-operating gain, net of written off debt issuance costs, of \$0.0 million, \$0.0 million, \$0.3 million and \$0.0 million during the three months ended June 27, 2019 and June 28, 2018 and six months ended June 27, 2019 and June 28, 2018, respectively.

6. COMMITMENTS AND CONTINGENCIES

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Legal Actions—The Company is subject to claims and legal actions in the ordinary course of business. The Company believes such claims will not have a material effect individually and in the aggregate on its financial position, results of operations or cash flows.

Operating Commitments - Facilities - The Company has entered into operating lease agreements for its corporate headquarters and other regional offices. The Company has a right-of-use (“ROU”) assets of \$21.2 million and short-term and long-term lease liabilities of \$1.3 million and \$23.9 million, respectively, on the balance sheet as of June 27, 2019, for all material leases with terms longer than twelve months. These balances are included within 'Other assets', 'Other current liabilities' and 'Other liabilities', respectively, on the unaudited Condensed Balance Sheets. The Company has options on certain of these facilities to extend the lease or to terminate part or all of the leased space prior to the lease end date. Certain termination fees would be due upon exercise of the early termination options as outlined within the underlying agreements. None of these options were considered reasonably certain of exercise and thus have not been recognized as part of the ROU assets and lease liabilities. As of June 27, 2019, the Company had a weighted average remaining lease term of 10.8 years on these leases.

The Company has also entered into certain short-term leases with a term of less than one year. These leases are not included within the Company’s ROU assets or lease liabilities due to the Company’s election of the practical expedient in ASC 842-20-25-2 for short-term leases.

During the three and six months ended June 27, 2019, the Company recognized the following components of total lease cost (in millions). These costs are presented within selling and marketing costs and administrative and other costs within the unaudited Condensed Statements of Income depending upon the nature of the use of the facility.

	<u>Three Months Ended</u>	<u>Six Months Ended</u>
	<u>June 27, 2019</u>	<u>June 27, 2019</u>
Operating lease cost	\$ 0.8	\$ 1.6
Short-term lease cost	—	0.1
Variable lease cost	0.2	0.3
Total lease cost	<u>\$ 1.0</u>	<u>\$ 2.0</u>

The Company made total lease payments of \$0.8 million and \$1.6 million during the three and six months ended June 27, 2019. These payments are included within cash flows from operating activities within the unaudited Condensed Statement of Cash Flows. The minimum lease payments under noncancelable operating leases as of December 27, 2018 were as follows (in millions).

<u>Year</u>	<u>Minimum Lease Payments</u>
2019	\$ 3.5
2020	3.3
2021	3.4
2022	3.4
2023	3.4
Thereafter	22.1
Total	<u>\$ 39.1</u>

The future lease payments under noncancelable operating leases as of June 27, 2019 were as follows (in millions).

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Year	Future Lease Payments
2019 (June 28, 2019 - December 26, 2019)	\$ 1.7
2020	3.3
2021	3.3
2022	3.4
2023	3.4
2024	3.5
Thereafter	18.7
Total	37.3
Less: Imputed interest on future lease payments	(12.1)
Total lease liability as of June 27, 2019 per the Condensed Balance Sheet	\$ 25.2

When measuring the ROU assets and lease liabilities recorded, the Company utilized its incremental borrowing rate in order to determine the present value of the lease payments as the leases do not provide an implicit rate. The Company used the rate of interest that it would have paid to borrow on a collateralized basis over a similar term for an amount equal to the lease payments in a similar economic environment. As of June 27, 2019, the Company's weighted average annual discount rate was 7.43%.

Operating Commitments - ESAs and Affiliate Agreements - The Company has entered into long-term ESAs with the founding members and multi-year agreements with certain network affiliates, or third-party theater circuits. The ESAs and network affiliate agreements grant NCM LLC exclusive rights in their theaters to sell advertising, subject to limited exceptions. The Company recognizes intangible assets upon issuance of membership units to the founding members in accordance with NCM LLC's Common Unit Adjustment Agreement and upfront cash payments to the affiliates for the contractual rights to provide the Company's services within their theaters as further discussed within Note 3 - *Intangible Assets*. These ESA and network affiliate agreements are considered leases under ASC 842 once the asset is identified and the period of control is determined upon the scheduling of the showtimes by the exhibitors, typically one week prior to the showtime. As such, the leases are considered short-term in nature, specifically less than one month. Within ASC 842, leases with terms of less than one month are exempt from the majority of the accounting and disclosure requirements, including disclosure of short-term lease expense. No ROU assets or lease liabilities were recognized for these agreements and no change to the balance sheet presentation of the intangible assets was necessary. However, the amortization of these intangible assets is considered lease expense and was therefore, reclassified in the current period from 'Depreciation and amortization expense' to 'Amortization of intangibles recorded for network theater screen leases' within the unaudited Condensed Statement of Income.

In consideration for NCM LLC's access to the founding members' theater attendees for on-screen advertising and use of lobbies and other space within the founding members' theaters for the LEN and lobby promotions, the founding members receive a monthly theater access fee under the ESAs. The theater access fee is composed of a fixed payment per patron, a fixed payment per digital screen (connected to the DCN) and a fee for access to higher quality digital cinema equipment. The payment per theater patron increases by 8% every five years, with this next increase occurring in fiscal year 2022, and the payment per digital screen and for digital cinema equipment increases annually by 5%. The theater access fee paid in the aggregate to all founding members cannot be less than 12% of NCM LLC's aggregate advertising revenue (as defined in the ESA), or it will be adjusted upward to reach this minimum payment. As of June 27, 2019 and December 27, 2018, the Company had no liabilities recorded for the minimum payment, as the theater access fee was in excess of the minimum.

The network affiliates compensation is considered variable lease expense and varies by circuit depending upon the agreed upon terms of the network affiliate agreement. The majority of agreements are centered around a revenue share where an agreed upon percentage of the advertising revenue received from a theater's attendance is paid to the circuit. As part of the network affiliate agreements entered into in the ordinary course of business under which the Company sells advertising for display in various network affiliate theater chains, the Company has agreed to certain minimum revenue guarantees on a per attendee basis. If a network affiliate achieves the attendance set forth in their respective agreement, the Company has guaranteed minimum revenue for the network affiliate per attendee if such amount paid under the revenue share arrangement is less than its guaranteed amount. As of June 27, 2019, the maximum potential amount of future payments the Company could be required to make pursuant to the minimum revenue guarantees is \$90.1 million over the remaining terms of the network affiliate agreements. These minimum guarantees relate to various affiliate agreements ranging in term from one to twenty years, prior to any renewal periods of which some are at the option of the Company. Additionally, the Company accrued \$0.7 million and \$0.1 million related to affiliate agreements with guaranteed minimums in excess of the revenue share agreement as of June 27, 2019 and December 27, 2018, respectively.

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(UNAUDITED)

7. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management’s estimate of assumptions that market participants would use in pricing the asset or liability.

Non-Recurring Measurements— Certain assets are measured at fair value on a non-recurring basis. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. These assets include long-lived assets, intangible assets, other investments, notes receivable and borrowings.

Long-Lived Assets, Intangible Assets, Other Investments and Notes Receivable—The Company regularly reviews long-lived assets (primarily property, plant and equipment), intangible assets, investments accounted for under the cost or equity method and notes receivable for impairment whenever certain qualitative factors, events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. When the estimated fair value is determined to be lower than the carrying value of the asset, an impairment charge is recorded to write the asset down to its estimated fair value.

Other investments consisted of the following (in millions):

	As of	
	June 27, 2019	December 27, 2018
Investment in AC JV, LLC (1)	\$ 1.1	\$ 0.9
Other investments (2)	2.1	2.1
Total	\$ 3.2	\$ 3.0

(1) Refer to Note 4—Related Party Transactions. This investment is accounted for utilizing the equity method.

(2) The Company received equity securities in privately held companies as consideration for a portion of advertising contracts. The equity securities are accounted for at adjusted cost in accordance with the practicability exception under Accounting Standards Update 2016-1, *Recognition and Measurement of Financial Assets and Financial Liabilities*, and represent an ownership of less than 20%. The Company does not exert significant influence on these companies’ operating or financial activities.

During the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, the Company recorded impairment charges of \$0.0 million, \$0.0 million, \$0.0 million and \$0.4 million, respectively, on certain of its investments due to a significant deterioration in the business prospects of the investee or new information regarding the fair value of the investee, which brought the total remaining value of the respective impaired investments to \$0.0 million as of June 27, 2019 and June 28, 2018. As of June 27, 2019, no other observable price changes or impairments have been recorded as a result of the Company’s qualitative assessment of identified events or changes in the circumstances of the remaining investments. The investment in AC JV, LLC was initially valued using comparative market multiples. The other investments were recorded based upon the fair value of the services provided in exchange for the investment. As the inputs to the determination of fair value are based upon non-identical assets and use significant unobservable inputs, they have been classified as Level 3 in the fair value hierarchy.

As of June 27, 2019 and December 27, 2018, the Company had notes receivable totaling \$4.2 million and \$5.6 million, respectively, from its founding members related to the sale of Fathom Events, as described in Note 4—*Related Party Transactions*. These notes were initially valued using comparative market multiples. There were no identified events or changes in circumstances that had a significant adverse effect on the fair value of the notes receivable. The notes are classified as Level 3 in the fair value hierarchy as the inputs to the determination of fair value are based upon non-identical assets and use significant unobservable inputs.

NATIONAL CINEMEDIA, LLC
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

Borrowings—The carrying amount of the revolving credit facility is considered a reasonable estimate of fair value due to its floating-rate terms. The estimated fair values of the Company's financial instruments where carrying values do not approximate fair value were as follows (in millions):

	As of June 27, 2019		As of December 27, 2018	
	Carrying Value	Fair Value (1)	Carrying Value	Fair Value (1)
Term loan	\$ 268.0	\$ 267.3	\$ 269.4	\$ 261.2
Notes due 2022	400.0	405.0	400.0	401.8
Notes due 2026	230.0	218.5	235.0	211.0

(1) If the Company were to measure the borrowings in the above table at fair value on the balance sheet they would be classified as Level 2 based upon the inputs utilized.

8. SUBSEQUENT EVENT

NCM, Inc. appointed Thomas F. Lesinski as Chief Executive Officer ("CEO") of NCM, Inc. effective as of August 2, 2019. In connection with his appointment as CEO, Mr. Lesinski resigned from NCM, Inc.'s Board of Directors as Chairman, member of the Audit Committee and as the independent director designated by Cinemark. The NCM, Inc. Board of Directors subsequently appointed Mr. Lesinski as a member of the NCM, Inc. Board of Directors in his role as CEO. The NCM, Inc. Board of Directors also appointed Mark B. Segall to serve as Chairman of the NCM, Inc. Board of Directors.

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

Some of the information in this Quarterly Report on Form 10-Q includes "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 (the "Exchange Act"), as amended. All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations," may constitute forward-looking statements. In some cases, you can identify these "forward-looking statements" by the specific words, including but not limited to "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain factors as more fully discussed under the heading "Risk Factors" contained below and in our annual report on Form 10-K for the Company's fiscal year ended December 27, 2018. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law. The following discussion and analysis should be read in conjunction with the unaudited Condensed Financial Statements and notes thereto included herein and the audited financial statements and other disclosure included in our annual report on Form 10-K for the Company's fiscal year ended December 27, 2018.

Overview

We are America's Movie Network. As the #1 weekend network for Millennials (age 18-34) in the U.S., we are the connector between brands and movie audiences. We currently derive revenue principally from the sale of advertising to national, regional and local businesses in *Noovie*, our cinema advertising and entertainment pre-show seen on movie screens across the U.S. We also sell advertising on our LEN, a series of strategically-placed screens located in movie theater lobbies, as well as other forms of advertising and promotions in theater lobbies. In addition, we sell online and mobile advertising through our *Cinema Accelerator* and our other digital gaming products including *Noovie Arcade*, *Fantasy Movie League* and *Noovie Shuffle* which can be played on the mobile apps or at *Noovie.com*. As of June 27, 2019, over 3.0 million movie goers have downloaded our mobile apps. We have long-term ESAs (approximately 18 years remaining as of June 27, 2019) with the founding members and multi-year agreements with our network affiliates, which expire at various dates between September 2019 and July 2031. The weighted average remaining term (based on attendance) of the ESAs and the network affiliate agreements is 15.5 years as of June 27, 2019. The ESAs and network affiliate agreements grant us exclusive rights in their theaters to sell advertising, subject to limited exceptions. Our *Noovie* pre-show and LEN programming are distributed predominantly via satellite through our proprietary DCN. Approximately 98% of the aggregate founding member and network affiliate theater attendance is generated by theaters connected to our DCN (the remaining screens receive advertisements on USB drives) and 100% of the *Noovie* pre-show is projected on digital projectors (95% digital cinema projectors and 5% LCD projectors) as of June 27, 2019.

Management focuses on several measurements that we believe provide us with the necessary ratios and key performance indicators to manage our business, determine how we are performing versus our internal goals and targets, and against the performance of our competitors and other benchmarks in the marketplace in which we operate. Senior executives hold meetings at least once per quarter with members of management to discuss and analyze operating results and address significant variances to budget and prior year in an effort to identify trends and changes in our business. We focus on operating metrics including changes in revenue, Adjusted OIBDA and Adjusted OIBDA margin, as defined and discussed below, as some of our primary measurement metrics. In addition, we monitor our monthly advertising performance measurements, including advertising inventory utilization, national and regional advertising pricing (CPM), local advertising rate per screen per week, national and local and regional and total advertising revenue per attendee. We also monitor free cash flow, the dividend coverage ratio, financial leverage ratio (net debt divided by Adjusted OIBDA plus integration payments and other encumbered theater payments), cash balances and revolving credit facility availability to ensure financial debt covenant compliance and that there is adequate cash availability to fund our working capital needs and debt obligations and current and future distributions to members. Financial results, including the metrics outlined above, are presented to the Board of Directors on a monthly basis.

Our operating results may be affected by a variety of internal and external factors and trends described more fully in the section entitled "Risk Factors" below and in our Form 10-K filed with the SEC on February 25, 2019 for our fiscal year ended December 27, 2018.

Summary Historical and Operating Data

You should read this information with the other information contained in this document, and our unaudited historical financial statements and the notes thereto included elsewhere in this document.

Our Operating Data—The following table presents operating data and Adjusted OIBDA (dollars in millions, except margin data):

	Q2 2019	Q2 2018	YTD 2019	YTD 2018	% Change	
					Q2 2019 to Q2 2018	YTD 2019 to YTD 2018
Revenue	\$ 110.2	\$ 113.7	\$ 187.1	\$ 193.9	(3.1)%	(3.5)%
Operating expenses:						
Advertising	47.3	46.6	86.5	89.2	1.5 %	(3.0)%
Network, administrative and unallocated costs	25.2	26.9	52.0	53.5	(6.3)%	(2.8)%
Total operating expenses	72.5	73.5	138.5	142.7	(1.4)%	(2.9)%
Operating income	37.7	40.2	48.6	51.2	(6.2)%	(5.1)%
Non-operating expenses	14.1	15.2	27.9	28.9	(7.2)%	(3.5)%
Income tax expense	0.1	—	0.1	0.3	(100.0)%	(66.7)%
Net income	\$ 23.5	\$ 25.0	\$ 20.6	\$ 22.0	(6.0)%	(6.4)%
Adjusted OIBDA	\$ 50.2	\$ 52.3	\$ 72.3	\$ 75.6	(4.0)%	(4.4)%
Adjusted OIBDA margin	45.6%	46.0%	38.6%	39.0%	(0.4)%	(0.4)%
Total theater attendance (in millions) (1)	185.3	194.1	334.0	371.1	(4.5)%	(10.0)%

NM = Not Meaningful

- (1) Represents the total attendance within our advertising network, excluding screens and attendance associated with certain AMC Carmike, AMC Rave and Cinemark Rave theaters that are currently part of another cinema advertising network for all periods presented. Refer to Note 3 to the unaudited Condensed Financial Statements included elsewhere in this document.

Non-GAAP Financial Measures

Adjusted Operating Income Before Depreciation and Amortization (“Adjusted OIBDA”) and Adjusted OIBDA margin are not financial measures calculated in accordance with GAAP in the United States. Adjusted OIBDA represents operating income before depreciation and amortization expense adjusted to also exclude amortization of intangibles recorded for network theater screen leases, non-cash share based compensation costs and Chief Executive Officer transition costs. Adjusted OIBDA margin is calculated by dividing Adjusted OIBDA by total revenue. Our management uses these non-GAAP financial measures

to evaluate operating performance, to forecast future results and as a basis for compensation. The Company believes these are important supplemental measures of operating performance because they eliminate items that have less bearing on its operating performance and so highlight trends in its core business that may not otherwise be apparent when relying solely on GAAP financial measures. The Company believes the presentation of these measures is relevant and useful for investors because it enables them to view performance in a manner similar to the method used by the Company's management, helps improve their ability to understand the Company's operating performance and makes it easier to compare the Company's results with other companies that may have different depreciation and amortization policies, amortization of intangibles recorded for network theater screen leases, non-cash share based compensation programs, CEO turnover, interest rates, debt levels or income tax rates. A limitation of these measures, however, is that they exclude depreciation and amortization, which represent a proxy for the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in the Company's business. In addition, Adjusted OIBDA has the limitation of not reflecting the effect of the Company's amortization of intangibles recorded for network theater screen leases, share based payment costs or costs associated with the resignation of the Company's former Chief Executive Officer. Adjusted OIBDA should not be regarded as an alternative to operating income, net income or as an indicator of operating performance, nor should it be considered in isolation of, or as a substitute for financial measures prepared in accordance with GAAP. The Company believes that operating income is the most directly comparable GAAP financial measure to Adjusted OIBDA. Because not all companies use identical calculations, these non-GAAP presentations may not be comparable to other similarly titled measures of other companies, or calculations in the Company's debt agreement.

The following table reconciles operating income to Adjusted OIBDA for the periods presented (dollars in millions):

	Q2 2019	Q2 2018	YTD 2019	YTD 2018
Operating income	\$ 37.7	\$ 40.2	\$ 48.6	\$ 51.2
Depreciation expense	3.3	3.0	6.6	5.9
Amortization expense (1)	—	7.0	—	13.6
Amortization of intangibles recorded for network theater screen leases (1)	7.0	—	13.9	—
Share-based compensation costs (2)	2.1	2.1	2.9	4.9
CEO transition costs	0.1	—	0.3	—
Adjusted OIBDA	\$ 50.2	\$ 52.3	\$ 72.3	\$ 75.6
Total revenue	\$ 110.2	\$ 113.7	\$ 187.1	\$ 193.9
Adjusted OIBDA margin	45.6%	46.0%	38.6%	39.0%

- (1) Following the adoption of ASC 842, as discussed within Note 1 to the unaudited Condensed Financial Statements included elsewhere in this document, amortization of the ESA and affiliate intangible balances is considered a form of lease expense and has been reclassified to this account as of the adoption date, December 28, 2018. The Company adopted ASC 842 prospectively and thus, prior period balances remain within amortization expense.
- (2) Share-based compensation costs are included in network operations, selling and marketing, administrative expense and administrative fee – managing member in the accompanying unaudited Condensed Financial Statements. These costs represent both non-cash charges and cash charges paid through the administrative fee with the managing member. The amount of share-based compensation costs that were non-cash were \$0.9 million, \$1.0 million, \$1.4 million and \$2.8 million for the three months ended June 27, 2019 and June 28, 2018 and the six months ended June 27, 2019 and June 28, 2018, respectively.

Our Network—The change in the number of screens in our network by the founding members and network affiliates during the first six months ended June 27, 2019 was as follows.

	Number of screens		
	Founding Members	Network Affiliates	Total
Balance as of December 27, 2018	16,768	4,404	21,172
Lost affiliates, net of new affiliates (1)	—	(240)	(240)
Openings, net of closures	81	32	113
Balance as of June 27, 2019	16,849	4,196	21,045

- (1) Represents the loss of one of our affiliates that did not renew its contract resulting in a reduction of 244 affiliate screens to our network, offset by the addition of one new affiliate which added 4 new screens to our network during the six months ended June 27, 2019.

Our founding member and network affiliate agreements allow us to sell cinema advertising across the largest network of digitally equipped theaters in the U.S. We believe that our market coverage strengthens our selling proposition and competitive positioning against other national, regional and local video advertising platforms, including television, online and mobile video platforms and other out of home video advertising platforms by allowing advertisers the broad reach and national scale that they need to effectively reach their target audiences.

Basis of Presentation

The results of operations data for the three months ended June 27, 2019 (second quarter of 2019) and June 28, 2018 (second quarter of 2018) and the six months ended June 27, 2019 and June 28, 2018, was derived from the unaudited Condensed Financial Statements and accounting records of NCM LLC and should be read in conjunction with the notes thereto.

Results of Operations

Second Quarter of 2019 and Second Quarter of 2018

Revenue. Total revenue decreased 3.1%, from \$113.7 million for the second quarter of 2018 to \$110.2 million for the second quarter of 2019. The following is a summary of revenue by category (in millions):

	Q2 2019	Q2 2018	\$ Change	% Change
			Q2 2019 to Q2 2018	Q2 2019 to Q2 2018
National advertising revenue	\$ 77.6	\$ 78.8	\$ (1.2)	(1.5)%
Local advertising revenue	17.7	18.1	(0.4)	(2.2)%
Regional advertising revenue	6.7	8.2	(1.5)	(18.3)%
Founding member advertising revenue from beverage concessionaire agreements	8.2	8.6	(0.4)	(4.7)%
Total revenue	\$ 110.2	\$ 113.7	\$ (3.5)	(3.1)%

The following table shows data on theater attendance and revenue per attendee for the second quarter of 2019 and the second quarter of 2018:

	Q2 2019	Q2 2018	% Change	
			Q2 2019 to Q2 2018	
National advertising revenue per attendee	\$ 0.419	\$ 0.406	3.2 %	
Local advertising revenue per attendee	\$ 0.096	\$ 0.093	3.2 %	
Regional advertising revenue per attendee	\$ 0.036	\$ 0.042	(14.3)%	
Total advertising revenue (excluding founding member beverage revenue) per attendee	\$ 0.550	\$ 0.541	1.7 %	
Total advertising revenue per attendee	\$ 0.595	\$ 0.586	1.5 %	
Total theater attendance (in millions) (1)	185.3	194.1	(4.5)%	

(1) Represents the total attendance within our advertising network, excluding screens and attendance associated with certain AMC Carmike, AMC Rave and Cinemark Rave theaters that are currently part of another cinema advertising network for all periods presented.

National advertising revenue. The \$1.2 million, or 1.5%, decrease in national advertising revenue (excluding beverage revenue from founding members) was primarily due to a 10.4% decrease in national advertising CPMs (excluding beverage), partially offset by a 4.3% increase in impressions sold. The decrease in national advertising CPMs (excluding beverage) was primarily due to a decrease in scatter market demand, which is inventory not included within an upfront or content partner commitment sold closer to the advertisement air date typically at higher CPMs, in the second quarter of 2019, compared to the second quarter of 2018. The increase in impressions sold was primarily due to an increase in national advertising utilization from 101.5% in the second quarter of 2018 to 110.8% in the second quarter of 2019, partially offset by a 4.5% decrease in network attendance due to a weaker movie slate during the second quarter of 2019. Inventory utilization is calculated as utilized impressions divided by total advertising

impressions, which is based on eleven 30-second salable national advertising units in our *Noovie* pre-show, which can be expanded, should market demand dictate.

Local advertising revenue. The \$0.4 million, or 2.2%, decrease in local advertising revenue was primarily due to a 7.7% decrease in the volume of local contracts and a 2.1% decrease in the average contract value for the second quarter of 2019, compared to the second quarter of 2018, driven by a reduction in the local sales force following a realignment of sales territories in late 2018. These decreases in local advertising revenue were partially offset by an increase in local digital sales revenue in the second quarter of 2019, compared to the second quarter of 2018.

Regional advertising revenue. The \$1.5 million, or 18.3%, decrease in regional advertising revenue was primarily due to a \$1.0 million shift in spend within the automotive category from regional advertising in the second quarter of 2018, to national advertising in the second quarter of 2019 and a decrease in regional digital sales revenue.

Founding member beverage revenue. The \$0.4 million, or 4.7%, decrease in national advertising revenue from the founding members' beverage concessionaire agreements was primarily due to a 3.8% decrease in founding member attendance, partially offset by a 0.7% increase in beverage revenue CPMs, in the second quarter of 2019, compared to the second quarter of 2018. The 2019 beverage revenue CPM is based on the change in CPM during segment one of our pre-show from 2017 to 2018, which increased 0.7%.

Operating expenses. Total operating expenses decreased \$1.0 million, or 1.4%, from \$73.5 million for the second quarter of 2018 to \$72.5 million for the second quarter of 2019. The following table shows the changes in operating expense for the second quarter of 2019 and the second quarter of 2018 (in millions):

			\$ Change		% Change	
	Q2 2019	Q2 2018	Q2 2019 to Q2 2018	Q2 2019 to Q2 2018	Q2 2019 to Q2 2018	Q2 2019 to Q2 2018
Advertising operating costs	\$ 9.9	\$ 9.2	\$ 0.7		7.6 %	
Network costs	3.4	3.3	0.1		3.0 %	
Theater access fees—founding members	21.6	21.5	0.1		0.5 %	
Selling and marketing costs	16.2	16.7	(0.5)		(3.0)%	
Administrative and other costs	7.7	8.0	(0.3)		(3.8)%	
Administrative fee—managing member	3.4	4.8	(1.4)		(29.2)%	
Depreciation expense	3.3	3.0	0.3		10.0 %	
Amortization expense	—	7.0	(7.0)		(100.0)%	
Amortization of intangibles recorded for network theater screen leases	7.0	—	7.0		100.0 %	
Total operating expenses	\$ 72.5	\$ 73.5	\$ (1.0)		(1.4)%	

Advertising operating costs. Advertising operating costs increased \$0.7 million, or 7.6%, from \$9.2 million for the second quarter of 2018 to \$9.9 million for the second quarter of 2019. The increase was primarily related to a \$0.4 million increase in affiliate advertising payments driven by a 1.0%, or 42 screen, increase in the number of average affiliate screens as of the second quarter of 2019, compared to the second quarter of 2018, and an increase in the guaranteed minimums owed to affiliates of \$0.3 million during the second quarter of 2019, compared to the second quarter of 2018. Advertising operating costs also increased due to a \$0.2 million increase in production costs associated with the *Noovie* pre-show.

Network costs. Network costs increased \$0.1 million, or 3.0%, from \$3.3 million for the second quarter of 2018 to \$3.4 million for the second quarter of 2019.

Theater access fees—founding members. Theater access fees increased \$0.1 million, or 0.5%, from \$21.5 million in the second quarter of 2018 to \$21.6 million in the second quarter of 2019. The expense associated with founding member attendance decreased \$0.5 million due a 3.8% decrease in attendance at founding members' theaters, which was partially offset by a \$0.4 million increase in the expense associated with the founding member digital screens that are connected to the DCN (nearly 100% of our screens as of June 27, 2019), including higher quality digital cinema projectors and related equipment, due to the annual 5% rate increase specified in the ESAs.

Selling and marketing costs. Selling and marketing costs decreased \$0.5 million, or 3.0%, from \$16.7 million for the second quarter of 2018 to \$16.2 million for the second quarter of 2019. This decrease was primarily related to a \$1.1

million decrease in personnel related expenses primarily due to 1) a decrease in commissions related to lower revenue and a reduction in sales force associated with a realignment of sales territories in late 2018 and 2) lower non-cash share-based compensation expense related to a decrease in the volume of awards granted in 2019 compared to 2018. These decreases were partially offset by a \$0.2 million increase in company advertising expense related to online and social media platforms and a \$0.2 million increase in online publisher expense due to higher digital revenue in the second quarter of 2019, compared to the second quarter of 2018.

Administrative and other costs. Administrative and other costs decreased \$0.3 million, or 3.8%, from \$8.0 million for the second quarter of 2018 to \$7.7 million for the second quarter of 2019. This decrease was primarily related to a \$0.6 million decrease in professional fees related to our digital service offerings, partially offset by an increase in consulting services.

Administrative fee—managing member. Administrative fee—managing member decreased \$1.4 million, or 29.2% from \$4.8 million for the second quarter of 2018 to \$3.4 million for the second quarter of 2019 due primarily to a \$1.1 million decrease in legal and professional expense related primarily to the negotiation of the settlement agreement with a large shareholder during the second quarter of 2018 and a \$0.4 million decrease in personnel related expenses from salary and bonus due to the absence of a CEO in the second quarter of 2019, compared to the second quarter of 2018. Amounts recorded are based on the terms of the management services agreement which states NCM LLC pays NCM, Inc. service fees which are equal to the cost of NCM, Inc. employees and any reimbursable costs incurred by NCM, Inc.

Depreciation expense. Depreciation expense increased \$0.3 million, or 10.0%, from \$3.0 million for the second quarter of 2018 to \$3.3 million for the second quarter of 2019, primarily due to new fixed assets being placed into service in 2019, compared to 2018.

Amortization expense and Amortization of intangibles recorded for network theater screen leases. Amortization of our ESA and affiliate intangibles was at \$7.0 million for the second quarter of 2018, consistent with the \$7.0 million of amortization of intangibles recorded for network theater screen leases for the second quarter of 2019. Following the adoption of ASC 842, as discussed within Note 1 to the unaudited Condensed Consolidated Financial Statements included elsewhere in this document, amortization of the ESA and affiliate intangible balances is considered a form of lease expense and has been reclassified from amortization expense to amortization of intangibles recorded for network theater screen leases as of the adoption date, December 28, 2018. The Company adopted ASC 842 prospectively and thus, prior period balances remain within amortization expense.

Non-operating expenses. Total non-operating expenses decreased \$1.1 million, or 7.2%, from \$15.2 million for the second quarter of 2018 to \$14.1 million for the second quarter of 2019. The following table shows the changes in non-operating expense for the second quarter of 2019 and the second quarter of 2018 (in millions):

	Q2 2019	Q2 2018	\$ Change	% Change
			Q2 2019 to Q2 2018	Q2 2019 to Q2 2018
Interest on borrowings	\$ 14.2	\$ 14.1	\$ 0.1	0.7 %
Interest income	—	(0.1)	0.1	(100.0)%
Loss on extinguishment of debt	—	1.2	(1.2)	(100.0)%
Other non-operating income	(0.1)	—	(0.1)	(100.0)%
Total non-operating expenses	\$ 14.1	\$ 15.2	\$ (1.1)	(7.2)%

The increase in non-operating expense was due primarily to the absence of a \$1.2 million loss on the extinguishment of debt related to the refinancing of the senior secured credit facility in the second quarter of 2018.

Net income. Net income decreased \$1.5 million from \$25.0 million for the first quarter of 2018 to \$23.5 million for the first quarter of 2019. The decrease in net income was due to a \$2.5 decrease in operating income and a \$0.1 million increase in income tax expense, partially offset a \$1.1 million decrease in non-operating expense, as discussed above.

Six months ended June 27, 2019 and June 28, 2018

Revenue. Total revenue decreased 3.5%, from \$193.9 million for the six months ended June 28, 2018 to \$187.1 million for the six months ended June 27, 2019. The following is a summary of revenue by category (in millions):

	Six Months Ended		\$ Change YTD 2019 to YTD 2018	% Change YTD 2019 to YTD 2018
	June 27, 2019	June 28, 2018		
National advertising revenue	\$ 131.6	\$ 133.6	\$ (2.0)	(1.5)%
Local advertising revenue	30.5	31.6	(1.1)	(3.5)%
Regional advertising revenue	10.1	12.1	(2.0)	(16.5)%
Founding member advertising revenue from beverage concessionaire agreements	14.9	16.6	(1.7)	(10.2)%
Total revenue	\$ 187.1	\$ 193.9	\$ (6.8)	(3.5)%

The following table shows data on theater attendance and revenue per attendee for the six months ended June 27, 2019 and June 28, 2018:

	Six Months Ended		% Change YTD 2019 to YTD 2018
	June 27, 2019	June 28, 2018	
National advertising revenue per attendee	\$ 0.394	\$ 0.360	9.4 %
Local advertising revenue per attendee	\$ 0.091	\$ 0.085	7.1 %
Regional advertising revenue per attendee	\$ 0.030	\$ 0.033	(9.1)%
Total advertising revenue (excluding founding member beverage revenue) per attendee	\$ 0.516	\$ 0.478	7.9 %
Total advertising revenue per attendee	\$ 0.560	\$ 0.523	7.1 %
Total theater attendance (in millions) (1)	334.0	371.1	(10.0)%

National advertising revenue. The \$2.0 million, or 1.5%, decrease in national advertising revenue (excluding beverage revenue from the founding members) was due primarily to a 2.2% decrease in national advertising CPMs (excluding beverage) and a 1.4% decrease in impressions sold. The decrease in national advertising CPMs (excluding beverage) in the six months ended June 27, 2019, compared to the six months ended June 28, 2018, was due to lower demand in the scatter market, which is inventory not included within an upfront or content partner commitment sold closer to the advertisement air date typically at higher CPMs. The decrease in impressions was primarily related to a 10.0% decrease in network attendance, partially offset by an increase in national advertising utilization from 98.5% in the six months ended June 28, 2018 to 107.8% in the six months ended June 27, 2019. Inventory utilization is calculated as utilized impressions divided by total advertising impressions, which is based on eleven 30-second salable national advertising units in our *Noovie* pre-show, which can be expanded, should market demand dictate.

Local advertising revenue. The \$1.1 million, or 3.5%, decrease in local advertising revenue was primarily due to a 10.2% decrease in the volume of local contracts driven by a reduction in headcount following a realignment of sales territories in late 2018 and due to the timing of several large contracts shifting into the second half of 2019 from the second quarter of 2019, partially offset by an increase in local digital sales revenue and a 2.3% increase in the average contract value driven by contracts under \$100,000 in the six months ended June 27, 2019, compared to the six months ended June 28, 2018.

Regional advertising revenue. The \$2.0 million, or 16.5%, decrease in regional advertising revenue was primarily due to both a reduction in spend and a \$1.0 million shift from regional advertising to national advertising within our automotive category during the first six months of 2018, compared to the first six months of 2019.

Founding member beverage revenue. The \$1.7 million, or 10.2%, decrease in national advertising revenue from the founding members' beverage concessionaire agreements was primarily due to a 9.6% decrease in founding member attendance, partially offset by a 0.7% increase in beverage revenue CPMs, in the six months ended June 27, 2019, compared to the six months ended June 28, 2018. The 2019 beverage revenue CPM is based on the change in CPM during segment one of our pre-show from 2017 to 2018, which increased 0.7%.

Operating expenses. Total operating expenses decreased \$4.2 million, or 2.9%, from \$142.7 million for the six months ended June 28, 2018 to \$138.5 million for the six months ended June 27, 2019. The following table shows the changes in operating expense for the six months ended June 27, 2019 and June 28, 2018 (in millions):

	Six Months Ended		\$ Change		% Change	
	June 27, 2019	June 28, 2018	YTD 2019 to YTD 2018	YTD 2019 to YTD 2018	YTD 2019 to YTD 2018	YTD 2019 to YTD 2018
Advertising operating costs	\$ 17.2	\$ 16.2	\$ 1.0		6.2 %	
Network costs	6.9	6.8	0.1		1.5 %	
Theater access fees—founding members	40.7	42.1	(1.4)		(3.3)%	
Selling and marketing costs	31.4	32.7	(1.3)		(4.0)%	
Administrative and other costs	15.2	16.8	(1.6)		(9.5)%	
Administrative fee—managing member	6.6	8.6	(2.0)		(23.3)%	
Depreciation expense	6.6	5.9	0.7		11.9 %	
Amortization expense	—	13.6	(13.6)		(100.0)%	
Amortization of intangibles recorded for network theater screen leases	13.9	—	13.9		100.0 %	
Total operating expenses	\$ 138.5	\$ 142.7	\$ (4.2)		(2.9)%	

Advertising operating costs. Advertising operating costs increased \$1.0 million, or 6.2%, from \$16.2 million for the six months ended June 28, 2018 to \$17.2 million for the six months ended June 27, 2019. The increase was primarily related to a \$0.6 million increase in affiliate advertising payments driven by a 3.6%, or 148 screen, increase in the number of average affiliate screen count as of the six months ended June 27, 2019, compared to the six months ended June 28, 2018, and an increase in the guaranteed minimums owed to affiliates of \$0.6 million during the first six months of 2019, compared to the first six months of 2018. Advertising operating costs also increased due to a \$0.2 million increase in personnel related expenses due to higher salaries from certain personnel moving from sales and marketing roles to advertising operations roles.

Network costs. Network costs increased \$0.1 million, or 1.5%, from \$6.8 million for the six months ended June 28, 2018 to \$6.9 million for the six months ended June 27, 2019.

Theater access fees—founding members. Theater access fees decreased \$1.4 million, or 3.3%, from \$42.1 million in the six months ended June 28, 2018 to \$40.7 million for the six months ended June 27, 2019. The expense associated with founding member attendance decreased \$2.4 million due a 9.6% decrease in attendance at founding members' theaters, which was partially offset by a \$0.9 million increase in the expense associated with the founding member digital screens that are connected to the DCN (nearly 100% of our screens as of June 27, 2019), including higher quality digital cinema projectors and related equipment, due to the annual 5% rate increase specified in the ESAs.

Selling and marketing costs. Selling and marketing costs decreased \$1.3 million, or 4.0%, from \$32.7 million for the six months ended June 28, 2018 to \$31.4 million for the six months ended June 27, 2019. This decrease was primarily due to a \$2.3 million decrease in personnel related expenses which was the result of lower salaries and commissions due to a reduction in sales force in late 2018 and lower non-cash share-based compensation expense due to a decrease in the volume of awards granted in 2019, compared to 2018. The decrease was also due to a \$0.4 million non-cash impairment charge realized in the six months ended June 28, 2018, related to investments obtained in prior years in exchange for advertising services, and no such expense in the six months ended June 27, 2019. These decreases were partially offset by an increase in expenses related to sales meetings, including related travel expenses, due to the timing of meetings, an increase in company advertising expense associated with online and social media platforms, and an increase in online publisher expense related to higher digital revenue in the six months ended June 27, 2019, compared to the six months ended June 28, 2018.

Administrative and other costs. Administrative and other costs decreased \$1.6 million, or 9.5%, from \$16.8 million for the six months ended June 28, 2018 to \$15.2 million for the six months ended June 27, 2019. This decrease was primarily related to a \$1.5 million decrease in personnel related expenses driven by a \$1.3 million increase in capitalized personnel costs driven by the nature of the work being performed by our information technology department and a \$1.2 million decrease in professional fees related to our digital product services, partially offset by a \$0.6 million increase in consulting services for the six months ended June 27, 2019, compared to the six months ended June 28, 2018.

Administrative fee—managing member. Administrative fee—managing member decreased \$2.0 million, or 23.3% from \$8.6 million for the six months ended June 28, 2018 to \$6.6 million for the six months ended June 27, 2019. This decrease was primarily related to a \$1.5 million decrease in personnel related expenses driven by a \$0.9 million decrease in salary and bonus expense due to the absence of a CEO and a \$0.5 million decrease in non-cash share-based

compensation expense related to the absence of a CEO in the first six months of 2019. Administrative and other costs also decreased due to a \$0.8 million decrease in legal and professional services primarily related to a \$1.2 million decrease in legal fees from the negotiation of the settlement agreement with a large shareholder that occurred in the second quarter of 2018, partially offset by \$0.4 million increase in other legal and professional fees for the six months ended June 27, 2019, compared to the six months ended June 28, 2018. These decreases in administrative and other costs were partially offset by a \$0.3 million increase in CEO transition fees related to costs incurred in the six months ended June 27, 2019. Amounts recorded are based on the terms of the management services agreement which states NCM LLC pays NCM, Inc. service fees which are equal to the cost of NCM, Inc. employees and any reimbursable costs incurred by NCM, Inc.

Depreciation expense. Depreciation expense increased \$0.7 million, or 11.9%, from \$5.9 million for the six months ended June 28, 2018 to \$6.6 million for the six months ended June 27, 2019, primarily due to new fixed assets being placed into service in 2019, compared to 2018.

Amortization expense and Amortization of intangibles recorded for network theater screen leases. Amortization of the ESA and affiliate intangibles was \$13.9 million for the six months ended June 27, 2019 up from the \$13.6 million of amortization expense for the six months ended June 28, 2018. Following the adoption of ASC 842, as discussed within Note 1 to the unaudited Condensed Consolidated Financial Statements included elsewhere in this document, amortization of the ESA and affiliate intangible balances is considered a form of lease expense and has been reclassified from amortization expense to amortization of intangibles recorded for network theater screen leases as of the adoption date, December 28, 2018. The Company adopted ASC 842 prospectively and thus, prior period balances remain within amortization expense. The \$0.3 million increase was due to an increase in the underlying intangible asset balances following our annual common unit adjustment.

Non-operating expenses. Total non-operating expenses decreased \$1.0 million, or 3.5%, from \$28.9 million for the six months ended June 28, 2018 to \$27.9 million for the six months ended June 27, 2019. The following table shows the changes in non-operating expense for the six months ended June 27, 2019 and June 28, 2018 (in millions):

	Six Months Ended		\$ Change	% Change
	June 27, 2019	June 28, 2018	YTD 2019 to YTD 2018	YTD 2019 to YTD 2018
Interest on borrowings	\$ 28.6	\$ 27.9	\$ 0.7	2.5 %
Interest income	(0.1)	(0.2)	0.1	(50.0)%
(Gain) loss on early retirement of debt	(0.3)	1.2	(1.5)	(125.0)%
Other non-operating income	(0.3)	—	(0.3)	(100.0)%
Total non-operating expenses	\$ 27.9	\$ 28.9	\$ (1.0)	(3.5)%

The increase in non-operating expense was due primarily to a \$1.5 million increase related to the gain (loss) on early retirement of our debt, due primarily to the absence of a \$1.2 million loss on the extinguishment of debt related to the refinancing of the senior secured credit facility in the second quarter of 2018, partially offset by a \$0.7 million increase in interest on borrowings due to a 0.26% increase in the weighted average interest on borrowings driven by an increase in the LIBOR rate on our term loan for the six months ended June 27, 2019, compared to the six months ended June 28, 2018.

Net Income. Net income decreased \$1.4 million from \$22.0 million for the six months ended June 28, 2018 to \$20.6 million for the six months ended June 27, 2019. The decrease in net income was due to a \$2.6 million decrease in operating income, partially offset by a \$1.0 million decrease in non-operating expenses, as described above, and a \$0.2 million decrease in income tax expense for the six months ended June 27, 2019, compared to the six months ended June 28, 2018.

Known Trends and Uncertainties

Beverage Revenue—Under the ESAs, up to 90 seconds of the *Noovie* pre-show program can be sold to the founding members to satisfy their on-screen advertising commitments under their beverage concessionaire agreements. For the first three and six months of 2019 and 2018, two of the founding members purchased 60 seconds of on-screen advertising time and one founding member purchased 30 seconds to satisfy their obligations under their beverage concessionaire agreements. The founding members' current long-term contracts with their beverage suppliers require the 30 or 60 seconds of beverage advertising, although such commitments could change in the future. Should the amount of time required as part of these beverage concessionaire agreements decline, this premium time will be available for sale to other clients. Per the ESAs, the time sold to the founding member beverage supplier is priced equal to the advertising CPM for the previous year charged by us to unaffiliated third parties during segment one (closest to showtime) of the *Noovie* pre-show, limited to the highest advertising CPM being then-charged by us. Due to a 0.7% increase in segment one CPMs in 2018, the CPM on our beverage

concessionaire revenue increased during the first three months of 2019 by 0.7% and the remainder of 2019 will increase by an equivalent percentage.

Theater Access Fees—In consideration for our access to the founding members’ theater attendees for on-screen advertising and use of lobbies and other space within the founding members’ theaters for the LEN and lobby promotions, the founding members receive a monthly theater access fee under the ESAs. The theater access fee is composed of a fixed payment per patron and a fixed payment per digital screen (connected to the DCN). The payment per theater patron increases by 8% every five years, with the next increase occurring in fiscal year 2022. Pursuant to the ESAs, the payment per digital screen increases annually by 5%.

Financial Condition and Liquidity

Liquidity and Capital Resources

Our cash balances can fluctuate due to the seasonality of our business and related timing of collections of accounts receivable balances and operating expenditure payments, as well as available cash payments (as defined in the NCM LLC Operating Agreement) to our founding members and managing member and interest or principal payments on our term loan and the Notes due 2022 and Notes due 2026.

A summary of our financial liquidity is as follows (in millions):

	As of			\$ Change	
	June 27, 2019	December 27, 2018	June 28, 2018	Q1 2019 to YE 2018	Q2 2019 to Q2 2018
Cash and cash equivalents	\$ 4.5	\$ 7.2	\$ 8.3	\$ (2.7)	\$ (3.8)
Revolver availability (1)	143.2	143.2	140.0	—	3.2
Total liquidity	\$ 147.7	\$ 150.4	\$ 148.3	\$ (2.7)	\$ (0.6)

- (1) The revolving credit facility portion of our total borrowings is available, subject to certain conditions, for general corporate purposes of NCM LLC in the ordinary course of business and for other transactions permitted under the senior secured credit facility, and a portion is available for letters of credit. Our total capacity under the revolving credit facility was \$175.0 million as of June 27, 2019, December 27, 2018 and June 28, 2018. As of June 27, 2019, December 27, 2018 and June 28, 2018, the amount available under our revolving credit facility in the table above, was net of amount outstanding under the revolving credit facility of \$27.0 million, \$27.0 million and \$30.2 million, respectively, and net letters of credit of \$4.8 million in each respective period.

As of June 27, 2019, the weighted average remaining maturity of our debt was 4.8 years. As of June 27, 2019, approximately 68% of our total borrowings bear interest at fixed rates. The remaining 32% of our borrowings bear interest at variable rates and as such, our net income and earnings per share could fluctuate with market interest rate fluctuations that could increase or decrease the interest paid on our borrowings.

We have generated and used cash as follows (in millions):

	Six Months Ended	
	June 27, 2019	June 28, 2018
Operating cash flow	\$ 76.0	\$ 80.1
Investing cash flow	(5.4)	(7.2)
Financing cash flow	(73.3)	(69.2)

- **Operating Activities.** The \$4.1 million decrease in cash provided by operating activities for the six months ended June 27, 2019 compared to the six months ended June 28, 2018 was due primarily to 1) a decrease in the change in accounts receivable of \$9.8 million related to timing of collections in the first six months of 2019, compared to the first six months of 2018, 2) a \$2.8 million decrease accounts payable, accrued and other expenses due to timing and 3) a \$1.4 million decrease in non-cash share-based compensation expense related to the lower volume of awards, for the six months ended June 27, 2019, compared to the six month ended June 28, 2018. These decreases were partially offset by an \$10.6 million increase in cash provided by operating activities due to the reclassification in the current period of founding member integration and other encumbered theater payments from cash flows from financing activities upon adoption of ASC 842, as further discussed within Note 1 to the unaudited Condensed Financial Statements included elsewhere in this document.

- **Investing Activities.** The \$1.8 million decrease in cash used in investing activities for the six months ended June 27, 2019, compared to the six months ended June 28, 2018 was due primarily to a \$1.4 million increase in the proceeds from the notes receivable from the founding members for the six months of June 27, 2019, compared to the six months ended June 28, 2018.
- **Financing Activities.** The \$4.1 million increase in cash used in financing activities during the six months ended June 27, 2019, compared to the six months ended June 28, 2018 was due primarily to a \$24.2 million decrease in proceeds from borrowings, net of repayments, and an \$11.5 million decrease in cash inflows from financing activities due to the reclassification in the current period of founding member integration and other encumbered theater payments from cash flows from financing activities upon adoption of ASC 842, as further discussed within Note 1 to the unaudited Condensed Financial Statements included elsewhere in this document. These increases were partially offset by a \$24.5 million decrease in distributions to founding members, period over period, and a decrease of \$6.3 million in the payment of debt issuance costs related to the refinancing of the senior secured credit facility in the second quarter of 2018.

Sources of Capital and Capital Requirements

Our primary source of liquidity and capital resources includes cash from operations, availability under the revolving credit facility and cash on hand. Management believes that future funds generated from our operations and cash on hand should be sufficient to fund working capital requirements, our debt service requirements, opportunistic debt repurchases, and capital expenditures, through the next twelve months. Cash flows can be impacted by the seasonality of advertising sales, interest and repayments on borrowings under our credit agreements and to a lesser extent theater attendance. We are required pursuant to the terms of our operating agreement to distribute our available cash, as defined in the operating agreement, quarterly to our members (Regal, Cinemark, AMC and NCM, Inc.). The available cash distribution to the members of NCM LLC for the three months ended June 27, 2019 was approximately \$30.0 million. The Company will also continue to evaluate discretionary use of cash based on future expected leverage levels, NCM LLC investment opportunities and NCM, Inc. dividend policy.

Critical Accounting Policies

For a discussion of accounting policies that we consider critical to our business operations and understanding of our results of operations, and that affect the more significant judgments and estimates used in the preparation of our unaudited Condensed Financial Statements, see Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” contained in our annual report on Form 10-K filed for the fiscal year ended December 27, 2018 and incorporated by reference herein. As of June 27, 2019, there were no significant changes in those critical accounting policies except for the change in leases upon the adoption of ASC 842 in the first quarter of 2019 and discussed further within Note 6 – *Commitments and Contingencies*, to the unaudited Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, see the information provided under Note 1—*The Company* to the unaudited Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

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

Related Party Transactions

For a discussion of related party transactions, see the information provided under Note 4—*Related Party Transactions* to the unaudited Condensed Financial Statements in Part I, Item 1 of this Form 10-Q.

Off-Balance Sheet Arrangements

We do not believe the Company has any off-balance sheet arrangements that are material to our current or future financial condition, results of operations, liquidity, capital resources or capital expenditures.

Contractual and Other Obligations

See Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual and Other Obligations” contained in our annual report on Form 10-K for the fiscal year ended December 27, 2018 and incorporated by reference herein. There were no material changes to our contractual obligations during the six months ended June 27, 2019.

Seasonality

Our revenue and operating results are seasonal in nature, coinciding with the timing of marketing expenditures by our advertising clients and to a lesser extent the attendance patterns within the film exhibition industry. Both advertising expenditures and theater attendance tend to be higher during the second, third, and fourth fiscal quarters. Advertising revenue is primarily correlated with advertising clients' new product releases, advertising client marketing priorities and economic cycles and to a lesser extent theater attendance levels. Seasonal demand during the summer is driven by the absence of alternative attractive advertising mediums and during the winter holiday season due to high client demand across all advertising mediums. The actual quarterly results for each quarter could differ materially depending on these factors or other risks and uncertainties. Based on our historical experience, our first quarter typically has less revenue than the other quarters of a given year due primarily to lower advertising client demand and increased inventory availability in competitive advertising mediums. Accordingly, there can be no assurances that seasonal variations will not materially affect our results of operations in the future.

The following table reflects the quarterly percentage of total revenue for the fiscal years ended 2016, 2017 and 2018.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 2016	17.0%	25.8%	25.4%	31.8%
FY 2017	16.9%	22.8%	27.3%	33.0%
FY 2018	18.2%	25.8%	24.9%	31.1%

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary market risk to which we are exposed is interest rate risk. The Notes due 2022 and the Notes due 2026 are at fixed rates, and therefore are not subject to market risk. As of June 27, 2019, the only interest rate risk that we are exposed to is related to our \$175.0 million revolving credit facility and our term loan. A 100-basis point fluctuation in market interest rates underlying our term loan and revolving credit facility would have the effect of increasing or decreasing our cash interest expense by approximately \$3.0 million for an annual period on the \$27.0 million revolving credit balance and \$268.0 million term loan outstanding as of June 27, 2019. For a discussion of market risks, see Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" contained in our annual report on Form 10-K for the fiscal year ended December 27, 2018 and incorporated by reference herein.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer) of NCM, Inc., our manager, as appropriate to allow timely decisions regarding required disclosure. As of June 27, 2019, our management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 27, 2019 were effective.

In designing and evaluating our disclosure controls and procedures, management recognizes that any control, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

There were no changes to the Company's internal control over financial reporting that occurred during the quarter ended June 27, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

We are sometimes involved in legal proceedings arising in the ordinary course of business. We are not aware of any other litigation currently pending that would have a material adverse effect on our operating results or financial condition.

Item 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in our annual report on Form 10-K filed with the SEC on February 25, 2019 for the fiscal year ended December 27, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit</u>	<u>Reference</u>	<u>Description</u>
	31.1 *	Rule 13a-14(a) Certification of Chief Executive Officer.
	31.2 *	Rule 13a-14(a) Certification of Chief Financial Officer.
	32.1 **	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
	32.2 **	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Taxonomy Extension Schema Document
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

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.

NATIONAL CINEMEDIA, LLC

By: National CineMedia, Inc., its manager

Date: August 6, 2019

/s/ Thomas F. Lesinski

Thomas F. Lesinski
Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 6, 2019

/s/ Katherine L. Scherping

Katherine L. Scherping
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Thomas F. Lesinski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of National CineMedia, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Thomas F. Lesinski

Thomas F. Lesinski

Chief Executive Officer and Director

(Principal Executive Officer)

CERTIFICATIONS

I, Katherine L. Scherping, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of National CineMedia, LLC;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2019

/s/ Katherine L. Scherping

Katherine L. Scherping

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ending June 27, 2019 (the "Report") of National CineMedia, LLC (the "Registrant") as filed with the Securities and Exchange Commission on the date hereof, I, Thomas F. Lesinski, the Chief Executive Officer and Director of the Registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 6, 2019

/s/ Thomas F. Lesinski

Thomas F. Lesinski

Chief Executive Officer and Director

(Principal Executive Officer)

This certification is furnished with this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ending June 27, 2019 (the "Report") of National CineMedia, LLC (the "Registrant") as filed with the Securities and Exchange Commission on the date hereof, I, Katherine L. Scherping, the Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: August 6, 2019

/s/ Katherine L. Scherping

Katherine L. Scherping

Chief Financial Officer

(Principal Financial and Accounting Officer)

This certification is furnished with this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.