MARCUS CORP
Form 10-K
March 12, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 27, 2018

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

For the transition period from ___________ to ___________

Commission File Number 1-12604

THE MARCUS CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin (State or other jurisdiction of incorporation or organization)	39-1139844 (I.R.S. Employer Identification No.)

100 East Wisconsin Avenue, Suite 1900 Milwaukee, Wisconsin	53202-4125
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (414) 905-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The aggregate market value of the registrant's common equity held by non-affiliates as of June 28, 2018 was approximately $637,447,655. This value includes all shares of the registrant's common stock, except for treasury shares and shares beneficially owned by the registrant's directors and executive officers listed in Part I below.

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

Common stock outstanding at February 28, 2019 – 22,706,062

Class B common stock outstanding at February 28, 2019 – 8,135,872

Portions of the registrant's definitive Proxy Statement for its 2019 annual meeting of shareholders, which will be filed with the Commission under Regulation 14A within 120 days after the end of our fiscal year, will be incorporated by reference into Part III to the extent indicated therein upon such filing.

PART I

Special Note Regarding Forward-Looking Statements

Certain matters discussed in this Annual Report on Form 10-K and the accompanying annual report to shareholders, particularly in the Shareholders' Letter and Management's Discussion and Analysis, are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995, including the expectation that the Movie Tavern acquisition will be accretive to earnings, earnings per share and cash flows in the first 12 months following the closing of the transaction. These forward-looking statements may generally be identified as such because the context of such statements include words such as we "believe," "anticipate," "expect" or words of similar import. Similarly, statements that describe our future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties which may cause results to differ materially from those expected, including, but not limited to, the following: (1) the availability, in terms of both quantity and audience appeal, of motion pictures for our theatre division, as well as other industry dynamics such as the maintenance of a suitable window between the date such motion pictures are released in theatres and the date they are released to other distribution channels; (2) the effects of adverse economic conditions in our markets, particularly with respect to our hotels and resorts division; (3) the effects on our occupancy and room rates of the relative industry supply of available rooms at comparable lodging facilities in our markets; (4) the effects of competitive conditions in our markets; (5) our ability to achieve expected benefits and performance from our strategic initiatives and acquisitions; (6) the effects of increasing depreciation expenses, reduced operating profits during major property renovations, impairment losses, and preopening and start-up costs due to the capital intensive nature of our businesses; (7) the effects of weather conditions, particularly during the winter in the Midwest and in our other markets; (8) our ability to identify properties to acquire, develop and/or manage and the continuing availability of funds for such development; (9) the adverse impact on business and consumer spending on travel, leisure and entertainment resulting from terrorist attacks in the United States or other incidents of violence in public venues such as hotels and movie theatres; (10) a disruption in our business and reputational and economic risks associated with civil securities claims brought by shareholders; and (11) our ability to timely and successfully integrate the Movie Tavern operations into our own circuit. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this Form 10-K and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Item 1. Business.

General

We are engaged primarily in two business segments: movie theatres and hotels and resorts.

As of December 27, 2018, our theatre operations included 68 movie theatres with 889 screens throughout Wisconsin, Illinois, Iowa, Minnesota, Missouri, Nebraska, North Dakota and Ohio, including one movie theatre with 6 screens in Wisconsin owned by a third party and managed by us. Following the completion of our acquisition of 22 Movie Tavern branded dine-in movie theatres (the "Movie Tavern Business") on February 1, 2019 and the recent addition of one new screen at an existing theatre, we currently own or operate a total of 1,098 screens at 90 locations in 17 states. We also operate a family entertainment center, *Funset Boulevard*, that is adjacent to one of our theatres in Appleton, Wisconsin, and own the *Ronnie's Plaza* retail outlet in St. Louis, Missouri, an 84,000 square foot retail center featuring 21 shops and other businesses to which we lease retail space. As of the date of this Annual Report, we are the 4^{th} largest theatre circuit in the United States.

As of December 27, 2018, our hotels and resorts operations included eight wholly-owned or majority-owned and operated hotels and resorts in Wisconsin, Illinois, Nebraska and Oklahoma. We also managed 13 hotels, resorts and other properties for third parties in Wisconsin, California, Minnesota, Nevada, Nebraska, North Carolina and Texas. As of December 27, 2018, we owned or managed approximately 5,300 hotel and resort rooms.

Both of these business segments are discussed in detail below. For information regarding the revenues, operating income or loss, assets and certain other financial information of these segments for the last three full fiscal years, please see our Consolidated Financial Statements and the accompanying Note 12 in Part II below.

Strategic Plans

Please see our discussion under "Current Plans" in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations.

Theatre Operations

At the end of fiscal 2018, we owned or operated 68 movie theatre locations with a total of 889 screens in Wisconsin, Illinois, Iowa, Minnesota, Missouri, Nebraska, North Dakota and Ohio. We averaged 13.1 screens per location at the end of fiscal 2018, compared to 13.0 screens per location at the end of fiscal 2017, compared to 13.0 screens at the end of fiscal 2016. Included in the fiscal 2018 total is one theatre with six screens that we manage for a third party and included in the fiscal 2017 and fiscal 2016 totals are two theatres with 11 screens that we manage for third parties. Our 67 company-owned facilities include 47 megaplex theatres (12 or more screens), representing approximately 80% of our total screens, 19 multiplex theatres (two to 11 screens) and one single-screen theatre. At the end of fiscal 2018, we operated 860 first-run screens, 6 of which we operated under management contracts, and 29 budget-oriented screens.

We invested over $320 million, excluding acquisitions, to further enhance the movie-going experience and amenities in new and existing theatres over the last five and one-half calendar years, with more investments planned for fiscal 2019. These investments include:

<u>New theatres</u>. During the fourth quarter of 2016, we opened two additional screens in Sun Prairie, Wisconsin at the Marcus Palace Cinema. In April 2017, we opened our new 10-screen Southbridge Crossing Cinema in Shakopee, Minnesota. This state-of-the-art theatre includes DreamLounger℠ recliner seating in all auditoriums, two *Ultra*Screen DLX® auditoriums, as well as a *Take Five*℠ *Lounge* and *Zaffiro's*® *Express* outlet. In June 2017, we opened our first stand-alone all in-theatre dining location, branded Bistro*Plex*® located in Greendale, Wisconsin. This new theatre features eight in-theatre dining auditoriums with DreamLounger recliners, including two *Super*Screen DLX® auditoriums, plus a separate full-service *Take Five Lounge*. In 2018, we began construction on a new food and beverage focused theatre in Brookfield, Wisconsin. We are currently evaluating the appropriate name and the amenities to be included in this new theatre, which is scheduled to open during our fiscal 2019 fourth quarter. In addition, we are actively seeking additional sites for potential new theatre locations in both new and existing markets.

<u>Theatre acquisitions</u>. In addition to building new theatres, we believe acquisitions of existing theatres or theatre circuits is also a viable growth strategy for us. In April 2016, we purchased a closed 16-screen theatre in Country Club Hills, Illinois, building on our strong presence in the Chicago southern suburbs. We opened the newly renovated theatre early in the fourth quarter of fiscal 2016. In December 2016, we acquired the assets of Wehrenberg Theatres®

(which we refer to as Wehrenberg or Marcus Wehrenberg), a family-owned and operated theatre circuit based in St. Louis, Missouri with 197 screens at 14 locations in Missouri, Iowa, Illinois and Minnesota. At the time, this acquisition increased our total number of screens by 29%. On February 1, 2019, we acquired the assets of Movie Tavern® by Marcus, a New Orleans-based industry leading circuit known for its in-theatre dining concept featuring chef-driven menus, premium quality food and drink and luxury seating. Movie Tavern consists of 208 screens at 22 locations in nine states – Arkansas, Colorado, Georgia, Kentucky, Louisiana, New York, Pennsylvania, Texas and Virginia. This acquisition increased our total number of screens by an additional 23%. The movie theatre industry is very fragmented, with approximately 50% of United States screens owned by the three largest theatre circuits and the other 50% owned by an estimated 800 smaller operators, making it very difficult to predict when acquisition opportunities may arise. We do not believe that we are geographically constrained, and we believe that we may be able to add value to certain theatres through our various proprietary amenities and operating expertise.

DreamLounger recliner additions. These luxurious, state-of-the-art recliners allow guests to go from upright to a full-recline position in seconds. These seat changes require full auditorium remodels to accommodate the necessary 84 inches of legroom, resulting in the loss of approximately 50% of the existing traditional seats in an average auditorium. To date, the addition of DreamLoungers has increased attendance at each of our applicable theatres, outperforming nearby competitive theatres and growing the overall market attendance in most cases. We added DreamLounger recliner seats to seven theatres during fiscal 2018 (including three Marcus Wehrenberg theatres). As a result, as of December 27, 2018, we offered all DreamLounger recliner seating in 45 theatres, representing approximately 70% of our company-owned, first-run theatres. Including our premium, large format (PLF) auditoriums with recliner seating, as of December 27, 2018, we offered our DreamLounger recliner seating in approximately 75% of our company-owned, first-run screens, a percentage we believe to be the highest among the largest theatre chains in the nation. We are currently evaluating opportunities to add our DreamLounger premium seating to two additional theatres during the second half of fiscal 2019, including one Marcus Wehrenberg theatre. Currently, 12 of the 22 recently-acquired Movie Tavern theatres have recliner seating, with three additional theatres expected to be converted by the end of the first quarter of fiscal 2019. We have identified at least three additional Movie Tavern locations that we will consider converting to DreamLounger recliner seating during the second half of fiscal 2019. As a result, by the end of fiscal 2019, our percentage of total company-owned, first-run screens with DreamLounger recliner seating may be approximately 80%, including Movie Tavern theatres.

*Ultra*Screen DLX and *Super*Screen DLX (DreamLounger eXperience) conversions. We introduced one of the first PLF presentations to the industry when we rolled out our proprietary *Ultra*Screen® concept approximately 20 years ago. We later introduced our *Ultra*Screen DLX concept by combining our premium, large-format presentation with DreamLounger recliner seating and Dolby® Atmos™ immersive sound to elevate the movie-going experience for our guests. More recently, we began including heated DreamLounger recliner seating in our DLX auditoriums. During fiscal 2018, we converted one existing screen into an *Ultra*Screen DLX auditorium and eight existing screens to *Super*Screen DLX auditoriums at seven existing theatres (including four Marcus Wehrenberg screens). Most of our PLF screens now include the added feature of heated DreamLounger recliner seats. As of December 27, 2018, we had 29 *Ultra*Screen DLX auditoriums, one traditional *Ultra*Screen auditorium and 51 *Super*Screen DLX auditoriums (a slightly smaller screen than an *Ultra*Screen but with the same DreamLounger seating and Dolby Atmos sound) at 46 of our theatre locations. Three of our Marcus Wehrenberg theatres feature IMAX® PLF screens. As of December 27, 2018, we offered at least one PLF screen in approximately 72% of our first-run, company-owned theatres – once again a percentage we believe to be the highest percentage among the largest theatre chains in the nation. Our PLF screens generally have higher per-screen revenues and draw customers from a larger geographic region compared to our standard screens, and we charge a premium price to our guests for this experience. During the first quarter of fiscal 2019, we completed the addition of a new *Ultra*Screen DLX auditorium to a Marcus Wehrenberg theatre, and we are currently evaluating opportunities to convert 20 or more existing screens at 14 Movie Tavern theatres to *Ultra*Screen DLX and *Super*Screen DLX auditoriums during fiscal 2019. In addition, we expect that our new theatre currently under construction in Brookfield, Wisconsin will include one PLF auditorium.

Signature cocktail and dining concepts. We have continued to further enhance our food and beverage offerings within our existing theatres. We believe our 50-plus years of food and beverage experience in the hotel and restaurant businesses provides us with a unique advantage and expertise that we can leverage to further grow revenues in our theatres. The concepts we are expanding include:

- *Take Five Lounge* and *Take Five Express* – these full-service bars offer an inviting atmosphere and a chef-inspired dining menu, along with a complete selection of cocktails, locally-brewed beers and wines. We opened one new *Take Five Lounge* outlet in fiscal 2018. As of December 27, 2018, we offered bars at 27 theatres, representing approximately 42% of our company-owned, first-run theatres. We are currently evaluating opportunities to add bar service to at least one additional theatre during fiscal 2019. In addition, all 22 Movie Tavern theatres have bars. As a result, including Movie Tavern, we now offer bar service in nearly 60% of our company-owned, first-run theatres.

- *Zaffiro's Express* – these outlets offer lobby dining that includes appetizers, sandwiches, salads, desserts and our signature *Zaffiro's* THINCREDIBLE® handmade thin-crust pizza. In select locations without a *Take Five Lounge* outlet, we offer beer and wine at the *Zaffiro's Express* outlet. We opened two new *Zaffiro's Express* outlets during fiscal 2018, increasing our number of theatres with this concept to 28 as of December 27, 2018, representing approximately 44% of our company-owned, first-run theatres. We also operate three *Zaffiro's Pizzeria and Bar* full-service restaurants. We expect that our new Brookfield, Wisconsin theatre currently under construction will include a *Zaffiro's Express*.

- *Reel Sizzle*® – this signature dining concept serves menu items inspired by classic Hollywood and the iconic diners of the 1950s. We offer Americana fare like burgers and chicken sandwiches prepared on a griddle behind the counter, along with chicken tenders, crinkle-cut fries, ice cream and signature shakes. As of December 27, 2018, we operated seven *Reel Sizzle* outlets, and we are evaluating an opportunity to add one *Reel Sizzle* outlet to an existing theatre during fiscal 2019. We expect that our new Brookfield, Wisconsin theatre currently under construction will include a *Reel Sizzle*.

- Other in-lobby dining – We also operate one *Hollywood Café* at an existing theatre, and four of the Marcus Wehrenberg theatres offer in-lobby dining concepts, operating under names such as *Fred's Drive-In* or *Five Star*. In addition, we are currently testing additional in-lobby food options, including a Mexican food concept at two theatres, and we are considering expanding these new concepts during fiscal 2019. Including these additional concepts, as of December 27, 2018, we offered one or more in-lobby dining concepts in 40 theatres, representing approximately 63% of our company-owned, first-run theatres.

- In-theatre dining – As of December 27, 2018, we offered full-service, in-theatre dining with a complete menu of drinks and chef-prepared salads, sandwiches, entrées and desserts at nine theatres and a total of 32 auditoriums, operating under the names *Big Screen Bistro*SM, *Big Screen Bistro Express*SM and Bistro*Plex*, representing approximately 14% of our company-owned, first-run theatres. With the addition of Movie Tavern, which consists entirely of in-theatre dining auditoriums, we now offer in-theatre dining in 31 theatres and 240 auditoriums, representing approximately 36% of our company-owned, first-run theatres.

We offer a "$5 Tuesday" promotion at every theatre in our circuit that includes a free complimentary-size popcorn to our loyalty program members. We have seen our Tuesday attendance increase dramatically since the introduction of the $5 Tuesday promotion. We believe this promotion has increased movie going frequency and reached a customer who may have stopped going to the movies because of price, creating another "weekend" day for us without adversely impacting the movie-going habits of our regular weekend customers. We introduced our $5 Tuesday promotion with the free popcorn for loyalty members at our Marcus Wehrenberg theatres immediately upon acquisition in December 2016 and did the same thing in February 2019 with our newly acquired Movie Tavern theatres. We experienced an increase in Tuesday performance at the Marcus Wehrenberg theatres and expect a similar response from customers at our Movie Tavern theaters. We also offer a "$6 Student Thursday" promotion at 36 Marcus and Marcus Wehrenberg locations that has been well received by that particular customer segment. We also introduced this promotion at 12 Movie Tavern locations late in our fiscal 2019 first quarter. In addition, we offer a $6 "Young-at-Heart" program for seniors on Friday afternoons that has also been introduced to our Movie Tavern locations during our fiscal 2019 first quarter.

We offer what we believe to be a best-in-class customer loyalty program called Magical Movie RewardsSM. We currently have approximately 3.1 million members enrolled in the program. Approximately 47% of all transactions in our theatres during fiscal 2018 were completed by registered members of the loyalty program. The program allows members to earn points for each dollar spent and access special offers available only to members. The rewards are redeemable at the box office, concession stand or at the many Marcus Theatres® food and beverage venues. In addition, we have partnered with Movio, a global leader in data analysis for the cinema industry, to allow more targeted communication with our loyalty members. The software provides us with insight into customer preferences, attendance habits and general demographics, which we believe will help us deliver customized communication to our members. In turn, members of this program can enjoy and plan for a more personalized movie-going experience. The program also gives us the ability to cost effectively promote non-traditional programming and special events, particularly during non-peak time periods. We believe that this will result in increased movie-going frequency, more frequent visits to the concession stand, increased loyalty to Marcus Theatres and ultimately, improved operating results. The acquired Wehrenberg theatres offered a loyalty program to their customers that had approximately 200,000 members. We converted these members to our Magical Movie Rewards program during fiscal 2017. The recently acquired Movie Tavern theatres did not offer a loyalty program to their customers. Our current plan is to introduce our Magical Movie Rewards program to these theatres during the second quarter of fiscal 2019 after all necessary technology requirements are completed.

We have enhanced, and expect to further enhance during fiscal 2019, our mobile ticketing capabilities, our downloadable Marcus Theatres mobile application, and our *marcustheatres.com* website. We will continue to install additional theatre-level technology, such as new ticketing kiosks, digital menu boards and concession advertising monitors. Each of these enhancements is designed to improve customer interactions, both at the theatre and through mobile platforms and other electronic devices.

The addition of digital technology throughout our circuit (we offer digital cinema projection on 100% of our first-run screens) has provided us with additional opportunities to obtain non-motion picture programming from other new and existing content providers, including live and pre-recorded performances of the Metropolitan Opera, as well as sports, music and other events, at many of our locations. We offer weekday and weekend alternate programming at many of our theatres across our circuit. The special programming includes classic movies, live performances, comedy shows and children's performances. We believe this type of programming is more impactful when presented on the big screen and provides an opportunity to continue to expand our audience base beyond traditional moviegoers.

Revenues for the theatre business, and the motion picture industry in general, are heavily dependent on the general audience appeal of available films, together with studio marketing, advertising and support campaigns, factors over which we have no control. Consistent with prior periods in which blockbusters accounted for a significant portion of our total admission revenues, our top 15 performing films accounted for 41% of our fiscal 2018 and fiscal 2017 total admission revenues. The following five fiscal 2018 films accounted for nearly 23% of our total admission revenues for our circuit: *Black Panther*, *Avengers: Infinity War*, *Incredibles 2*, *Jurassic World: Fallen Kingdom* and *Deadpool 2*.

We obtain our films from several national motion picture production and distribution companies, and we are not dependent on any single motion picture supplier. Our booking, advertising, concession purchases and promotional activities are handled centrally by our administrative staff.

We strive to provide our movie patrons with high-quality picture and sound presentation in clean, comfortable, attractive and contemporary theatre environments. All of our movie theatre complexes feature digital cinema technology; either digital sound, Dolby or other stereo sound systems; acoustical ceilings; side wall insulation; engineered drapery folds to eliminate sound imbalance, reverberation and distortion; tiled floors; cup-holder chair-arms; and computer-controlled heating, air conditioning and ventilation. We offer stadium seating, a tiered seating system that permits unobstructed viewing, at substantially all of our first-run screens. Computerized box offices permit all of our movie theatres to sell tickets in advance and all of our recliner seating auditoriums offer reserved seating. Our theatres are accessible to persons with disabilities and provide wireless headphones for hearing-impaired moviegoers. Other amenities at certain theatres include touch-screen, computerized, self-service ticket kiosks, which simplify advance ticket purchases. We have an agreement to allow moviegoers to buy tickets on Fandango, the largest online ticket-seller. We have enhanced our web site and our mobile ticketing capabilities and added the Magical Movie Rewards loyalty program to our downloadable Marcus Theatres mobile application.

We have a master license agreement with a subsidiary of Cinedigm Digital Cinema Corp. to deploy digital cinema systems in the majority of our company-owned theatre locations. Under the terms of the agreement, Cinedigm's subsidiary purchased the digital projection systems and licensed them to us under a long-term arrangement. The costs to deploy this new technology are being covered primarily through the payment of virtual print fees from studios to our selected implementation company, Cinedigm. Our goals from digital cinema included delivering an improved film presentation to our guests, increasing scheduling flexibility, providing a platform for additional 3D presentations as needed, as well as maximizing the opportunities for alternate programming that may be available with this technology. As of December 27, 2018, we had the ability to offer digital 3D presentations in 271, or approximately 32%, of our first-run screens, including the vast majority of our *Ultra*Screens. Including the Movie Tavern theatres added during the first quarter of fiscal 2019, we currently offer digital 3D presentations in 386, or approximately 36%, of our first-run screens. We have the ability to increase the number of digital 3D capable screens we offer to our guests in the future as needed, based on the number of digital 3D films anticipated to be released during future periods and our customers' response to these 3D releases.

We sell food and beverage concessions in all of our movie theatres. We believe that a wide variety of food and beverage items, properly merchandised, increases concession revenue per patron. Although popcorn and soda remain the traditional favorites with moviegoers, we continue to upgrade our available concessions by offering varied choices. For example, some of our theatres offer hot dogs, pizza, ice cream, pretzel bites, frozen yogurt, coffee, mineral water and juices. We have also added self-serve soft drink dispensers and grab-and-go candy, frozen treat and bottled drink kiosks to many of our theatres. In recent years, we have added signature cocktail and dining concepts as described above. The response to our new food and beverage offerings has been positive, and we have plans to expand these food and beverage concepts at additional locations in the future.

We have a variety of ancillary revenue sources in our theatres, with the largest related to the sale of pre-show and lobby advertising (through our current advertising provider, Screenvision). We also obtain ancillary revenues from corporate and group meeting sales, sponsorships, internet surcharge fees and alternate auditorium uses. We continue to pursue additional strategies to increase our ancillary revenue sources.

We also own a family entertainment center, *Funset Boulevard*, adjacent to our 14-screen movie theatre in Appleton, Wisconsin. *Funset Boulevard* features a 40,000 square foot Hollywood-themed indoor amusement facility that includes a restaurant, party room, laser tag center, virtual reality games, arcade, outdoor miniature golf course and batting cages.

In connection with the Wehrenberg acquisition, we also acquired the *Ronnie's Plaza* retail outlet in St. Louis, Missouri, an 84,000 square foot retail center featuring 21 shops and other businesses to which we lease retail space.

Hotels and Resorts Operations

Owned and Operated Hotels and Resorts

The Pfister® Hotel

We own and operate The Pfister Hotel, which is located in downtown Milwaukee, Wisconsin. The Pfister Hotel is a full-service luxury hotel and has 307 guest rooms (including 71 luxury suites), the exclusive *Pfister VIP Club Lounge*, two restaurants, three cocktail lounges, a high-tech executive boardroom and a 275-car parking ramp. The Pfister also has 25,000 square feet of banquet and convention facilities. The Pfister's banquet and meeting rooms accommodate up to 3,000 people, and the hotel features two large ballrooms, including one of the largest ballrooms in the Milwaukee metropolitan area, with banquet seating for 900 people. A portion of The Pfister's first-floor space is leased for retail use. In fiscal 2018, we celebrated The Pfister's 125th anniversary. In January 2019, The Pfister Hotel earned its 43rd consecutive AAA Four Diamond Award from the American Automobile Association, which represents every year the award has been in existence. In October 2018, The Pfister was recognized as a top hotel in the Midwest in *Condé Nast Traveler's* Readers' Choice Awards. The Pfister Hotel was also named among the top five Best Hotels in Wisconsin and the number one downtown Milwaukee hotel by *U.S. News & World Report* for 2018. In May 2018, TripAdvisor awarded The Pfister the TripAdvisor® 2018 Certificate of Excellence. The Pfister is a member of Preferred Hotels and Resorts, an organization of independent luxury hotels and resorts, and Historic Hotels of America. The Pfister has a signature restaurant named the *Mason Street Grill*, as well as a state-of-the-art WELL Spa® + Salon.

The Hilton Milwaukee City Center

We own and operate the 729-room Hilton Milwaukee City Center. Several aspects of Hilton's franchise program have benefited this hotel, including Hilton's international centralized reservation and marketing system, advertising cooperatives and frequent stay programs. The hotel has two cocktail lounges, three restaurants, including our first *Miller Time® Pub & Grill*, and an 870-car parking ramp. Directly connected to the Wisconsin Center convention facility by skywalk, the hotel offers more than 30,000 square feet of meeting and event spaces with state-of-the-art technologies. In January 2019, the Hilton Milwaukee City Center earned its eighth consecutive AAA Four Diamond Award from the American Automobile Association. The Hilton Milwaukee City Center was also named among the top four downtown Milwaukee hotels by *U.S. News & World Report* for 2018. In May 2018, TripAdvisor awarded Hilton Milwaukee City Center the TripAdvisor® 2018 Certificate of Excellence.

Hilton Madison at Monona Terrace

We own and operate the 240-room Hilton Madison at Monona Terrace in Madison, Wisconsin. The Hilton Madison, which also benefits from the aspects of Hilton's franchise program noted above, is connected by skywalk to the Monona Terrace Community and Convention Center, has four meeting rooms totaling 2,400 square feet, an indoor swimming pool, a fitness center, a lounge and a restaurant. In May 2018, TripAdvisor awarded Hilton Madison at Monona Terrace the TripAdvisor® 2018 Certificate of Excellence. This hotel is currently undergoing a complete renovation, including common areas and guestrooms, which we anticipate completing in the first half of fiscal 2019.

The Grand Geneva® Resort & Spa

We own and operate the Grand Geneva Resort & Spa in Lake Geneva, Wisconsin. This full-facility destination resort is located on 1,300 acres and includes 355 guest rooms, 29 new all-season villas, the exclusive *Geneva Club Lounge*, over 60,000 square feet of banquet, meeting and exhibit space, over 13,000 square feet of ballroom space, three specialty restaurants, two cocktail lounges, two championship golf courses, a ski hill, indoor and outdoor tennis courts, three swimming pools, a spa and fitness complex, horse stables and an on-site airport. In January 2019, the Grand Geneva Resort & Spa earned its 21st consecutive AAA Four Diamond Award from the American Automobile Association. In October 2018, the Grand Geneva Resort & Spa was recognized as a top resort in the Midwest in *Condé Nast Traveler's* Readers' Choice Awards. Geneva Grand Resort & Spa was also named among the top five Best Hotels in Wisconsin by *U.S. News & World Report* for 2018. In May 2018, TripAdvisor awarded the Grand Geneva Resort & Spa the TripAdvisor® 2018 Certificate of Excellence.

Skirvin Hilton

We are the principal equity partner and operator of The Skirvin Hilton hotel in Oklahoma City, Oklahoma, the oldest hotel in Oklahoma. This historic hotel has 225 rooms, including 20 one-bedroom suites and one Presidential Suite. The Skirvin Hilton benefits from the aspects of Hilton's franchise program noted above and has a restaurant, lounge, fitness center, indoor swimming pool, business center and approximately 18,500 square feet of meeting space. In January 2019, The Skirvin Hilton earned its 12th consecutive AAA Four Diamond Award from the American Automobile Association. In fiscal 2016, fiscal 2017 and fiscal 2018, The Skirvin Hilton earned recognition as the Best Hotel in Oklahoma City by *U.S. News & World Report*. In May 2018, TripAdvisor awarded The Skirvin Hilton the TripAdvisor® 2018 Certificate of Excellence. In September 2016, we completed a $4.3 million renovation project at The Skirvin Hilton Hotel, which included renovations of all guestrooms and public spaces. Our equity interest in this hotel was 60% as of December 27, 2018.

AC Hotel Chicago Downtown

Pursuant to a long-term lease, we operate the AC Hotel Chicago Downtown, a 226-room hotel in Chicago, Illinois. Located in the heart of Chicago's shopping, dining and entertainment district, the AC Hotel by Marriott lifestyle brand targets the millennial traveler searching for a design-led hotel in a vibrant location with high-quality service. The AC Hotel Chicago Downtown features urban, simplistic and clean designs with European aesthetics and elegance, the latest technology and communal function spaces. Amenities include the AC Lounge, a bar area with cocktails, craft beers, wine and tapas, the AC Kitchen, serving a European-inspired breakfast menu, and the AC Library, a collaborative space with communal tables and self-service business center located just off the main lobby. The AC Hotel Chicago Downtown also features an indoor swimming pool, fitness room, 3,000 square feet of meeting space and an on-site parking facility. In May 2018, TripAdvisor awarded the AC Hotel Chicago Downtown the

TripAdvisor® 2018 Certificate of Excellence. Our new *SafeHouse*® Chicago is in space leased from this hotel and the hotel has additional space leased and available to be leased to area restaurants.

The Lincoln Marriott Cornhusker Hotel

We own and operate The Lincoln Marriott Cornhusker Hotel in downtown Lincoln, Nebraska. The Lincoln Marriott Cornhusker Hotel is a 300-room, full-service hotel with 45,600 square feet of meeting space and a *Miller Time Pub & Grill*. The Cornhusker Office Plaza is a seven-story building with a total of 85,592 square feet of net leasable office space. The office building is connected to the hotel by a three-story atrium that is used for local events and exhibits. In May 2018, TripAdvisor awarded The Lincoln Marriott Cornhusker Hotel the TripAdvisor® 2018 Certificate of Excellence.

Saint Kate-The Arts Hotel

In January 2018, we announced plans to convert one of our owned hotels, the InterContinental Milwaukee hotel, into an independent arts hotel by mid-2019. The hotel closed for renovation in early January 2019 and is scheduled to reopen in June 2019 as Saint Kate-The Arts Hotel. Located in the heart of Milwaukee's theatre and entertainment district, the 219-room hotel will feature art-inspired guestrooms, 13,000 square feet of flexible meeting space, 11 event rooms and three restaurants, as well as bars and lounges. Design plans include a theatre that will feature plays, lectures, classes and musical and dance performances; world-class gallery space; a working Artist-in-Residence studio that will give guests a window into the creative process; and event spaces to host rotating exhibitions, screenings, workshops and more.

Managed Hotels, Resorts and Other Properties

We also manage hotels, resorts and other properties for third parties, typically under long-term management agreements. Revenues from these management contracts may include both base management fees, often in the form of a fixed percentage of defined revenues, and incentive management fees, typically calculated based upon defined profit performance. We may also earn fees for technical and preopening services before a property opens, as well as for ongoing accounting and technology services.

In January 2018, we assumed management of the newly-opened Murieta Inn and Spa in Rancho Murieta, California. Found within the development containing the renowned Murieta Equestrian Center, the largest equestrian facility in California, the 83-room hotel features The Gate, a one-of-a-kind restaurant and bar that offers fresh, seasonal menus using ingredients from the hotel's five-acre farm and state-of-the-art greenhouse. In addition to a remarkable "farm-to-fork" experience, guests can also enjoy wine from the burgeoning foothills' wine country. The hotel has an inviting resort-style pool and lavish hot tub adjacent to a private one-acre park overlooking the Cosumnes River. Guests can also relax at The Cupola, a luxury salon and day spa. The Murieta Inn and Spa also offers up to 15,000 square feet of indoor and outdoor meeting and event space, with advanced technologies such as Fiber Speed WiFi and Staycast capabilities and a dedicated coordinator assigned to every event.

In April 2018, we assumed management of the DoubleTree by Hilton Hotel El Paso Downtown in El Paso, Texas. Situated in El Paso's Museum District, near the city's prominent convention and performing arts center, the 200-room DoubleTree by Hilton Hotel El Paso Downtown features a rooftop pool and sun deck, along with 8,500 square feet of meeting space.

In August 2018, we assumed management of the newly constructed Courtyard by Marriott El Paso Downtown/Convention Center. The Courtyard by Marriott El Paso Downtown/Convention Center has 151 guest rooms, two meeting rooms and an outdoor terrace-top pool.

We manage the Crowne Plaza-Northstar Hotel in Minneapolis, Minnesota. The Crowne Plaza-Northstar Hotel is located in downtown Minneapolis and has 222 guest rooms, 12 meeting rooms, 10,000 square feet of meeting space, an outdoor Skygarden for group events, a restaurant, a cocktail lounge and an exercise facility.

We manage The Garland hotel in North Hollywood, California. The Garland hotel has 255 recently renovated guest rooms, including 12 suites, meeting space for up to 600, including an amphitheater and ballroom, an outdoor swimming pool and lighted tennis courts. The mission-style hotel is located on seven acres near Universal Studios. In May 2018, TripAdvisor awarded The Garland the TripAdvisor® 2018 Certificate of Excellence. In October 2018, The

Garland was recognized as a top hotel in Los Angeles in *Condé Nast Traveler's* Readers' Choice Awards.

We also provide hospitality management services, including check-in, housekeeping and maintenance, for a vacation ownership development adjacent to the Grand Geneva Resort & Spa owned by Orange Lake Resort & Country Club of Orlando, Florida. The development includes 68 two-room timeshare units (136 rooms) and a timeshare sales center.

We manage the Hilton Garden Inn Houston NW/Chateau in Houston, Texas. The Hilton Garden Inn Houston NW/Chateau has 171 guest rooms, a ballroom, a restaurant, a fitness center, a convenience mart and a swimming pool. The hotel is a part of Chateau Court, a 13-acre, European-style mixed-use development that also includes retail space and an office village. In May 2018, TripAdvisor awarded Hilton Garden Inn Houston NW/Chateau the TripAdvisor® 2018 Certificate of Excellence.

We manage the Hilton Minneapolis/Bloomington in Bloomington, Minnesota. This "business class" hotel offers 257 rooms, an indoor swimming pool, a club level, a fitness center, a business center and 9,217 square feet of meeting space. We completed a $2 million renovation of the Hilton Minneapolis/Bloomington in April 2016. This included renovations of the lobby area and entrance, food and beverage outlets, meeting spaces and the HHonors Executive Lounge. In May 2018, TripAdvisor awarded Hilton Minneapolis/Bloomington the TripAdvisor® 2018 Certificate of Excellence.

We manage the Heidel House Resort & Spa in Green Lake, Wisconsin. The resort features 190 full-service rooms and is located on 20 wooded acres on the shore of Green Lake, near Ripon, Wisconsin. The resort has an award-winning spa, three restaurants, two lounges, an ice cream parlor, a 380-guest ballroom, an outdoor space for weddings, indoor and outdoor pools, a beach, a boat rental area, hiking and biking trails, as well as a yacht available for daily excursions. On March 1, 2019, the owners of this resort announced that they intend to close this property permanently on May 20, 2019.

We manage and own a 10% minority equity interest in the Omaha Marriott Downtown at The Capitol District hotel. The 333-room, 12-story full service hotel serves as an anchor for the Capitol District, an upscale urban destination dining and entertainment community in downtown Omaha, Nebraska. The development also includes 218 luxury residential apartments, office space, a parking garage and retail space for restaurants, shops and entertainment. It also features a plaza for events and concerts.

We manage the Sheraton Chapel Hill Hotel in Chapel Hill, North Carolina. The Sheraton Chapel Hill Hotel is located in the Triangle region of North Carolina and features 168 guestrooms and suites, 16,000 square feet of flexible meeting space, an on-site restaurant, fitness center, seasonal outdoor pool and sun deck and local shuttle service.

We also manage two condominium hotels under long-term management contracts. Revenues from these management contracts are larger than typical management contracts because, under an agreed-upon rental pool arrangement, room revenues are shared at a defined percentage with individual condominium owners. In addition, we own all of the common areas of these facilities, including all restaurants, lounges, spas and gift shops, and retain all of the revenues from these outlets.

We manage the Timber Ridge Lodge, an indoor/outdoor water park and condominium complex in Lake Geneva, Wisconsin. The Timber Ridge Lodge is a 225-unit condominium hotel on the same campus as the Grand Geneva Resort & Spa. The Timber Ridge Lodge has meeting rooms totaling 3,640 square feet, a general store, a restaurant-cafe, a snack bar and lounge, a state-of-the-art fitness center and an entertainment arcade. In May 2018, TripAdvisor awarded the Timber Ridge Lodge the TripAdvisor® 2018 Certificate of Excellence.

We manage the Platinum Hotel & Spa, a condominium hotel in Las Vegas, Nevada just off the Las Vegas Strip, and own the hotel's public space. The Platinum Hotel & Spa has 255 one and two-bedroom suites. This non-gaming, non-smoking hotel also has an on-site restaurant, lounge, spa/salon and 14,897 square feet of meeting space, including 6,336 square feet of outdoor space. In May 2018, TripAdvisor awarded the Platinum Hotel & Spa the TripAdvisor® 2018 Certificate of Excellence. We own 16 previously unsold condominium units at the Platinum Hotel & Spa.

We own a 0.49% minority interest in The Hotel Zamora and Castile Restaurant in St. Pete Beach, Florida. We have agreed to sell the remaining interest during the next several years.

We own the *SafeHouse* in Milwaukee, Wisconsin. The *SafeHouse* is an iconic, spy-themed restaurant and bar that has operated in Milwaukee for over 50 years. We completed a significant renovation of the *SafeHouse* in 2016. We opened a new *SafeHouse* location in Chicago, Illinois in March 2017 and also opened the *EscapeHouse* Chicago, a complimentary business capitalizing on the popularity of team escape games.

Our Wisconsin Hospitality Linen Service (WHLS) business unit provides commercial laundry services for our hotel and resort properties in Wisconsin and for other unaffiliated hotels in the Midwest. WHLS currently processes nearly 14 million pounds of linen each year, and a 2016 expansion will enable WHLS to continue to grow that amount. WHLS has been a leader in commercial laundry services for the hospitality industry in the Midwest for over 20 years.

In 2018, TripAdvisor® awarded eight of our restaurants and lounges its Certificate of Excellence. These included: the Blu Bar & Lounge, Café at the Pfister, Geneva ChopHouse®, Mason Street Grill, Miller Time Pub & Grill Lincoln, Milwaukee ChopHouse®, *SafeHouse* Chicago and The Front Yard. Five of our restaurants and lounges earned the 2018 Wine Spectator Award of Excellence, including Geneva ChopHouse and Bloomington ChopHouse, which received the award for the first time; Mason Street Grill, which is celebrating its sixth award; Milwaukee Chophouse, which is receiving the award for its eighth year; and Grey Rock Restaurant, located at the Heidel House Resort and Spa, which has earned the award for 16 years.

In 2017, we were awarded the Service Excellence Award by Governor Scott Walker at the Wisconsin Governor's Conference on Tourism. The Service Excellence Award honors a Wisconsin business that has achieved significant success and growth by providing exceptional service to its customers and a strong, charitable involvement in its community. Marcus Hotels & Resorts® received the award for its ongoing commitment to supporting Wisconsin charities and tourism-driven amenities.

We have taken our highly-regarded web development team and created a new business unit to be managed by the hotels and resorts division called Graydient Creative. Graydient leverages our expertise in digital marketing, creating a new profit center for the division by seeking new external customers. Services provided by Graydient include, but are not limited to, website design and development, branding and print design, and social media management.

Competition

Both of our businesses experience intense competition from national, regional and local chain and franchise operations, some of which have substantially greater financial and marketing resources than we have. Most of our facilities are located in close proximity to competing facilities.

Our movie theatres compete with large national movie theatre operators, such as AMC Entertainment, Cinemark and Regal Cinemas, as well as with a wide array of smaller first-run exhibitors. Movie exhibitors also face competition from a number of other movie exhibition delivery systems, such as digital downloads, video-on-demand, pay-per-view television, DVDs and network and syndicated television. We also face competition from other forms of entertainment competing for the public's leisure time and disposable income.

Our hotels and resorts compete with the hotels and resorts operated and/or franchised by Hyatt Corporation, Marriott Corporation, Hilton Worldwide and others, along with other regional and local hotels and resorts. Increasingly, we also face competition from new channels of distribution in the travel industry, such as peer-to-peer inventory sources that allow travelers to book stays on websites that facilitate short-term rental of homes and apartments from owners, thereby providing an alternative to hotel rooms, such as Airbnb and HomeAway. We compete for hotel management agreements with a wide variety of national, regional and local management companies based upon many factors, including the value and quality of our management services, our reputation, our ability and willingness to invest our capital in joint venture projects, the level of our management fees and our relationships with property owners and investors.

We believe that the principal factors of competition in both of our businesses, in varying degrees, are the price and quality of the product, quality and location of our facilities and customer service. We believe that we are well positioned to compete on the basis of these factors.

Seasonality

Our first fiscal quarter typically produces the weakest operating results in our hotels and resorts division due primarily to the effects of reduced travel during the winter months. Our second and third fiscal quarters often produce our strongest operating results because these periods coincide with the typical summer seasonality of the movie theatre industry and the summer strength of the lodging business. Due to the fact that the week between Christmas and New Year's Eve is historically one of the strongest weeks of the year for our theatre division, the specific timing of the last Thursday in December has an impact on the results of our fiscal first and fourth quarters in that division, particularly when we have a 53-week year.

Environmental Regulation

Federal, state and local environmental legislation has not had a material effect on our capital expenditures, earnings or competitive position. However, our activities in acquiring and selling real estate for business development purposes have been complicated by the continued emphasis that our personnel must place on properly analyzing real estate sites for potential environmental problems. This circumstance has resulted in, and is expected to continue to result in, greater time and increased costs involved in acquiring and selling properties associated with our various businesses.

Employees

As of December 27, 2018, we had approximately 8,000 employees, approximately 62% of whom were employed on a variable or part-time basis. A number of our (1) hotel employees at the Crowne Plaza Northstar in Minneapolis, Minnesota are covered by a collective bargaining agreement that expires on April 30, 2019; (2) operating engineers at The Pfister Hotel and the Hilton Milwaukee City Center are covered by collective bargaining agreements that expire on April 30, 2020 and December 31, 2019, respectively; (3) hotel employees at the Hilton Milwaukee City Center and The Pfister Hotel are covered by a collective bargaining agreement that expires on March 15, 2019; and (4) painters in the Hilton Milwaukee City Center and The Pfister Hotel are covered by a collective bargaining agreement that expires on May 31, 2022.

As of the end of fiscal 2018, approximately 7% of our employees were covered by a collective bargaining agreement, of which approximately 96% were covered by an agreement that will expire within one year.

Website Information and Other Access to Corporate Documents

Our corporate website is www.marcuscorp.com. All of our Form 10-Ks, Form 10-Qs and Form 8-Ks, and amendments thereto, are available on this website as soon as practicable after they have been filed with the SEC. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report. In addition, our corporate governance guidelines and the charters for our Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee are available on our website. If you would like us to mail you a copy of our corporate governance guidelines or a committee charter, please contact Thomas F. Kissinger, Senior Executive Vice President, General Counsel and Secretary, The Marcus Corporation, 100 East Wisconsin Avenue, Suite 1900, Milwaukee, Wisconsin 53202-4125.

Item 1A. Risk Factors.

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

The Lack of Both the Quantity and Audience Appeal of Motion Pictures May Adversely Affect Our Financial Results.

The financial results of our movie theatre business and the motion picture industry in general are heavily dependent on the general audience appeal of available films, together with studio marketing, advertising and support campaigns, factors over which we have no control. The relative success of our movie theatre business will continue to be largely dependent upon the quantity and audience appeal of films made available by the movie studios and other producers. Poor performance of films, a disruption in the production of films due to events such as a strike by actors, writers or directors, or a reduction in the marketing efforts of the film distributors to promote their films could have an adverse impact on our business and results of operations. Also, our quarterly results of operations are significantly dependent on the quantity and audience appeal of films that we exhibit during each quarter. As a result, our quarterly results may be unpredictable and somewhat volatile.

Our Financial Results May be Adversely Impacted by Unique Factors Affecting the Theatre Exhibition Industry, Such as the Shrinking Video Release Window, the Increasing Piracy of Feature Films and the Increasing Use of Alternative Film Distribution Channels and Other Competing Forms of Entertainment.

Over the last decade, the average video release window, which represents the time that elapses from the date of a film's theatrical release to the date a film is released to other channels, including video on-demand (VOD) and DVD, has decreased from approximately six months to less than four months. Many current films are now released to ancillary markets within 75-90 days, and more than one studio has been discussing their interest in creating a new, shorter premium VOD window. We can provide no assurance that these release windows, which are determined by the film studios, will not shrink further, which could have an adverse impact on our movie theatre business and results of operations.

Piracy of motion pictures is prevalent in many parts of the world. Technological advances allowing the unauthorized dissemination of motion pictures increase the threat of piracy by making it easier to create, transmit and distribute high quality unauthorized copies of such motion pictures. The proliferation of unauthorized copies and piracy of motion pictures may have an adverse effect on our movie theatre business and results of operations.

We face competition for movie theatre patrons from a number of alternative motion picture distribution channels, such as DVD, network, cable and satellite television, video on-demand, pay-per-view television and downloading utilizing the internet. Periodically, internet ticketing intermediaries introduce services and products with the stated intention of increasing movie-going frequency. The actual impact these services and products may have on our relationship with the customer and our results of operations is unknown at this time. We also compete with other forms of entertainment competing for our patrons' leisure time and disposable income such as concerts, amusement parks, sporting events, home entertainment systems, video games and portable entertainment devices such as MP3 players, tablet computers and smart phones. An increase in popularity of these alternative film distribution channels and competing forms of entertainment may have an adverse effect on our movie theatre business and results of operations.

A Deterioration in Relationships with Film Distributors Could Adversely Affect Our Ability to Obtain Commercially Successful Films or Increase Our Costs to Obtain Such Films.

We rely on the film distributors for the motion pictures shown in our theatres. Our business depends to a significant degree on maintaining good relationships with these distributors. Deterioration in our relationships with any of the major film distributors could adversely affect our access to commercially successful films or increase our costs to obtain such films and adversely affect our business and results of operations. Because the distribution of motion pictures is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases, we cannot ensure a supply of motion pictures by entering into long-term arrangements with major distributors. Rather, we must compete for licenses on a film-by-film and theatre-by-theatre basis and are required to negotiate licenses for each film and for each theatre individually. We are periodically subject to audits on behalf of the film distributors to ensure that we are complying with the applicable license agreements.

The Relative Industry Supply of Available Rooms at Comparable Lodging Facilities May Adversely Affect Our Financial Results.

Historically, a material increase in the supply of new hotel rooms in a market can destabilize that market and cause existing hotels to experience decreasing occupancy, room rates and profitability. If such over-supply occurs in one or more of our major markets, we may experience an adverse effect on our hotels and resorts business and results of operations.

Adverse Economic Conditions in Our Markets May Adversely Affect Our Financial Results.

Downturns or adverse economic conditions affecting the United States economy generally, and particularly downturns or adverse economic conditions in the Midwest and in our other markets, adversely affect our results of operations, particularly with respect to our hotels and resorts division. Poor economic conditions can significantly adversely affect the business and group travel customers, which are the largest customer segments for our hotels and resorts division. Specific economic conditions that may directly impact travel, including financial instability of air carriers and increases in gas and other fuel prices, may adversely affect our results of operations. Additionally, although our theatre business has historically performed well during economic downturns as consumers seek less expensive forms of out-of-home entertainment, a significant reduction in consumer confidence or disposable income in general may temporarily affect the demand for motion pictures or severely impact the motion picture production industry, which, in turn, may adversely affect our results of operations.

If the Amount of Sales Made Through Third-Party Internet Travel Intermediaries Increases Significantly, Consumer Loyalty to Our Hotels Could Decrease and Our Revenues Could Fall.

We expect to derive most of our business from traditional channels of distribution. However, consumers now use internet travel intermediaries regularly. Some of these intermediaries are attempting to increase the importance of price and general indicators of quality (such as “four-star downtown hotel”) at the expense of brand/hotel identification. These agencies hope that consumers will eventually develop brand loyalties to their reservation system rather than to our hotels. If the amount of sales made through internet travel intermediaries increases significantly and consumers develop stronger loyalties to these intermediaries rather than to our hotels, we may experience an adverse effect on our hotels and resorts business and results of operations.

Each of Our Business Segments and Properties Experience Ongoing Intense Competition.

In each of our businesses we experience intense competition from national, regional and local chain and franchise operations, some of which have substantially greater financial and marketing resources than we have. Most of our facilities are located in close proximity to other facilities which compete directly with ours. The motion picture exhibition industry is fragmented and highly competitive with no significant barriers to entry. Theatres operated by national and regional circuits and by small independent exhibitors compete with our theatres, particularly with respect to film licensing, attracting patrons and developing new theatre sites. Moviegoers are generally not brand conscious and usually choose a theatre based on its location, its selection of films and its amenities. With respect to our hotels and resorts division, our ability to remain competitive and to attract and retain business and leisure travelers depends on our success in distinguishing the quality, value and efficiency of our lodging products and services from those offered by others. If we are unable to compete successfully in either of our divisions, this could adversely affect our results of operations.

We May Not Achieve the Expected Benefits and Performance of Our Strategic Initiatives and Acquisitions.

Our key strategic initiatives in our theatre and hotels and resorts divisions often require significant capital expenditures to implement. We expect to benefit from revenue enhancements and/or cost savings as a result of these initiatives. However, there can be no assurance that we will be able to generate sufficient cash flow from these initiatives to provide the return on investment we anticipated from the required capital expenditures.

There also can be no assurance that we will be able to generate sufficient cash flow to realize anticipated benefits from any strategic acquisitions that we may enter into, including our recent acquisition of the Movie Tavern Business. Although we have a history of successfully integrating acquisitions into our existing theatre and hotels and resorts businesses, any acquisition may involve operating risks, such as (1) the difficulty of assimilating and integrating the acquired operations and personnel into our current business; (2) the potential disruption of our ongoing business; (3) the diversion of management’s attention and other resources; (4) the possible inability of management to maintain uniform standards, controls, policies and procedures; (5) the risks of entering markets in which we have little or no expertise; (6) the potential impairment of relationships with employees; (7) the possibility that any liabilities we may incur or assume may prove to be more burdensome than anticipated; and (8) the possibility the acquired property or properties do not perform as expected.

Our Businesses are Heavily Capital Intensive and Preopening and Start-Up Costs, Increasing Depreciation Expenses and Impairment Charges May Adversely Affect Our Financial Results.

Both our movie theatre and hotels and resorts businesses are heavily capital intensive. Purchasing properties and buildings, constructing buildings, renovating and remodeling buildings and investing in joint venture projects all require substantial upfront cash investments before these properties, facilities and joint ventures can generate sufficient revenues to pay for the upfront costs and positively contribute to our profitability. In addition, many growth opportunities, particularly for our hotels and resorts division, require lengthy development periods during which significant capital is committed and preopening costs and early start-up losses are incurred. We expense these preopening and start-up costs currently. As a result, our results of operations may be adversely affected by our significant levels of capital investments. Additionally, to the extent we capitalize our capital expenditures, our depreciation expenses may increase, thereby adversely affecting our results of operations.

We periodically consider whether indicators of impairment of long-lived assets held for use are present. Demographic changes, economic conditions and competitive pressures may cause some of our properties to become unprofitable. Deterioration in the performance of our properties could require us to recognize impairment losses, thereby adversely affecting our results of operations.

Our Ability to Identify Suitable Properties to Acquire, Develop and Manage Will Directly Impact Our Ability to Achieve Certain of Our Growth Objectives.

A portion of our ability to successfully achieve our growth objectives in both our theatre and hotels and resorts divisions is dependent upon our ability to successfully identify suitable properties to acquire, develop and manage. Failure to successfully identify, acquire and develop suitable and successful locations for new lodging properties and theatres will substantially limit our ability to achieve these important growth objectives.

Our Ability to Identify Suitable Joint Venture Partners or Raise Equity Funds to Acquire, Develop and Manage Hotels and Resorts Will Directly Impact Our Ability to Achieve Certain of Our Growth Objectives.

In addition to acquiring or developing hotels and resorts or entering into management contracts to operate hotels and resorts for other owners, we have from time to time invested, and expect to continue to invest, as a joint venture partner. We have also indicated that we may act as an investment fund sponsor in order to acquire additional hotel properties. A portion of our ability to successfully achieve our growth objectives in our hotels and resorts division is dependent upon our ability to successfully identify suitable joint venture partners or raise equity funds to acquire, develop and manage hotels and resorts. Failure to successfully identify suitable joint venture partners or raise equity for an investment fund will substantially limit our ability to achieve these important growth objectives.

Adverse Economic Conditions, Including Disruptions in the Financial Markets, May Adversely Affect Our Ability to Obtain Financing on Reasonable and Acceptable Terms, if at All, and Impact Our Ability to Achieve Certain of Our Growth Objectives.

We expect that we will require additional financing over time, the amount of which will depend upon a number of factors, including the number of theatres and hotels and resorts we acquire and/or develop, the amount of capital required to refurbish and improve existing properties, the amount of existing indebtedness that requires repayment in a given year and the cash flow generated by our businesses. Downturns or adverse economic conditions affecting the United States economy generally, and the United States stock and credit markets specifically, may adversely impact our ability to obtain additional short-term and long-term financing on reasonable terms or at all, which would negatively impact our liquidity and financial condition. As a result, a prolonged downturn in the stock or credit markets would also limit our ability to achieve our growth objectives.

Investing Through Partnerships or Joint Ventures Decreases Our Ability to Manage Risk.

Joint venture partners may have shared control or disproportionate control over the operation of our joint venture assets. Therefore, our joint venture investments may involve risks such as the possibility that our joint venture partner in an investment might become bankrupt or not have the financial resources to meet its obligations, or have economic or business interests or goals that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives. Consequently, actions by our joint venture partners might subject hotels and resorts owned by the joint venture to additional risk. Further, we may be unable to take action without the approval of our joint venture partners. Alternatively, our joint venture partners could take actions binding on the joint venture without our consent.

Our Properties are Subject to Risks Relating to Acts of God, Terrorist Activity and War and Any Such Event May Adversely Affect Our Financial Results.

Acts of God, natural disasters, war (including the potential for war), terrorist activity (including threats of terrorist activity), incidents of violence in public venues such as hotels and movie theatres, epidemics (such as SARs, bird flu and swine flu), travel-related accidents, as well as political unrest and other forms of civil strife and geopolitical uncertainty may adversely affect the lodging and movie exhibition industries and our results of operations. Terrorism or other similar incidents may significantly impact business and leisure travel or consumer choices regarding out-of-home entertainment options and consequently demand for hotel rooms or movie theatre attendance may suffer. In addition, inadequate preparedness, contingency planning, insurance coverage or recovery capability in relation to a major incident or crisis may prevent operational continuity and consequently impact the reputation of our businesses.

We Rely on our Information Systems to Conduct our Business, and Any Failure to Protect Our Information Systems and Other Confidential Information Against Cyber Attacks or Other Information Security Breaches or Any Failure or Interruption to the Availability of Our Information Systems Could Have a Material Adverse Effect on Our Business.

The operation of our business depends on the efficient and uninterrupted operation of our information technology systems. Our information technology systems may become unavailable or may fail to perform as anticipated, for any reason, including cyber attacks, loss of power, or human error. Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber attacks. Any significant interruption in or failure of our information systems or any breach of our information systems or other confidential information could disrupt our business, result i