KOPIN CORP
Form 10-Q
March 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2007

OR

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

Commission file number 0-19882

KOPIN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2833935**
State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization	**Identification No.)**

200 John Hancock Rd., Taunton, MA	**02780-1042**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (508) 824-6696

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 filing requirements for the past 90 days. Yes ¨ No x

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

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨

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

Indicate the number of shares outstanding of each issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of March 14, 2008**
Common Stock, par value $.01	**71,043,391**

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EXPLANATORY NOTE REGARDING RESTATEMENTS

In this Quarterly Report on Form 10-Q (Form 10-Q), we are restating our condensed consolidated financial statements for the three and six month periods ended July 1, 2006. Contemporaneous with the filing of this Quarterly Report on Form 10-Q, we filed a Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 and an Annual Report on Form 10-K (Form 10-K) for the year ended December 30, 2006. In our Form 10-K filed with the Securities and Exchange Commission we restated our consolidated financial statements as of December 31, 2005 and for each of the years ended December 31, 2005 and 2004 and each of the quarters in 2005 and for the three month periods ended April 1, 2006 and July 1, 2006.

The restatement of our consolidated financial statements reflects the correction of the following errors, in accordance with Financial Accounting Standards Board (FASB) No. 154 *Accounting Changes and Error Corrections* :

1. stock-based compensation expense not previously recorded for certain stock-based awards for which the original accounting was deemed incorrect;

2. tax-related adjustments resulting from the above errors in stock option accounting; and

3. the recording of previously unrecorded adjustments not related to accounting for stock options that were previously deemed to be immaterial to our consolidated financial statements.

On November 1, 2006, in response to a derivative lawsuit filed against the Company related to the Company s employee stock option granting practices and accounting (see Part II Item I Legal Proceedings), our Board of Directors appointed a Special Investigation Committee of the Board of Directors, referred to as the Special Committee, composed solely of an independent director who was not on the Company s Board of Directors and who had no affiliation with the Company during the period between 1995 and 2005, to conduct a comprehensive investigation of our historical stock option practices.

Responding to the findings of the Special Committee, filed in a Form 8-K on May 9, 2007, we reviewed the measurement dates for stock option and nonvested restricted common share grants (collectively, stock-based awards) used in our historical financial reporting. We reviewed the measurement dates for all 19.8 million of our historical stock-based award grants and reviewed all available evidence for each grant during the period from January 1, 1995 through December 30, 2006, referred to as the Investigation Period.

Stock-based awards granted during the Investigation Period can be categorized as follows:

New Hire Employee Stock-Based Awards. Total awards made to new hire employees during the Investigation Period totaled 3.8 million.

All Other Stock-Based Awards to Non Officer Employees. Total awards made to non-officers excluding new hires during the Investigation Period totaled 6.4 million.

All Other Stock-Based Awards to Officers. Total awards made to officers excluding new hires during the Investigation Period totaled 7.9 million.

Director Stock-Based Awards. Total awards made to members of the Board of Directors during the Investigation Period totaled 1.4 million.

Consultant Awards. Total awards made to consultants during the Investigation Period totaled 265,000.

Certain of the stock-based awards granted during the Investigation Period had exercise prices that tended to be at a price towards the lower end of range of common stock prices over a 90 day period from the original grant date.

Impact of Restatement

For stock-based awards granted during the period January 1, 1995 through December 31, 2005 of the Investigation Period, the accounting principle applied under United States Generally Accepted Accounting Principles (US GAAP) was Accounting Principles Board Opinion No. 25

(APB 25), *Accounting for Stock Issued to Employees*. For stock-based awards granted during the period January 1, 2006 through December 30, 2006, of the Investigation Period we applied Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). APB 25 prescribed that there was a compensation element in a stock option award to an employee if the option exercise price was below the fair market value of the Company s stock on the measurement date. The measurement date is the date that the number of options the employee was to receive and the option exercise price were known. We typically accounted for all stock-based awards to new hires, employees, officers and directors, through December 31, 2005 under APB 25 using the stated grant date as the measurement date. We typically issued stock options with an exercise price equal to the fair market value of our common stock on the recorded

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grant date, and therefore recorded no stock-based compensation expense. We recorded compensation expense for awards of restricted common shares for the fair value of the common shares on the grant date over the vesting period. We refer to the measurement date used when the stock-based award was granted during the Investigation Period as the Original Measurement Date. If, as a result of our option review, we used a different measurement date than the Original Measurement Date to determine if there was an element of compensation expense in a stock-based award, we referred to the new measurement date as the Revised Measurement Date.

We reviewed 14.3 million stock-based awards granted to officers and non-officers (excluding new hires, consultant and Board of Directors awards which are addressed below) to verify that the terms of the awards were approved and known with finality on the Original Measurement Date. We determined that for 11.5 million stock-based awards the number of shares was not known with finality on the Original Measurement Date. In those situations where we had either not completed the process of determining the number of stock options a particular employee was to receive or the administrative process was not finished on the Original Measurement Date, a compensation charge is required to reflect the difference between the exercise price of the stock-based award and the stock price (when it exceeds the exercise price) on the date the determination or process was completed. We recorded compensation expense of $33.6 million, excluding income tax effects, in connection with the restatement described above.

We reviewed 3.8 million stock-based awards granted to new hires to verify that the grant date was the same date as the date that the individual met the definition of an employee, generally the employee start date. We identified instances where employees did not start on their anticipated start date per their offer letter but commenced employment at a later date; however the option was granted based on the anticipated start date included in their offer letter. Compensation expense is required to reflect the difference between the exercise price of the stock option and the stock price on the employee start date. We identified 718,000 options following this pattern and recorded compensation expense of $0.6 million, excluding income tax effects, in connection with the restatement described above. We identified one situation where an offer letter gave the employee an option to purchase 120,000 shares of our common stock with an exercise price equal to our common stock price on the date he commenced employment but we incorrectly granted the option with an exercise price equal to our common stock price on the date we made the offer of employment. We recorded compensation expense of $1.0 million, excluding income tax effects, in connection with the restatement described above. We identified one situation where the employment offer letter gave the prospective employee an option to purchase 400,000 shares of our common stock at an exercise price equal to our common stock price on the date the employment offer letter was accepted. In this situation, compensation expense should have been recorded to reflect the difference between the exercise price and our common stock price on the date employment commenced. We recorded compensation expense of $0.4 million, excluding income tax effects, in connection with the restatement described above.

We reviewed 265,000 stock option awards granted to consultants. We identified five grants to consultants totaling 205,000 options, which we accounted for incorrectly and we recorded compensation expense of $1.8 million, excluding income tax effects, in connection with the restatement described above. Of the $1.8 million of compensation expense, $1.6 million related to two grants made in January of 1996. We originally accounted for these consultant awards under APB 25 and recorded no compensation expense for these awards.

We also reviewed 1.4 million stock-based awards to members of the Board of Directors. We identified two awards of 300,000 options for which we recorded compensation expense of approximately $30,000, excluding income tax effects, as the result of an inconsistent pricing practice.

All financial information contained in this quarterly report gives effect to the restatements of our consolidated financial statements as described above. We have not amended, and we do not intend to amend, our previously filed annual reports or quarterly reports for each of the fiscal years and fiscal quarters of 1995 through 2005, and for the first two fiscal quarters of the fiscal year ended December 30, 2006. Financial information included in reports previously filed or furnished by us for the periods from fiscal 1995 through July 1, 2006 should not be relied upon and are superseded by the information in this quarterly report.

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Part 1: FINANCIAL INFORMATION

Item 1: Condensed Consolidated Financial Statements

KOPIN CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2007	December 30, 2006
ASSETS		
Current assets:		
Cash and equivalents	$ 22,775,444	$ 27,907,656
Marketable securities, at fair value	76,839,111	77,452,635
Accounts receivable, net of allowance of $211,585 and $227,680 in 2007 and 2006	9,392,923	9,691,937
Accounts receivable from unconsolidated affiliates	2,392,090	1,461,118
Unbilled receivables	294,925	830,594
Prepaid taxes	791,928	799,336
Inventory	15,173,852	11,848,499
Prepaid expenses and other current assets	1,767,175	1,345,658
Total current assets	129,427,448	131,337,433
Property, plant and equipment	20,423,339	17,354,527
Other assets	13,050,569	12,721,358
Total assets	$ 162,901,356	$ 161,413,318
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 12,670,304	$ 7,688,865
Accounts payable to unconsolidated affiliates	952,877	616,194
Accrued payroll and expenses	2,666,119	2,102,447
Accrued warranty	1,030,000	1,030,000
Billings in excess of revenue earned	159,267	159,267
Other accrued liabilities and professional fees	4,358,888	3,621,727
Total current liabilities	21,837,455	15,218,500
Asset retirement obligations	788,997	772,197
Minority interest in subsidiary	3,273,075	4,457,724
Commitments and contingencies		
Stockholders equity:		
Preferred stock, par value $.01 per share: authorized, 3,000 shares; none issued		
Common stock, par value $.01 per share: authorized, 120,000,000 shares; issued 72,019,365 shares in 2007 and 71,926,641 shares in 2006 Outstanding 67,526,260 in 2007 and 67,427,911 in 2006	711,417	710,434
Additional paid-in capital	307,160,531	305,650,043
Treasury stock (3,615,480 shares at cost in 2007 and 2006)	(14,552,865)	(14,552,865)
Accumulated other comprehensive income	3,920,994	2,945,098
Accumulated deficit	(160,238,248)	(153,787,813)

Total stockholders equity	137,001,829	140,964,897
Total liabilities and stockholders equity	$ 162,901,356	$ 161,413,318

See notes to condensed consolidated financial statements

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KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006 (As Restated- See Note 2)	June 30, 2007	July 1, 2006 (As Restated- See Note 2)
Revenues:				
Product revenues	$ 21,278,494	$ 18,056,429	$ 39,154,987	$ 35,002,364
Research and development revenues	591,534	808,759	844,522	2,552,686
	21,870,028	18,865,188	39,999,509	37,555,050
Expenses:				
Cost of product revenues	18,801,078	12,800,731	34,031,181	25,726,890
Research and development	2,729,275	2,549,900	5,165,108	5,455,558
Selling, general, and administrative	4,474,251	4,064,081	9,388,006	7,748,436
	26,004,604	19,414,712	48,584,295	38,930,884
Loss from operations	(4,134,576)	(549,524)	(8,584,786)	(1,375,834)
Other income and (expense):				
Interest income	1,148,078	1,189,684	2,314,014	2,368,713
Other income	26,748	32,041	45,079	32,041
Gain on sale of Micrel common stock		1,208,000		1,208,000
Foreign currency transaction (losses) gains	(115,479)	(143,357)	(18,800)	(480,925)
Interest and other expense	(8,489)	(23,780)	(43,681)	(34,908)
	1,050,858	2,262,588	2,296,612	3,092,921
(Loss) income before income taxes, minority interest in loss of subsidiary and equity loss in unconsolidated affiliate	(3,083,718)	1,713,064	(6,288,174)	1,717,087
(Provision) benefit for income taxes	(45,179)	(14,068)	(90,358)	27,932
(Loss) income before minority interest in loss of subsidiary and equity loss in unconsolidated affiliate	(3,128,897)	1,698,996	(6,378,532)	1,745,019
Minority interest in loss of subsidiary	18,121	80,852	14,539	249,662
Equity loss in unconsolidated affiliates	(40,833)	(106,380)	(86,441)	(378,103)
Net (loss) income	$ (3,151,609)	$ 1,673,468	$ (6,450,434)	$ 1,616,578
(Loss) income per share:				
Basic	$ (0.05)	$ 0.02	$ (0.10)	$ 0.02
Diluted	$ (0.05)	$ 0.02	$ (0.10)	$ 0.02
Weighted average number of common shares outstanding:				
Basic	67,526,233	68,268,009	67,497,114	68,525,537
Diluted	67,526,233	68,335,065	67,497,114	68,559,066

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	July 1, 2006 (As Restated- See Note 2)	June 30, 2007	July 1, 2006 (As Restated- See Note 2)
Net (loss) income	$ (3,151,609)	$ 1,673,468	$ (6,450,434)	$ 1,616,578
Foreign currency translation adjustments	676,945	(2,301,711)	471,259	705,880
Unrealized holding gain (loss) on marketable securities	185,417	213,138	504,637	(1,308,233)
Comprehensive (loss) income	$ (2,289,247)	$ (415,105)	$ (5,474,538)	$ 1,014,225

See notes to condensed consolidated financial statements

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KOPIN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30, 2007	July 1, 2006 (As Restated-See Note 2)
Cash flows from operating activities:		
Net (loss) income	$ (6,450,434)	$ 1,616,578
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,709,036	1,727,451
Amortization of interest premium or discount	94,622	144,189
Minority interest in income (loss) of subsidiary	(14,539)	(249,662)
Equity loss in unconsolidated affiliate	86,441	378,103
Net gain on investment activity		(1,208,000)
Stock based compensation	1,231,593	1,422,338
Change in other non-cash items	16,600	
Changes in assets and liabilities:		
Accounts receivable	440,715	(1,789,854)
Inventory	(3,279,513)	1,101,748
Prepaid expenses and other current assets	(904,119)	224,740
Accounts payable and accrued expenses	5,720,660	(4,520,999)
Billings in excess of revenue earned		(17,718)
Net cash used in operating activities	(1,348,938)	(1,171,086)
Cash flows from investing activities:		
Proceeds from sale of marketable securities	10,496,736	19,124,914
Purchases of marketable securities	(9,865,181)	(13,906,502)
Other assets	(23,211)	(114,005)
Investment in KoBrite and other equity investments	(980,118)	(2,500,000)
Capital expenditures	(3,871,596)	(2,831,318)
Net cash used in investing activities	(4,243,370)	(226,911)
Cash flows from financing activities:		
Treasury stock purchases		(4,718,136)
Proceeds from exercise of stock options	279,878	277,762
Net cash provided by (used in) in financing activities	279,878	(4,440,374)
Effect of exchange rate changes on cash	180,218	673,793
Net decrease in cash and equivalents	(5,132,212)	(5,164,578)
Cash and equivalents:		
Beginning of period	27,907,656	31,502,645
End of period	$ 22,775,444	$ 26,338,067

Supplemental disclosure of cash flow information:

Cash paid during the period for income taxes	$	62,000	$	345,000
Supplemental schedule of noncash investing activities**:**				
Construction in progress included in accrued expenses	$	829,000	$	1,070,000

See notes to condensed consolidated financial statements.

KOPIN CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements for the three and six months ended June 30, 2007 and July 1, 2006 are unaudited and include all adjustments, which, in the opinion of management, are necessary to present fairly the results of operations for the periods then ended. All such adjustments are of a normal recurring nature.

These condensed consolidated financial statements should be read in conjunction with the Company s annual consolidated financial statements and notes thereto.

The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for any other interim period or for a full fiscal year.

The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and Kowon Technology Co., Ltd. (Kowon), a majority owned (78%) subsidiary located in Korea. All intercompany transactions and balances have been eliminated.

2. RESTATEMENT OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On November 1, 2006, in response to a derivative lawsuit filed against the Company, the Board of Directors established a Special Investigation Committee (the Special Committee) to review its historical stock-based awards granting practices (the Internal Review) and accounting.

As a result of the Internal Review, the Company determined that during the period from January 1, 1995 through December 30, 2006 (the Investigation Period), the Company i) applied incorrect measurement dates in the accounting for certain stock-based awards and ii) incorrectly accounted for certain stock options that should have been recorded under Emerging Issues Task Force (EITF) 96-18: *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* . Accordingly, the Company has restated the accompanying condensed consolidated financial statements for the periods ended July 1, 2006 to record additional stock-based compensation to correctly account for its stock-based awards and related payroll tax adjustments. The Company has also corrected in periods prior to fiscal 2006 other previously unrecorded misstatements not related to the accounting for stock-based awards previously deemed to be immaterial.

Stock-Based Compensation Adjustments

For stock-based awards granted during the period January 1, 1995 through December 31, 2005, the accounting principle applied under United States Generally Accepted Accounting Principles (US GAAP) was Accounting Principles Board Opinion No. 25 (APB 25), *Accounting for Stock Issued to Employees*. For stock-based awards granted during the period January 1, 2006 through December 30, 2006, the Company applied Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R). APB 25 prescribed that there was a compensation element in a stock option award to an employee if the option exercise price was below the fair market value of the Company s stock on the measurement date. The measurement date is the date that the number of options the employee was to receive and the option price were known. The Company typically accounted for all stock-based awards to new hires, employees, officers and directors, through December 31, 2005 under APB 25 using the grant date as the measurement date. The Company typically issued stock options with an exercise price equal to the fair market value of its common stock on the recorded grant date, and therefore recorded no stock-based compensation expense. The Company recorded compensation expense for awards of restricted common shares for the fair value of the award on the grant date over the vesting period. The measurement date used when the stock-based award was granted during the Investigation Period is referred to as the Original Measurement Date. If, as a result of its option review, the Company used a different measurement date other than the Original Measurement Date to determine if there was an element of compensation expense in a stock-based award, the new measurement date is referred to as the Revised Measurement Date.

As a result of the Special Committee s findings and the Company s own further review of its stock-based award granting practices, it was determined that the measurement dates for certain stock-based awards differed from the recorded grant dates for such grants. In some instances, the Company was only able to locate sufficient evidence to identify the measurement date described in APB 25, the first date on which both the number of shares that an individual employee was entitled to receive and the exercise price were known, within a range of possible dates. As a result, the Company developed a

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framework to determine the Revised Measurement Date using the best available evidence of the date on which both the number of shares that an individual employee was entitled to receive and the exercise price were known with finality. The information used to identify the Revised Measurement Dates for new hire stock-based awards was available in the respective offer letters and personnel files. For all other awards the Company used the minutes of the Board of Director meetings, minutes of the Compensation Committee meetings, written consents of the Board of Directors and Compensation Committee, emails, spreadsheets, Form 4 filings with the SEC, and other accounting records to identify the Revised Measurement dates.

The methodology the Company used to determine the Revised Measurement Dates associated with prior stock-based awards was as follows:

New Hire Employee Stock Based Awards. The Company determined that the Original Measurement Date was actually the anticipated employment commencement date documented in the employment offer letter and not the actual commencement date for 718,000 options granted to new hire employees. The Company determined the Revised Measurement Date for each of these grants to be the date the employee actually commenced employment with the Company.

All Other Stock-Based Awards to Non Officers. The Company determined that the Original Measurement Date could not be relied on for 6.2 million of the 6.4 million stock-based awards granted to non-officer employees because the criteria for measurement date for the awards had not been met under US GAAP then applicable at the Original Measurement Date. The Company determined the Revised Measurement Date for each stock-based award to non officer employees, other than grants of new hire employee stock-based awards, based upon the following decision matrix which factored in all available evidence. The decision matrix contemplates the strength of the available evidence in supporting the finality of the granting process. If the criteria described below in a particular bullet point was satisfied then the date derived from the information reviewed under that bullet point was the date chosen as the Revised Measurement Date; if not, the Company proceeded to the next bullet point criteria.

- If the fully executed minutes of the Board of Director or Compensation Committee meetings documented the grantee, the number of stock-based awards they were to receive and the exercise price, the Revised Measurement Date was the date of the fully executed minutes, which was the same as the Original Measurement Date. 137,000 stock-based awards met this criteria.

- If a fully executed written consent of the Board of Directors or Compensation Committee documented the grantee, the number of stock-based awards they were to receive and the exercise price, the Revised Measurement Date was the date of the last signature from a Board member or Compensation Committee member on the fully executed consent. The Company used this criteria to determine the Revised Measurement Date for 420,000 stock-based awards.

- If documentation from the Company s third party stock option plan administrator documented the grantee, the number of stock-based awards they were to receive and the exercise price, the Revised Measurement Date was the date of such documentation. The Company used this criteria to determine the Revised Measurement Date for 207,000 stock-based awards.

- If documentation in the form of a final accounting spreadsheet contained the grantee, the number of stock option awards they were to receive and the exercise price for a significant percentage (defined as containing approximately 90% or more of the total award made to all employees and officers) of employees, the Revised Measurement Date was the date of such documentation. The Company used this criteria to determine the Revised Measurement Date for 1.0 million stock-based awards.

- If documentation from one of the Company s product line general managers contained the grantee, the number of stock-based awards they were to receive and the exercise price for a significant percentage of the pool for that division and the total pool was approved by the Board of Directors or the Compensation Committee, the Revised Measurement Date was the date of such documentation. The Company was unable to locate concurrent documentation of the allocation of the pool for both of its product line divisions. Therefore, the Company evaluated whether the evidence of the allocation of the pool for one of the product line divisions was substantially complete, as based on the Company s process both divisions would have been finalizing their allocation at the same time. The Company defined substantially complete as approximately 90% or more of the total awards for the product line division were finalized. If the evidence supporting the allocation of the pool for one of the product line divisions was substantially complete,

the Company assumed the Revised Measurement Date was the same for both product line divisions. The Company used this criteria to determine the Revised Measurement Date for 2.6 million stock-based awards.

If documentation in the form of Company records used to support the annual Form 10-K filings documented the grantee, the number of stock-based awards they were to receive and the exercise price the Revised Measurement Date was the date of the filing of the Form 10-K. The Company used this criteria to determine the Revised Measurement Date for 1.9 million stock-based awards.

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All Other Stock-Based Awards to Officers. The Company determined that, for 5.3 million of the 7.9 million stock-based awards to Officers, the Original Measurement Date could not be relied on because the criteria for a measurement date had not been met under US GAAP then applicable at the Original Measurement Date. The Company determined the Revised Measurement Date for each stock-based award to officers, other than grants of new hire employee stock-based awards, based upon the following decision matrix which factored in all available evidence. The Company assumed that the Revised Measurement Date for stock-based awards granted to Group B officers was the same as for Group A officers unless the evidence indicated otherwise. The decision matrix contemplates the strength of the available evidence in supporting the finality of the granting process. If the criteria described below in a particular bullet point was satisfied then the date derived from the information reviewed under that bullet point was the date chosen as the Revised Measurement Date, if not, Company proceeded to the next bullet point criteria.

- If the fully executed minutes of the Board of Director or Compensation Committee meetings documented the grantee, the number of stock-based awards they were to receive and the exercise price, the Revised Measurement Date was the date of the fully executed minutes, which was the same as the Original Measurement Date. 2.6 million stock-based awards met this criteria.

- If a fully executed consent of the Board of Directors or Compensation Committee documented the grantee, the number of stock-based awards they were to receive and the exercise price, the Revised Measurement Date was the date of the last signature from a Board member or Compensation Committee member on the fully executed consent. The Company used this criteria to determine the Revised Measurement Date for 460,000 stock-based awards.

- If the fully executed minutes of the Board of Director or Compensation Committee meetings subsequently documented or clarified the grantee and the number of stock-based awards they were to receive and the exercise price which were discussed in Compensation Committee minutes of a prior date, the Revised Measurement Date was the date of the clarifying Board of Director meeting. The Company used this criteria to determine the Revised Measurement Date for 2.8 million stock-based awards.

- If documentation in the form of a final accounting spreadsheet contained the grantee, the number of stock option awards they were to receive and the exercise price for a significant percentage (defined as containing approximately 90% or more of the total awards to employees and officers) of employees, the Revised Measurement Date was the date of such documentation. The Company used this criteria to determine the Revised Measurement Date for 500,000 stock-based awards.

- If a Form 4 was filed with the Securities and Exchange Commission documented the grantee and the number of stock-based awards they were to receive and the exercise price, the Revised Measurement Date was generally the filing date of the Form 4. The Company used this criteria to determine the Revised Measurement Date for 1.5 million stock-based.

Director Stock-Based Awards. The 1997 Directors Stock Option Plan (the Directors Plan), which terminated in 2002, provided for the automatic grant of stock options to the Company s outside directors, such that the grants require no independent action of the Board of Directors or any committee of the Board of Directors. The Directors Plan permits the issuance of stock options with an exercise price of either the closing price of the Company s stock on the day before the grant or the closing price of the Company s stock on the day of grant. The Company identified two awards totaling 300,000 options where the exercise price of the award was the previous day s closing price.

The Compensation Committee also made one award to a Director as an incentive to assist management in increasing the value of the Company. The Company could not locate documents which described the specific services the Director was to perform and accordingly this grant was treated as a non employee grant.

Applying the methodology described above, the Company calculated stock-based compensation expense for periods prior to fiscal 2006 under APB 25 based upon the intrinsic value on the Revised Measurement Dates of stock-based awards to new hires, officers, non-officers and directors and the vesting provisions of the underlying stock-based award. The Company calculated the intrinsic value on the Revised Measurement Date as the closing price of the Company s common stock on such date as reported on the Nasdaq National Market, now the Nasdaq Global Market (NASDAQ), less the exercise price per share of common stock, multiplied by the number of shares subject to such stock-based award. These amounts are recognized as compensation expense over the vesting period of the underlying stock-based award (generally four years). The Company also determined that EITF Issue 96-18: *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* should have been applied for certain stock-based awards to

consultants in 1996. Under EITF 96-18, the Company remeasures, and reports in its consolidated statement of operations, the intrinsic value of the options at the end of each reporting period until the measurement date which is the date the options vest.

In applying the methodologies above, if the Company s stock price on the Revised Measurement Date was lower than the original grant price no compensation expense adjustment was recorded. The equity award plans under which the stock

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based awards discussed above were granted allow for the Board of Directors or its designee to issue stock options of the Company with an exercise price they choose, however, for a stock option to qualify as an incentive stock option the plan contains certain rules which are believed to be consistent with the requirements of the Internal Revenue Service. These rules essentially require that the equity awards be made at fair value on the date of grant, which is interpreted to be the previous day s closing price or the current day s closing price of the Company s common stock on NASDAQ. The Company has primarily used the current day s close price in determining the exercise price of stock options. When applying the methodologies above if an option was granted at the previous day s closing price the Company recorded compensation expense for the difference between the previous day s closing price and the closing price on the date of grant.

As a result the Company recorded additional stock-based compensation in the three and six month periods ended July 1, 2006 of $20,000 and $41,000, respectively.

Tax Adjustments

Withholding Taxes

In addition to the stock-based compensation charges, amounts have also been recorded for tax-related expense related to the stock-based awards. The Company has determined that numerous stock options previously classified as incentive stock options (ISO) did not meet the criteria to qualify as ISOs since they were issued in the money based on the Revised Measurement Dates. As the Company mistakenly believed those options were ISOs, the Company did not withhold and pay certain employee income and payroll taxes on their exercise. Consequently, the Company has recorded additional expense, along with penalties and interest, in the periods of exercise. These expenses have been reversed in the period when the statute of limitations expires. Tax-related liabilities related to the disqualification of the ISO status of stock options and withholding taxes were approximately $80,000 as of June 30, 2007 and December 30, 2006.

Section 409A

Under Section 409A of the Internal Revenue Code (Section 409A), individuals who received option grants with an exercise price below the fair market value of the underlying stock at the Revised Measurement Date may be subject to additional taxes and interest with respect to options that vest after December 25, 2004. Absent corrective action by December 31, 2008 (or exercise, if earlier) holders of these stock options will be required to recognize ordinary income for federal income tax purposes as those options vest. Pursuant to interim Internal Revenue Service guidance, applicable to 2005 and 2006, the income is calculated as the difference between the fair market value of the underlying stock and the exercise price as of December 31 of the year of vesting. The individual must also recognize, in each subsequent year until the option is fully exercised or expires, ordinary income equal to the excess of the fair market value of the underlying stock over the sum of the exercise price and any previously recorded income. In addition to ordinary income taxes, an additional 20% penalty tax on the resulting ordinary income is levied on the individual, plus in certain instances interest on any tax to be paid. Certain states (e.g. California) take or may take the position that some or all of the same consequences, including the 20% penalty tax, will also apply for state purposes.

The Company intends to reimburse its employees and former employees the additional taxes arising under Section 409A due to the exercise of certain stock options in 2006. As a result, the Company anticipates incurring expenses of approximately $10,000. In order to avoid future tax consequences of 409A, the Company anticipates executing a tender offer to repurchase options which will give rise to taxes under 409A following the filing of this Form 10-Q. The Company estimates the aggregate cash payments to option holders under the program to be in the range of $200,000 to $500,000.

Income Taxes

Due to the Company s net operating loss position and full valuation against deferred tax assets there was no income tax impact related to this restatement.

Other Adjustments

The Company corrected the statement of cash flows for the six month period ended July 1, 2006 to reflect construction in progress accrued but not paid at end of the period as a non-cash item.

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Statement of Operations Adjustments

The following tables reconcile the amounts previously reported in the Company s unaudited consolidated statements of operations for the three and six months ended July 1, 2006 to the corresponding restated amounts, which reflect the restatement adjustments previously described (in thousands, except per share data):

Three months ended July 1, 2006

	As previously reported	Adjustments	As restated
	(In thousands, except per share data)		
Statement of operations			
Revenues:			
Net product revenue	$ 18,117	$ (61)	$ 18,056
Research and development revenues	809		809
Total revenues	18,926	(61)	18 865
Expenses:			
Cost of product revenues	12,792	8	12,800
Research and development	2,541	9	2,550
Selling, general, and administration	3,940	124	4,064
Total operating expenses	19,273	141	19,414
Loss from operations	(347)	(202)	(549)
Other income and expense:			
Interest income	1,190		1,190
Other income	32		32
Gain on sale of Micrel common stock	1,208		1,208

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	As previously reported	Adjustments	As restated
	(In thousands, except per share data)		
Foreign currency transaction losses	(143)		(143)
Interest and other expense	(24)		(24)
	2,263		2,263
Income before income taxes, minority interest in loss of subsidiary and equity loss in unconsolidated affiliate	1,916	(203)	1,713
Income tax provision	(14)		(14)
Income before minority interest in loss of subsidiary and equity loss in unconsolidated affiliate	1,902	(203)	1,699
Minority interest in loss of subsidiary	81		81
Equity losses in unconsolidated affiliate	(106)		(106)
Net income	$ 1,877	$ (203)	$ 1,674
Net income per share:			
Basic	$ 0.03	$ (0.01)	$ 0.02
Diluted	$ 0.03	$ (0.01)	$ 0.02
Shares used in computing net income per share:			
Basic	68,268		68,268
Diluted	68,565	(230)	68,335

Six months ended July 1, 2006

	As previously reported	Adjustments	As restated
	(In thousands, except per share data)		
Statement of operations			
Revenues:			
Net product revenue	$ 35,064	(61)	$ 35,003
Research and development revenues	2,553		2,553
Total revenues	37,617	(61)	37,556
Expenses:			
Cost of product revenues	25,709	18	25,727
Research and development	5,439	17	5,456
Selling, general, and administration	7,508	240	7,748
Total operating expenses	38,656	275	38,931
Loss from operations	(1,039)	(336)	(1,375)
Other income and expense:			
Interest income	2,369		2,369
Other income	32		32
Gain on sale of Micrel common stock	1,208		1,208
Foreign currency transaction (losses) gains	(481)		(481)
Interest and other expense	(35)		(35)
	3,093		3,093
Income before income taxes, minority interest in loss of subsidiary and equity loss in unconsolidated affiliate	2,054	(336)	1,718

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	As previously reported	Adjustments	As restat
	(In thousands, except per share		
enefit for come tax	28		2
come before inority terest in loss subsidiary d equity loss nconsolidated filiate	2,082	(336)	1,74
inority terest in loss subsidiary	250		25
quity loss in nconsolidated filiate	(378)		(37
et Income	$ 1,954	$ (336)	$ 1,61
et loss per are:			
asic			

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In thousands, except share and per share data

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

20. Commitments and Contingencies

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

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

21. Subsequent Event Share Exchange with Minority Partners

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

During July 2008, the Company s partners in Ecuador (the Ecuador Partners) exercised an option available to them under an Exchange Option Agreement dated April 24, 2007 between the Company and the Ecuador Partners. Under this option, which was triggered by completion of an initial public offering of common stock by the Company, the Ecuador Partners are entitled to exchange their shares

in Cinemark del Ecuador S.A. for shares of the Company s common stock. The number of shares to be exchanged is determined based on the Company s equity value and the equity value of the Ecuador Partner s interest in Cinemark del Ecuador S.A., both of which are defined in the Exchange Option Agreement. As a result of this exchange, the Company will issue 393,615 shares of its common stock to its Ecuador partners. The exchange of shares occurred during November 2008. The Company will account for the transaction as a step acquisition. The purchase price of the shares in Cinemark del Ecuador S.A. will be recorded based on the fair value of the shares issued plus related transaction costs. Prior to the exchange, the Company owned 60% of the shares in Cinemark del Ecuador S.A. and subsequent to the exchange, the Company owns 100% of the shares in Cinemark del Ecuador S.A.

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CINEMARK HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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22. Subsequent Event Termination of Existing Interest Rate Swap Agreement and New Interest Rate Swap Agreement

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

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

23. Subsequent Event Repurchases of Senior Discount Notes

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

24. Subsequent Event Dividend Declaration

On November 6, 2008, the Company s board of directors declared a cash dividend in the amount of $0.18 per common share payable to stockholders of record on November 26, 2008. The dividend will be paid on December 11, 2008.

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

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

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

We generate revenues primarily from box office receipts and concession sales with additional revenues from screen advertising sales and other revenue streams, such as vendor marketing programs, pay phones, ATM machines and electronic video games located in some of our theatres. Our investment in NCM has assisted us in expanding our offerings to advertisers, exploring ancillary revenue sources such as digital video monitor advertising, third party branding, and the use of theatres for non-film events. In addition, we are able to use theatres during non-peak hours for concerts, sporting events, and other cultural events. Successful films released during the nine months ended September 30, 2008 included *Iron Man, Indiana Jones and the Kingdom of the Crystal Skull, Hancock, Kung Fu Panda, WALL-E, Horton Hears a Who, Sex and the City, Mamma Mia, Tropic Thunder, Eagle Eye,* and the record-breaking *Dark Knight,* which grossed over $500 million in domestic box office. Film releases scheduled for the remainder of 2008 include *Beverly Hills Chihuahua, High School Musical 3, Quantum of Solace, Madagascar: Escape 2 Africa, Twilight, The Day the Earth Stood Still, Bedtime Stories, Seven Pounds* and the release of the 3-D movie *Bolt.* In 2009, a broad slate of 3-D films is expected, including *Monsters vs. Aliens, Ice Age 3: Dawn of the Dinosaurs, Avatar* and Disney s next Pixar installment, *Up.* Our revenues are affected by changes in attendance and average admissions and concession revenues per patron. Attendance is primarily affected by the quality and quantity of films released by motion picture studios.

Film rental costs are variable in nature and fluctuate with our admissions revenues. Film rental costs as a percentage of revenues are generally higher for periods in which more blockbuster films are released. Film rental costs can also vary based on the length of a film s run. Film rental rates are negotiated on a film-by-film and theatre-by-theatre basis. Advertising costs, which are expensed as incurred, are primarily fixed at the theatre level as daily movie directories placed in newspapers represent the largest component of advertising costs. The monthly cost of these advertisements is based on, among other things, the size of the directory and the frequency and size of the newspaper s circulation.

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

Although salaries and wages include a fixed cost component (i.e. the minimum staffing costs to operate a theatre facility during non-peak periods), salaries and wages move in relation to revenues as theatre staffing is adjusted to address changes in attendance.

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

Utilities and other costs include certain costs that are fixed such as property taxes, certain costs that are variable such as liability insurance, and certain costs that possess both fixed and variable components such as utilities, repairs and maintenance and security services.

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Recent Developments

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

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

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

On November 6, 2008, our board of directors declared a cash dividend in the amount of $0.18 per common share payable to stockholders of record on November 26, 2008. The dividend will be paid on December 11, 2008.

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Results of Operations

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

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

(1) Excludes depreciation and amortization expense.

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

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Three months ended September 30, 2008 and 2007

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

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

[1] U.S. operating segment revenues include eliminations of intercompany transactions with the international operating segment. See Note 18 of our

condensed
consolidated
financial
statements.

Consolidated. The increase in admissions revenues of $0.5 million was primarily attributable to a 4.5% increase in average ticket price from $5.11 for the third quarter of 2007 to $5.34 for the third quarter of 2008, partially offset by a 4.0% decline in attendance. The increase in concession revenues of $1.8 million was primarily attributable to a 5.4% increase in concession revenues per patron from $2.40 for the third quarter of 2007 to $2.53 for the third quarter of 2008, partially offset by the decline in attendance. The increases in average ticket price and concession revenues per patron were primarily due to price increases and the favorable impact of exchange rates in certain countries in which we operate. The 12.5% increase in other revenues was primarily due to increased screen advertising and other ancillary revenues in certain of our international locations and the favorable impact of exchange rates in certain countries in which we operate.

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

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

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

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

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

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

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

quarter of 2007.

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

International. Film rentals and advertising costs were $36.8 million, or 50.3% of admissions revenues, for the third quarter of 2008 compared to $29.7 million, or 50.3% of admissions revenues, for the third quarter of 2007. Concession supplies expense was $8.9 million, or 26.5% of concession revenues, for the third quarter of 2008 compared to $6.5 million, or 24.7% of concession revenues, for the third quarter of 2007. The increased rate was primarily due to increases in product costs from some of our concession suppliers.

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

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

General and Administrative Expenses. General and administrative expenses increased to $22.7 million for the third quarter of 2008 from $20.6 million for the third quarter of 2007. The increase was primarily due to increased incentive compensation expense, increased share based award compensation expense, increased service charges related to increased credit card activity and increased professional fees.

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

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

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

Interest Expense. Interest costs incurred, including amortization of debt issue costs, were $27.6 million for the third quarter of 2008 compared to $35.0 million for the third quarter of 2007. The decrease was primarily due to the repurchase of a portion of our 9 3/4% senior discount notes since the third quarter of 2007 and a reduction in the variable interest rates on a portion of our long-term debt. In addition, during the third quarter of 2008, we recorded a gain of approximately $3.3 million related to the change in fair value of one of our interest rate swap agreements. See Note 11 to our condensed consolidated financial statements for further discussion of our interest rate swap agreements.

Interest Income. We recorded interest income of $3.8 million during the third quarter of 2008 compared to $5.6 million during the third quarter of 2007. The decrease was primarily due to lower interest rates earned on our cash investments.

Loss on Early Retirement of Debt. We recorded a loss on early retirement of debt of $3.6 million during the third quarter of 2007, which consisted of repurchase costs, including premiums paid and other fees, and the write-off of unamortized debt issue costs associated with the repurchase of approximately $47.0 million aggregate principal amount at maturity of our 9 3/4% senior discount notes. See Note 10 to our condensed consolidated financial statements.

Distributions from NCM. We recorded distributions from NCM of $3.6 million during the third quarter of 2008 and $4.4 million during the third quarter of 2007, which were in excess of the carrying value of our investment. See Note 6 to our condensed consolidated financial statements.

Income Taxes. Income tax expense of $10.4 million was recorded for the third quarter of 2008 compared to income tax expense of $60.1 million for the third quarter of 2007. The effective tax rate was 33.6% for the third quarter of 2008 compared to a rate of 163.8% for the third quarter of 2007. The effective rate for the third quarter of 2007 was primarily due to the gain related to the NCM Transaction. Income tax provisions for interim (quarterly) periods are based on estimated annual income tax rates and are adjusted for the effects of significant, infrequent or unusual items occurring during the interim period. As a result, the interim rate may vary significantly from the normalized annual rate.

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Nine months ended September 30, 2008 and 2007

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

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

[1] U.S. operating segment revenues include eliminations of intercompany transactions with the international operating segment. See Note 18 of our

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statements.

Consolidated. The increase in admissions revenues of $30.2 million was primarily attributable to a 6.3% increase in average ticket price from $5.06 for the 2007 period to $5.38 for the 2008 period, partially offset by a 2.5% decline in attendance. The increase in concession revenues of $11.8 million was primarily attributable to a 5.8% increase in concession revenues per patron from $2.41 for the 2007 period to $2.55 for the 2008 period, partially offset by the decline in attendance. The increases in average ticket price and concession revenues per patron were primarily due to price increases and the favorable impact of exchange rates in certain countries in which we operate. The 5.1% increase in other revenues was primarily due to increased screen advertising and other ancillary revenues in certain of our international locations and the favorable impact of exchange rates in certain countries in which we operate.

U.S. The increase in admissions revenues of $0.9 million was primarily attributable to a 4.2% increase in average ticket price from $5.75 for the 2007 period to $5.99 for the 2008 period, partially offset by a 3.9% decline in attendance. The decrease in concession revenues of $2.9 million was primarily attributable to the decline in attendance, partially offset by a 3.2% increase in concession revenues per patron from $2.79 for the 2007 period to $2.88 for the 2008 period. The increases in average ticket price and concession revenues per patron were primarily due to price increases. The 13.7% decrease in other revenues was primarily attributable to reduced screen advertising revenues earned under the amended Exhibitor Services Agreement with NCM. See Note 6 to the condensed consolidated financial statements.

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

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

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

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

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

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

Salaries and wages decreased to $111.0 million for the 2008 period from $111.6 million for the 2007 period primarily due to improved operating efficiencies. Facility lease expense increased to $124.9 million for the 2008 period from $121.5 million for the 2007 period primarily due to new

theatre openings. Utilities and other costs increased to $113.5 million for the 2008 period from $110.0 million for the 2007 period primarily due to new theatre openings and increased utility costs.

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

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

General and Administrative Expenses. General and administrative expenses increased to $67.8 million for the 2008 period from $57.7 million for the 2007 period. The increase was primarily due to increased incentive compensation expense, increased share based award compensation expense, increased service charges related to increased credit card activity, increased professional fees, including audit fees related to SOX compliance, and increased legal fees. Legal fees increased as a result of the preparation of our first proxy statement and related disclosures required under the Securities Exchange Act of 1934, as amended, particularly relating to compensation discussion and analysis, and defense costs related to a lawsuit that we vigorously defended and has been dismissed with prejudice.

Termination of Profit Participation Agreement. Upon consummation of our initial public offering on April 24, 2007, we exercised our option to terminate the amended and restated profit participation agreement with our CEO Alan Stock and purchased Mr. Stock s interest in the theatres on May 3, 2007 for a price of $6.9 million pursuant to the terms of the agreement. In addition, the Company incurred $0.1 million of payroll taxes related to the termination. See Note 19 to our condensed consolidated financial statements.

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

Impairment of Long-Lived Assets. We recorded asset impairment charges on assets held and used of $8.1 million for the 2008 period compared to $60.4 million during the 2007 period. Impairment charges for the 2008 period were primarily for U.S. and Mexico theatre properties. Impairment charges for the 2007 period consisted of $9.8 million of theatre properties, $46.7 million of goodwill associated with theatre properties and $3.9 million of intangible assets associated with theatre properties. As a result of the NCM Transaction and more specifically the modification of the NCM Exhibitor Services Agreement, which significantly reduced the contractual amounts paid to us, we evaluated the carrying value of our goodwill as of March 31, 2007, leading to a majority of the goodwill impairment charges recorded during the 2007 period (see Note 6).

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

Interest Expense. Interest costs incurred, including amortization of debt issue costs, were $89.7 million for the 2008 period compared to $111.8 million for the 2007 period. The decrease was primarily due to the repurchase of substantially all of our outstanding 9% senior subordinated notes that occurred during March and April 2007, the repurchase of a portion of our 9 3/4% senior discount notes since the third quarter of 2007, and a reduction in the variable interest rates on a portion of our long-term debt. In addition, during the 2008 period, we recorded a gain of approximately $3.3 million related to the change in fair value of one of our interest rate swap agreements. See Note 11 to our condensed consolidated financial statements for further discussion of our interest rate swap agreements.

Interest Income. We recorded interest income of $10.5 million during the 2008 period compared to interest income of $13.9 million during the 2007 period. The decrease in interest income was primarily due to lower interest rates earned on our cash investments.

Gain on NCM transaction. We recorded a gain of $210.8 million on the sale of a portion of our equity investment in NCM in conjunction with the initial public offering of NCM, Inc. common stock during the 2007 period. Our ownership interest in NCM was reduced from approximately 25% to approximately 14% as part of this sale of stock in the offering. See Note 6 to our condensed consolidated financial statements.

Gain on Fandango transaction. We recorded a gain of $9.2 million as a result of the sale of our investment in stock of Fandango, Inc. in the 2007 period. See Note 8 to our condensed consolidated

financial statements.

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

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3/4% senior discount notes during July and August 2007. See Note 10 to our condensed consolidated financial statements.

Distributions from NCM. We recorded distributions from NCM of $12.2 million during the 2008 period and $5.8 million during the 2007 period, which were in excess of the carrying value of our investment. See Note 6 to our condensed consolidated financial statements.

Income Taxes. Income tax expense of $25.8 million was recorded for the 2008 period compared to $69.8 million for the 2007 period. The effective tax rate was 38.5% for the 2008 period compared to 32.8% for the 2007 period. The change in the effective rate from the 2007 period was primarily due to the gain related to the NCM Transaction in 2007. Income tax provisions for interim (quarterly) periods are based on estimated annual income tax rates and are adjusted for the effects of significant, infrequent or unusual items occurring during the interim period. As a result, the interim rate may vary significantly from the normalized annual rate.

Liquidity and Capital Resources

Operating Activities

We primarily collect our revenues in cash, mainly through box office receipts and the sale of concession supplies. In addition, a majority of our theatres provide the patron a choice of using a credit card, in place of cash, which we convert to cash over a range of one to six days. Because our revenues are received in cash prior to the payment of related expenses, we have an operating float and historically have not required traditional working capital financing. Cash provided by operating activities was $169.7 million for the nine months ended September 30, 2008 compared to $204.1 million for the nine months ended September 30, 2007. Cash provided by operating activities for the nine months ended September 30, 2007 included the proceeds received from NCM for the modification of our Exhibitor Services Agreement. See Note 6 to our condensed consolidated financial statements for further discussion of the NCM Transaction.

We issued our 9 3/4% senior discount notes on March 31, 2004. Interest on the 9 3/4% senior discount notes has accreted rather than been paid in cash, which has benefited our operating cash flows for the periods presented. Interest will be paid in cash commencing September 15, 2009, at which time our operating cash flows will be impacted.

Investing Activities

Our investing activities have been principally related to the development and acquisition of additional theatres. New theatre openings and acquisitions historically have been financed with internally generated cash and by debt financing, including borrowings under our senior secured credit facility. Cash used for investing activities was $58.5 million for the nine months ended September 30, 2008 compared to cash provided by investing activities of $128.6 million for the nine months ended September 30, 2007. Cash provided by investing activities for the nine months ended September 30, 2007 included proceeds received from the sale of a portion of our investment in NCM. See Note 6 to our condensed consolidated financial statements for further discussion of the NCM Transaction.

Capital expenditures for the nine months ended September 30, 2008 and 2007 were as follows (in millions):

Period	New Theatres	Existing Theatres	Total
Nine Months Ended September 30, 2008	$48.4	$22.9	$ 71.3
Nine Months Ended September 30, 2007	$82.9	$27.1	$110.0

We continue to expand our U.S. theatre circuit. We acquired two theatres with 28 screens, built three theatres with 48 screens and closed three theatres with 42 screens during the nine months ended September 30, 2008, bringing our total domestic screen count to 3,688. At September 30, 2008, we had signed commitments to open seven new theatres with 80 screens in domestic markets during 2008 and open ten new theatres with 140 screens subsequent to 2008. We estimate the remaining capital

expenditures for the development of these 220 domestic screens will be approximately $80 million. Actual expenditures for continued theatre development and acquisitions are subject to change based upon the availability of attractive opportunities.

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We continue to expand our international theatre circuit. We acquired two theatres with 16 screens, built two theatres with 11 screens and closed nine screens during the nine months ended September 30, 2008, bringing our total international screen count to 1,029. At September 30, 2008, we had signed commitments to open three new theatres with 18 screens in international markets during 2008 and open one new theatre with seven screens subsequent to 2008. We estimate the remaining capital expenditures for the development of these 25 international screens will be approximately $6.4 million. Actual expenditures for continued theatre development and acquisitions are subject to change based upon the availability of attractive opportunities.

We plan to fund capital expenditures for our continued development with cash flow from operations, borrowings under our senior secured credit facility, subordinated note borrowings, proceeds from sale leaseback transactions and/or sales of excess real estate.

Financing Activities

Cash used for financing activities was $74.9 million for the nine months ended September 30, 2008 compared to $150.4 million for the nine months ended September 30, 2007. Cash used for financing activities for the nine months ended September 30, 2007 reflected the repurchase of $332.1 million aggregate principal amount of our 9% senior subordinated notes and the net proceeds of approximately $245.8 million from an initial public offering of our common stock.

In August 2007, we initiated a quarterly dividend policy. On February 26, 2008, our board of directors declared a cash dividend for the fourth quarter of 2007 in the amount of $0.18 per share of common stock payable to stockholders of record on March 6, 2008. The dividend was paid on March 14, 2008 in the total amount of $19.3 million. On May 9, 2008, our board of directors declared a cash dividend for the first quarter of 2008 in the amount of $0.18 per share of common stock payable to stockholders of record on May 30, 2008. The dividend was paid on June 12, 2008 in the total amount of $19.3 million. On August 7, 2008, our board of directors declared a cash dividend for the second quarter of 2008 in the amount of $0.18 per share of common stock payable to the stockholders of record on August 25, 2008. The dividend was paid on September 12, 2008 in the total amount of $19.3 million.

On March 20, 2008, in one open market purchase, we repurchased $10.0 million aggregate principal amount at maturity of our 9 $^{3}/4$% senior discount notes for approximately $9.0 million, including accreted interest of $2.9 million. We funded the transaction with proceeds from our initial public offering of common stock.

We may from time to time, subject to compliance with our debt instruments, purchase on the open market our debt securities depending upon the availability and prices of such securities. Long-term debt consisted of the following as of September 30, 2008 and December 31, 2007:

	September 30, 2008	**December 31, 2007**
Cinemark, Inc. 9 $^{3}/4$% senior discount notes due 2014	$ 436,976	$ 415,768
Cinemark USA, Inc. term loan	1,097,600	1,101,686
Cinemark USA, Inc. 9% senior subordinated notes due 2013	181	184
Other long-term debt	2,808	6,107
Total long-term debt	1,537,565	1,523,745
Less current portion	12,671	9,166
Long-term debt, less current portion	$ 1,524,894	$ 1,514,579

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As of September 30, 2008, we had borrowings of $1,097.6 million outstanding on the term loan under our senior secured credit facility, $437.0 million accreted principal amount at maturity outstanding under our 9 3/4% senior discount notes, and approximately $0.2 million aggregate principal amount outstanding under the 9% senior subordinated notes. We had a minimum of approximately $121.4 million in available borrowing capacity under our revolving credit facility. The availability of our revolving credit facility may have recently been impacted by the insolvency of one of the lenders under our facility. As such, while we currently have only $0.1 million outstanding under the $150 million revolving credit facility, it is uncertain whether we could borrow the portion that would be funded by this insolvent lender, which is approximately $28.5 million. We were in full compliance with all covenants governing our outstanding debt at September 30, 2008.

As of September 30, 2008, our long-term debt obligations, scheduled interest payments on long-term debt, future minimum lease obligations under non-cancelable operating and capital leases, scheduled interest payments under capital leases, outstanding letters of credit, obligations under employment agreements and purchase commitments for each period indicated are summarized as follows:

	Payments Due by Period (in millions)				
Contractual Obligations	**Total**	**Less Than One Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Long-term debt [1]	$1,557.0	$ 12.7	$ 23.7	$ 801.0	$ 719.6
Scheduled interest payments on long-term debt [2]	$ 470.5	76.9	196.5	176.7	20.4
Operating lease obligations	$1,886.6	179.5	351.4	330.8	1,024.9
Capital lease obligations	$ 125.6	5.4	12.2	13.2	94.8
Scheduled interest payments on capital leases	$ 108.8	12.4	23.2	21.3	51.9
Letters of credit	$ 0.1	0.1			
Employment agreements	$ 9.6	3.2	6.4		
Purchase commitments [3]	$ 97.8	29.1	68.3	0.4	
FIN 48 liabilities [4]	$ 10.8	10.8			
Total obligations	$4,266.8	$330.1	$681.7	$1,343.4	$1,911.6

1 Includes the 9 3/4% senior discount notes in the aggregate principal amount at maturity of $456.4 million.

2 Amounts include scheduled

interest payments on fixed rate and variable rate debt agreements. Estimates for the variable rate interest payments were based on interest rates in effect on September 30, 2008. The average interest rates on our fixed rate and variable rate debt were 8.2% and 4.6%, respectively, as of September 30, 2008.

[3] Includes estimated capital expenditures associated with the construction of new theatres to which we were committed as of September 30, 2008.

[4] Excludes the Company s long-term FIN 48 liabilities of $6.1 million because the Company cannot make a reliable estimate of the timing of the related cash payments.

Cinemark, Inc. 9 3/4% Senior Discount Notes

On March 31, 2004, Cinemark, Inc. issued $577.2 million aggregate principal amount at maturity of 9 3/4% senior discount notes due 2014. Interest on the notes accretes until March 15, 2009 up to their aggregate principal amount. Cash interest will accrue and be payable semi-annually in arrears on March 15 and September 15, commencing on September 15, 2009. Payments of principal and interest under these notes will be dependent on loans, dividends and other payments from Cinemark, Inc. s subsidiaries. Cinemark, Inc. may redeem all or part of the 9 3/4% senior discount notes on or after March 15, 2009.

Prior to 2007, Cinemark, Inc. repurchased on the open market a total of $41.6 million aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately $33.0 million, including accreted interest. Cinemark, Inc. funded these transactions with available cash from its operations.

During July and August 2007, Cinemark, Inc. repurchased in six open market purchases a total of $47.0 million aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately $42.8 million, including accreted interest of $10.9 million and a cash premium of $2.5 million. During November 2007, as part of an open

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market purchase, Cinemark, Inc. repurchased $22.2 million aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately $20.9 million, including accreted interest of $5.7 million and a cash premium of $1.5 million. On March 20, 2008, in one open market purchase, Cinemark, Inc. repurchased $10.0 million aggregate principal amount at maturity of its 9 3/4% senior discount notes for approximately $9.0 million, including accreted interest of $2.9 million. We funded the 2007 and 2008 transactions with proceeds from our initial public offering of common stock.

As of September 30, 2008, the accreted principal balance of the notes was approximately $437.0 million and the aggregate principal amount at maturity was approximately $456.4 million.

The indenture governing the 9 3/4% senior discount notes contains covenants that limit, among other things, dividends, transactions with affiliates, investments, sales of assets, mergers, repurchases of our capital stock, liens and additional indebtedness. The dividend restriction contained in the indenture prevents Cinemark, Inc. from paying a dividend or otherwise distributing cash to its stockholders unless (1) it is not in default, and the distribution would not cause it to be in default, under the indenture; (2) it would be able to incur at least $1.00 more of indebtedness without the ratio of its consolidated cash flow to its fixed charges (each as defined in the indenture, and calculated on a pro forma basis for the most recently ended four full fiscal quarters for which internal financial statements are available, using certain assumptions and modifications specified in the indenture, and including the additional indebtedness then being incurred) falling below two to one (the senior notes debt incurrence ratio test); and (3) the aggregate amount of distributions made since March 31, 2004, including the distribution proposed, is less than the sum of (a) half of its consolidated net income (as defined in the indenture) since February 11, 2003, (b) the net proceeds to it from the issuance of stock since April 2, 2004, and (c) certain other amounts specified in the indenture, subject to certain adjustments specified in the indenture. The dividend restriction is subject to certain exceptions specified in the indenture.

Upon certain specified types of change of control of Cinemark, Inc., Cinemark, Inc. would be required under the indenture to make an offer to repurchase all of the 9 3/4% senior discount notes at a price equal to 101% of the accreted value of the notes plus accrued and unpaid interest, if any, through the date of repurchase.

During October 2008, in seven open market purchases, we repurchased approximately $30.0 million aggregate principal amount at maturity of our 9 3/4% senior discount notes for approximately $27.3 million, including accreted interest of $9.8 million.

Senior Secured Credit Facility

On October 5, 2006, in connection with the Century Acquisition, the Company s wholly-owned subsidiary, Cinemark USA, Inc., entered into a senior secured credit facility. The senior secured credit facility provides for a seven year term loan of $1.12 billion and a $150 million revolving credit line that matures in six years unless our 9% senior subordinated notes have not been refinanced by August 1, 2012 with indebtedness that matures no earlier than seven and one-half years after the closing date of the senior secured credit facility, in which case the maturity date of the revolving credit line becomes August 1, 2012. The net proceeds of the term loan were used to finance a portion of the $531.2 million cash portion of the Century Acquisition, repay in full the $253.5 million outstanding under the former senior secured credit facility, repay $360.0 million of existing indebtedness of Century and to pay for related fees and expenses. The revolving credit line was left undrawn at closing. The revolving credit line is used for our general corporate purposes.

At September 30, 2008, there was $1,097.6 million outstanding under the term loan and no borrowings outstanding under the revolving credit line. A minimum of approximately $121.4 million was available for borrowing under the revolving credit line. The availability of our revolving credit facility may have recently been impacted by the insolvency of one of the lenders under the facility. As such, while we currently have only $0.1 million outstanding under the $150 million revolving credit facility, it is uncertain whether we could borrow the portion that would be funded by this lender, which is approximately $28.5 million. The average interest rate on outstanding borrowings under the senior

secured credit facility at September 30, 2008 was 4.9% per annum.

Under the term loan, principal payments of $2.8 million are due each calendar quarter beginning December 31, 2006 through September 30, 2012 and increase to $263.2 million each calendar quarter from December 31, 2012 to maturity at October 5, 2013. Prior to the amendment to the senior secured credit facility discussed below, the term loan accrued interest, at Cinemark USA, Inc. s option, at: (A) the base rate equal to the higher of (1) the prime lending rate as set forth on the British Banking Association Telerate page 5 or (2) the federal funds effective rate

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from time to time plus 0.50%, plus a margin that ranges from 0.75% to 1.00% per annum, or (B) a eurodollar rate plus a margin that ranges from 1.75% to 2.00% per annum, in each case as adjusted pursuant to Cinemark USA, Inc. s corporate credit rating. Borrowings under the revolving credit line bear interest, at Cinemark USA, Inc. s option, at: (A) a base rate equal to the higher of (1) the prime lending rate as set forth on the British Banking Association Telerate page 5 and (2) the federal funds effective rate from time to time plus 0.50%, plus a margin that ranges from 0.50% to 1.00% per annum, or (B) a eurodollar rate plus a margin that ranges from 1.50% to 2.00% per annum, in each case as adjusted pursuant to Cinemark USA, Inc. s consolidated net senior secured leverage ratio as defined in the credit agreement. Cinemark USA, Inc. is required to pay a commitment fee calculated at the rate of 0.50% per annum on the average daily unused portion of the revolving credit line, payable quarterly in arrears, which rate decreases to 0.375% per annum for any fiscal quarter in which Cinemark USA, Inc. s consolidated net senior secured leverage ratio on the last day of such fiscal quarter is less than 2.25 to 1.0.

On March 14, 2007, Cinemark USA, Inc. amended its senior secured credit facility to, among other things, modify the interest rate on the term loans under the senior secured credit facility, modify certain prepayment terms and covenants, and facilitate the tender offer for the 9% senior subordinated notes. The term loans now accrue interest, at Cinemark USA, Inc. s option, at: (A) the base rate equal to the higher of (1) the prime lending rate as set forth on the British Banking Association Telerate page 5, or (2) the federal funds effective rate from time to time plus 0.50%, plus a margin that ranges from 0.50% to 0.75% per annum, or (B) a eurodollar rate plus a margin that ranges from 1.50% to 1.75%, per annum. In each case, the margin is a function of the corporate credit rating applicable to the borrower. The interest rate on the revolving credit line was not amended. Additionally, the amendment removed any obligation to prepay amounts outstanding under the senior secured credit facility in an amount equal to the amount of the net cash proceeds received from the NCM transaction or from excess cash flows, and imposed a 1% prepayment premium for one year on certain prepayments of the term loans.

Cinemark USA, Inc. s obligations under the senior secured credit facility are guaranteed by Cinemark Holdings, Inc., Cinemark, Inc., and certain of Cinemark USA, Inc. s domestic subsidiaries and are secured by mortgages on certain fee and leasehold properties and security interests in substantially all of Cinemark USA, Inc. s and the guarantors personal property, including, without limitation, pledges of all of Cinemark USA, Inc. s capital stock, all of the capital stock of Cinemark, Inc., and certain of Cinemark USA, Inc. s domestic subsidiaries and 65% of the voting stock of certain of its foreign subsidiaries.

The senior secured credit facility contains usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on Cinemark USA, Inc. s ability, and in certain instances, its subsidiaries and Cinemark Holdings, Inc. s and Cinemark, Inc. s ability, to consolidate or merge or liquidate, wind up or dissolve; substantially change the nature of its business; sell, transfer or dispose of assets; create or incur indebtedness; create liens; pay dividends, repurchase stock and voluntarily repurchase or redeem the 9 3/4% senior discount notes; and make capital expenditures and investments. The senior secured credit facility also requires Cinemark USA, Inc. to satisfy a consolidated net senior secured leverage ratio covenant as determined in accordance with the senior secured credit facility, if Cinemark USA, Inc. has borrowings outstanding under the revolving line of credit. The dividend restriction contained in the senior secured credit facility prevents us and any of our subsidiaries from paying a dividend or otherwise distributing cash to its stockholders unless (1) we are not in default, and the distribution would not cause us to be in default, under the senior secured credit facility; and (2) the aggregate amount of certain dividends, distributions, investments, redemptions and capital expenditures made since October 5, 2006, including the distribution currently proposed, is less than the sum of (a) the aggregate amount of cash and cash equivalents received by Cinemark Holdings, Inc. or Cinemark USA, Inc. as common equity since October 5, 2006, (b) Cinemark USA, Inc. s consolidated EBITDA minus 1.75 times its consolidated interest expense, each as defined in the senior

secured credit facility, since October 1, 2006, (c) $150 million and (d) certain other amounts specified in the senior secured credit facility, subject to certain adjustments specified in the senior secured credit facility. The dividend restriction is subject to certain exceptions specified in the senior secured credit facility.

The senior secured credit facility also includes customary events of default, including, among other things, payment default, covenant default, breach of representation or warranty, bankruptcy, cross-default, material ERISA events, certain types of change of control, material money judgments and failure to maintain subsidiary guarantees. If an event of default occurs, all commitments under the senior secured credit facility may be terminated and all obligations under the senior secured credit facility could be accelerated by the lenders, causing all loans outstanding (including accrued interest and fees payable thereunder) to be declared immediately due and payable. The Cinemark Holdings, Inc. initial public offering of common stock is not considered a change of control under the senior secured credit facility.

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During March 2007, we entered into two interest rate swap agreements with effective dates of August 13, 2007 and terms of five years each. The interest rate swaps were designated to hedge approximately $500.0 million of our variable rate debt obligations. Under the terms of the interest rate swap agreements, we pay fixed rates of 4.918% and 4.922% on $375.0 million and $125.0 million, respectively, of variable rate debt and receive interest at a variable rate based on the 3-month LIBOR. The 3-month LIBOR rate on each reset date determines the variable portion of the interest rate-swaps for the three-month period following the reset date. No premium or discount was incurred upon us entering into the interest rate swaps because the pay and receive rates on the interest rate swaps represented prevailing rates for each counterparty at the time the interest rate swaps were consummated. The fair values of the interest rate swaps are recorded on our condensed consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps gains or losses reported as a component of other comprehensive income and the ineffective portion reported in earnings.

The interest rate swap covering $375.0 million of our variable rate debt obligations under our senior secured credit facility qualified for cash flow hedge accounting treatment in accordance with SFAS No. 133 from inception through September 14, 2008. On September 14, 2008, the counterparty to the interest rate swap agreement announced it was filing for bankruptcy. As a result, we determined that on September 15, 2008, when the counterparty s credit rating was downgraded, the interest rate swap was no longer highly effective. The change in fair value of this interest rate swap from inception to September 14, 2008 of $18.1 million has been reported as a component of other comprehensive income. As of September 30, 2008, the fair value of this interest rate swap was a liability of approximately $14.8 million. The gain related to the change in fair value of the interest rate swap from September 14, 2008 to September 30, 2008 of $3.3 million has been reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three and nine months ended September 30, 2008. On October 1, 2008, we terminated this interest rate swap, therefore the liability of $14.8 million has been reported as a component of other current liabilities as of September 30, 2008. We have determined that the forecasted transactions hedged by this interest rate swap are still probable to occur, thus the total amount reported in other comprehensive income related to this swap of $18.1 million will be amortized on a straight-line basis to interest expense over the period during which the forecasted transactions are expected to occur, which is September 15, 2008 through August 13, 2012. We will amortize approximately $4.6 million to interest expense over the next twelve months.

We paid approximately $13.8 million, including accrued interest, pursuant to the terms of the interest rate swap agreement as a result of the termination referred to above. A gain of approximately $2.1 million will be reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three months ending December 31, 2008.

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

LIBOR on $175.0 million of variable rate debt.

Cinemark USA, Inc. 9% Senior Subordinated Notes

On February 11, 2003, Cinemark USA, Inc. issued $150 million aggregate principal amount of 9% senior subordinated notes due 2013 and on May 7, 2003, Cinemark USA, Inc. issued an additional $210 million aggregate principal amount of 9% senior subordinated notes due 2013, collectively referred to as the 9% senior subordinated notes. Interest is payable on February 1 and August 1 of each year.

Prior to 2007, Cinemark USA, Inc. repurchased a total of $27.8 million aggregate principal amount of its 9% senior subordinated notes. The transactions were funded by Cinemark USA, Inc. with available cash from operations.

On March 6, 2007, Cinemark USA, Inc. commenced an offer to purchase for cash any and all of its then outstanding $332.2 million aggregate principal amount of 9% senior subordinated notes. In connection with the tender offer, Cinemark USA, Inc. solicited consents for certain proposed amendments to the indenture to remove

substantially all restrictive covenants and certain events of default provisions. On March 20, 2007, the early settlement date, Cinemark USA, Inc. repurchased $332.0 million aggregate principal amount of 9% senior subordinated notes and executed a supplemental indenture removing substantially all of the restrictive covenants and certain events of default. Cinemark USA, Inc. used the proceeds from the NCM transaction and cash on hand to purchase the 9% senior subordinated notes tendered pursuant to the tender offer and consent solicitation. On March 20, 2007, we and the Bank of New York Trust Company, N.A.. as trustee to the Indenture dated February 11, 2003, executed the Fourth Supplemental Indenture. The Fourth Supplemental Indenture became effective on March 20, 2007 and it amends the Indenture by eliminating substantially all restrictive covenants and certain events of default provisions. On April 3, 2007, the Company repurchased an additional $0.1 million aggregate principal amount of the 9% senior subordinated notes tendered after the early settlement date.

As of September 30, 2008, Cinemark USA, Inc. had outstanding approximately $0.2 million aggregate principal amount of 9% senior subordinated notes. Cinemark USA, Inc. may redeem the remaining 9% senior subordinated notes at its option at any time.

Seasonality

Our revenues have historically been seasonal, coinciding with the timing of releases of motion pictures by the major distributors. Generally, the most successful motion pictures have been released during the summer, extending from May to mid-August, and during the holiday season, extending from the beginning of November through year-end. The unexpected emergence of a hit film during other periods can alter this seasonality trend. The timing of such film releases can have a significant effect on our results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter or for the same period in the following year.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to financial market risks, including changes in interest rates, foreign currency exchange rates and other relevant market prices.

Interest Rate Risk

We are currently party to variable rate debt facilities. An increase or decrease in interest rates would affect interest costs relating to our variable rate debt facilities. At September 30, 2008, there was an aggregate of approximately $800.4 million of variable rate debt outstanding under these facilities, which excludes $300.0 million of Cinemark USA, Inc. s term loan that is hedged with the Company s interest rate swap agreements as discussed below. Based on the interest rate levels in effect on the variable rate debt outstanding at September 30, 2008, a 100 basis point increase in market interest rates would increase our annual interest expense by approximately $8.0 million.

During March 2007, we entered into two interest rate swap agreements with effective dates of August 13, 2007 and terms of five years each. The interest rate swaps were designated to hedge approximately $500.0 million of our variable rate debt obligations. Under the terms of the interest rate swap agreements, we pay fixed rates of 4.918% and 4.922% on $375.0 million and $125.0 million, respectively, of variable rate debt and receive interest at a variable rate based on the 3-month LIBOR. The 3-month LIBOR rate on each reset date determines the variable portion of the interest rate-swaps for the three-month period following the reset date. No premium or discount was incurred upon us entering into the interest rate swaps because the pay and receive rates on the interest rate swaps represented prevailing rates for each counterparty at the time the interest rate swaps were consummated. The fair values of the interest rate swaps are recorded on our condensed consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps gains or losses reported as a component of other comprehensive income and the ineffective portion reported in earnings.

The interest rate swap covering $375.0 million of our variable rate debt obligations under our senior secured credit facility qualified for cash flow hedge accounting treatment in accordance with SFAS No. 133 from inception through September 14, 2008. On September 14, 2008, the counterparty to the interest rate swap agreement announced it was filing for bankruptcy. As a result, we determined that on September 15, 2008, when the counterparty s credit rating was downgraded, the interest rate swap was no longer highly effective. The change in fair value of this interest rate swap from inception to September 14, 2008 of $18.1 million has been reported as a component of other comprehensive income. As of September 30, 2008, the fair value of this interest rate swap was a liability of approximately $14.8 million. The gain related to the change in fair value of the interest rate swap from September 14, 2008 to September 30, 2008 of $3.3 million has been reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three and nine months ended September 30, 2008. On October 1, 2008, we terminated this interest rate swap, therefore the liability of $14.8 million has been reported as a component of other current liabilities as of September 30, 2008. We have determined that the forecasted transactions hedged by this interest rate swap are still probable to occur, thus the total amount reported in other comprehensive income related to this swap of $18.1 million will be amortized on a straight-line basis to interest expense over the period during which the forecasted transactions are expected to occur, which is September 15, 2008 through August 13, 2012. We will amortize approximately $4.6 million to interest expense over the next twelve months.

We paid approximately $13.8 million, including accrued interest, pursuant to the terms of the interest rate swap agreement as a result of the termination referred to above. A gain of approximately $2.1 million will be reported in earnings as a component of interest expense on the condensed consolidated statement of operations during the three months ending December 31, 2008.

On October 3, 2008, we entered into one interest rate swap agreement with an effective date of November 14, 2008 and a term of four years. The interest rate swap was designated to hedge

approximately $100.0 million of our variable rate debt obligations under our senior secured credit facility for three years and $75.0 million of our variable rate debt obligations under our senior secured credit facility for four years. Under the terms of the interest rate swap agreement, we pay a fixed rate of 3.63% on $175.0 million of variable rate debt and receive interest at a variable rate based on the 1-month LIBOR. The 1-month LIBOR rate on each reset date determines the variable portion of the interest rate swap for the one-month period following the reset date. No premium or discount was incurred by us upon entering into the interest rate swap because the pay and receive rates on the interest rate swap represented prevailing rates for the counterparty at the time the interest rate swap was consummated. The interest rate swap qualifies for cash flow hedge accounting treatment in accordance with SFAS No. 133, *Accounting for Derivative*

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Instruments and Hedging Activities, and as such, we have effectively hedged our exposure to variability in the future cash flows attributable to the 1-month LIBOR on $175.0 million of variable rate debt.

The tables below provide information about our fixed rate and variable rate long-term debt agreements as of September 30, 2008 and December 31, 2007:

Expected Maturity as of September 30, 2008
(in millions)

	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value	Average Interest Rate
Fixed rate [(1)]	$	$	$	$	$ 37.0	$719.6	$ 756.6	$ 734.7	8.2%
Variable rate	12.7	12.5	11.2	11.2	752.8		800.4	802.9	4.6%
Total debt	$12.7	$12.5	$11.2	$11.2	$789.8	$719.6	$1,557.0	$1,537.6	

Expected Maturity as of December 31, 2007
(in millions)

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value	Average Interest Rate
Fixed rate [(2)]	$	$	$	$	$	$ 966.6	$ 966.6	$ 940.1	8.2%
Variable rate	9.2	13.8	12.4	11.2	271.6	289.6	607.8	612.8	6.7%
Total debt	$9.2	$13.8	$12.4	$11.2	$271.6	$1,256.2	$1,574.4	$1,552.9	

(1) Includes $300.0 million of the Cinemark USA, Inc. term loan, which represents the debt hedged with the Company s interest rate swap agreements.

(2) Includes $500.0 million of the Cinemark USA, Inc. term loan, which represents the

debt hedged with the Company s interest rate swap agreements that were in effect as of December 31, 2007.

Foreign Currency Exchange Rate Risk

We are also exposed to market risk arising from changes in foreign currency exchange rates as a result of our international operations. Generally, we export from the U.S. certain of the equipment and construction interior finish items and other operating supplies used by our international subsidiaries. Principally all the revenues and operating expenses of our international subsidiaries are transacted in the country s local currency. Generally accepted accounting principles in the U.S. require that our subsidiaries use the currency of the primary economic environment in which they operate as their functional currency. If our subsidiaries operate in a highly inflationary economy, generally accepted accounting principles in the U.S. require that the U.S. dollar be used as the functional currency for the subsidiary. Currency fluctuations result in us reporting exchange gains (losses) or foreign currency translation adjustments relating to our international subsidiaries depending on the inflationary environment of the country in which we operate. Based upon our equity ownership in our international subsidiaries as of September 30, 2008, holding everything else constant, a 10% immediate, simultaneous, unfavorable change in all of the foreign currency exchange rates to which we are exposed would decrease the net book value of our investments in our international subsidiaries by approximately $36.5 million and would decrease the aggregate net income of our international subsidiaries by approximately $3.7 million.

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Item 4T. Controls and Procedures

Evaluation of the Effectiveness of Disclosure Controls and Procedures

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

Changes in Internal Controls Over Financial Reporting

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Use of Proceeds

From April 23, 2007, the effective date of the registration statement on Form S-1, through the date of this report , the Company has used approximately $100.0 million of the net proceeds from its initial public offering of its common stock to repurchase approximately $109.2 million aggregate principal amount at maturity of its 9 3/4% senior discount notes, including accreted interest of approximately $29.3 million.

Item 5. Other Information

On October 1, 2008, the Company issued respectively to Isthmian Holdings, Ltd., Inversiones y Servicios ISSA, S.A., BA Holdings, Ltd., Galaxy Music, Inc. and Darsana Universal, Inc. 361,193, 225,745, 135,447, 99,328 and 81,268 shares of common stock of the Company (the ***Central America Share Exchange***) pursuant to an Exchange Option Agreement dated February 7, 2007 (the ***Central America Exchange Agreement***) between the Company and the Company s Central America Partners (as defined in the Central America Exchange Agreement). During May 2008, the Central America Partners exercised an option available under the Central America Exchange Agreement. Under this option, which was triggered by completion of the Company s initial public offering, the Central America Partners are entitled to exchange their shares in Cinemark Equity Holdings Corporation, which is the Company s Central America holding company, for shares of the Company s common stock. The number of shares to be exchanged is determined based on the Company s equity value and the equity value of the Central America Partners interest in Cinemark Equity Holdings Corporation, both of which are defined in the Central America Exchange Agreement. Prior to the exchange, the Company owned 51% of the shares in Cinemark Equity Holdings Corporation and subsequent to the exchange, the Company owns 100% of the shares in Cinemark Equity Holdings Corporation.

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On November 6, 2008, the Company issued 393,615 shares of common stock of the Company to Sidney Wright D.B. (the ***Ecuador Share Exchange***) pursuant to an Exchange Option Agreement dated April 24, 2007, as amended (the ***Ecuador Exchange Agreement***) between the Company and the Company s Ecuador Partners (as defined in the Ecuador Exchange Agreement). During July 2008, the Ecuador Partners exercised an option available under the Ecuador Exchange Agreement. Under this option, which was triggered by completion of the Company s initial public offering, the Ecuador Partners are entitled to exchange their shares in Cinemark del Ecuador S.A. for shares of the Company s common stock. The number of shares to be exchanged is determined based on the Company s equity value and the equity value of the Ecuador Partners interest in Cinemark del Ecuador S.A., both of which are defined in the Ecuador Exchange Agreement. Prior to the exchange, the Company owned 60% of the shares in Cinemark del Ecuador S.A. and subsequent to the exchange, the Company owns 100% of the shares in Cinemark del Ecuador S.A.

The issuance of the shares of common stock of the Company under the Ecuador Share Exchange and the Central America Share Exchange were made by the Company in reliance on the exemptions from registration provided pursuant to Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

*31.1 Certification of Alan Stock, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*31.2 Certification of Robert Copple, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

*32.1 Certification of Alan Stock, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*32.2 Certification of Robert Copple, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* filed herewith.

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SIGNATURES

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

CINEMARK HOLDINGS, INC.
Registrant

DATE: November 10, 2008

/s/Alan W. Stock
Alan W. Stock
Chief Executive Officer

/s/Robert Copple
Robert Copple
Chief Financial Officer

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EXHIBIT INDEX

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

* filed herewith.