REGAL ENTERTAINMENT GROUP
Form 10-Q
November 09, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2004
Commission file number: 001-31315

Regal Entertainment Group

(Exact name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**02-0556934** (Internal Revenue Service Employer Identification Number)
9110 East Nichols Avenue **Suite 200** **Centennial, CO** (Address of Principal Executive Offices)	**80112** (Zip Code)

Registrant's Telephone Number, Including Area Code: **303/792-3600**

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ý No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act): Yes ý No o

Class A Common Stock 56,962,068 shares outstanding at November 5, 2004

Class B Common Stock 87,566,142 shares outstanding at November 5, 2004

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REGAL ENTERTAINMENT GROUP

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2004	January 1, 2004
	(in millions, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 146.4	$ 288.8
Restricted cash	0.6	0.6
Trade and other receivables, net	24.8	34.9
Inventories	7.2	6.6
Prepaid expenses and other current assets	18.2	32.8
Assets held for sale	7.8	7.1
Deferred income tax asset	5.9	5.8
TOTAL CURRENT ASSETS	210.9	376.6
PROPERTY AND EQUIPMENT:		
Land	116.0	132.7
Buildings, leasehold improvements and equipment	2,210.1	1,981.4
Construction in progress	32.6	8.9
Total property and equipment	2,358.7	2,123.0
Accumulated depreciation and amortization	(418.2)	(305.1)
Total property and equipment, net	1,940.5	1,817.9
GOODWILL	198.5	197.3
DEFERRED INCOME TAX ASSET	22.5	35.9
OTHER NON-CURRENT ASSETS	55.1	44.1
TOTAL ASSETS	$ 2,427.5	$ 2,471.8
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of debt obligations	$ 260.0	$ 31.1
Accounts payable	114.9	194.4
Accrued expenses	36.5	71.7
Income taxes payable	41.6	47.0
Deferred revenue	61.4	65.1
Bankruptcy claims and liabilities	1.2	3.5
TOTAL CURRENT LIABILITIES	515.6	412.8
DEBT OBLIGATIONS	1,631.1	1,077.8
LEASE FINANCING ARRANGEMENTS	91.8	93.8
CAPITAL LEASE OBLIGATIONS	24.0	24.5
OTHER NON-CURRENT LIABILITIES	84.0	64.1
TOTAL LIABILITIES	2,346.5	1,673.0

	September 30, 2004	January 1, 2004
MINORITY INTEREST	2.1	3.9
STOCKHOLDERS' EQUITY:		
Class A common stock, $0.001 par value; 500,000,000 shares authorized, 55,105,061 and 52,774,904 shares issued and outstanding at September 30, 2004 and January 1, 2004, respectively		
Class B common stock, $0.001 par value; 200,000,000 shares authorized, 89,216,142 shares issued and outstanding	0.1	0.1
Preferred stock, $0.001 par value; none issued and outstanding		
Additional paid-in capital	43.8	730.4
Retained earnings	42.2	64.4
Accumulated other comprehensive loss, net	(7.2)	
TOTAL STOCKHOLDERS' EQUITY	78.9	794.9
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,427.5	$ 2,471.8

See accompanying notes to unaudited condensed consolidated financial statements.

REGAL ENTERTAINMENT GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended September 30, 2004	Quarter Ended September 25, 2003	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
	(in millions, except share data)			
REVENUES:				
Admissions	$ 410.4	$ 425.7	1,229.5	1,226.9
Concessions	154.6	160.9	470.6	471.1
Other operating revenue	46.3	43.3	124.8	108.1
TOTAL REVENUE	611.3	629.9	1,824.9	1,806.1
OPERATING EXPENSES:				
Film rental and advertising costs	218.3	225.8	643.2	661.2
Cost of concessions	23.8	23.4	70.4	66.8
Rent expense	71.0	71.5	210.1	204.9
Other operating expenses	162.5	156.9	480.0	446.3
General and administrative expenses	15.6	15.9	47.9	46.3
Depreciation and amortization	44.3	39.7	130.8	114.9
Merger and restructuring expenses and amortization of deferred stock compensation	1.5	2.0	4.9	6.8
Net loss (gain) on disposal and impairment of operating assets	0.1	(0.8)	(3.9)	(2.5)
Gain on lawsuit settlement			(8.2)	
TOTAL OPERATING EXPENSES	537.1	534.4	1,575.2	1,544.7
INCOME FROM OPERATIONS	74.2	95.5	249.7	261.4
OTHER EXPENSE (INCOME):				
Interest expense, net	26.8	21.8	67.4	50.9
Minority interest in earnings of consolidated subsidiaries		0.1	0.9	0.5
Loss on extinguishment of debt	0.1		76.1	
Other, net			6.6	(0.1)
TOTAL OTHER EXPENSE, NET	26.9	21.9	151.0	51.3
INCOME BEFORE INCOME TAXES	47.3	73.6	98.7	210.1
PROVISION FOR INCOME TAXES	19.5	29.4	40.7	83.5
NET INCOME	$ 27.8	$ 44.2	$ 58.0	$ 126.6
EARNINGS PER SHARE:				
Basic	$ 0.19	$ 0.31	$ 0.40	$ 0.92
Diluted	$ 0.19	$ 0.30	$ 0.39	$ 0.89
AVERAGE SHARES OUTSTANDING (in thousands):				
Basic	144,028	141,816	143,244	137,365

	Quarter Ended September 30, 2004	Quarter Ended September 25, 2003	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
Diluted	150,095	145,341	147,752	141,873

See accompanying notes to unaudited condensed consolidated financial statements.

REGAL ENTERTAINMENT GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
	(in millions)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 58.0	$ 126.6
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	130.8	114.9
Amortization of deferred stock compensation	4.2	3.9
Minority interest in earnings of consolidated subsidiaries	0.9	0.5
Deferred income tax expense	3.2	11.3
Net gain on disposal and impairment of operating assets	(3.9)	(2.5)
Loss on extinguishment of debt	76.1	
Changes in operating assets and liabilities (excluding effects of acquisition and reorganization):		
Trade and other receivables	10.1	(1.6)
Inventories	(0.5)	0.7
Prepaid expenses and other current assets	17.6	3.4
Accounts payable	(76.4)	(33.7)
Income taxes payable	8.9	24.7
Accrued expenses and other liabilities	(20.3)	19.4
NET CASH PROVIDED BY OPERATING ACTIVITIES	208.7	267.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(80.8)	(89.8)
Proceeds from disposition of fixed assets	34.8	18.7
Proceeds from sale-leaseback transaction	11.5	
Proceeds from disposition of partnership interest	2.8	
Cash used for acquisitions, net of cash acquired	(223.6)	(97.6)
Decrease in other assets	(2.5)	
Cash used to purchase partnership interests	(9.9)	
Decrease in reimbursable construction advances		9.2
Decrease in restricted cash		15.8
NET CASH USED IN INVESTING ACTIVITIES	(267.7)	(143.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash used to pay dividends	(798.6)	(778.3)
Proceeds from stock option exercises	16.6	9.5
Net payments on debt obligations	(571.8)	(13.2)
Cash used to redeem senior subordinated notes	(354.8)	
Payment of bankruptcy claims and liabilities	(2.4)	(21.1)
Payment of debt acquisition costs and other	(22.4)	(15.8)
Proceeds from exercise of stock purchase warrants		37.5
Proceeds from Regal Cinemas senior credit facility	1,650.0	315.0
Proceeds from convertible notes offering		240.0
Net payment on convertible notes hedge and warrants		(18.8)
NET CASH USED IN FINANCING ACTIVITIES	(83.4)	(245.2)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(142.4)	(121.3)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	288.8	276.0

	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 146.4	$ 154.7
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income taxes, net of refunds received	$ 16.3	$ 19.1
Cash paid for interest	$ 77.6	$ 52.8
SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES:		
Issuance of common stock to acquire Hoyts	$	$ 88.1

See accompanying notes to unaudited condensed consolidated financial statements.

REGAL ENTERTAINMENT GROUP

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY AND BASIS OF PRESENTATION

Regal Entertainment Group (the "Company" or "Regal") is the parent company of Regal Entertainment Holdings, Inc. ("REH"), which is the parent company of Regal Cinemas Corporation ("Regal Cinemas") and its subsidiaries and United Artists Theatre Company ("United Artists") and its subsidiaries. Regal Cinemas' subsidiaries include Regal Cinemas, Inc. and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards"), Regal CineMedia Corporation ("Regal CineMedia"), Hoyts Cinemas Corporation ("Hoyts") and United Artists Theatre Group ("UATG"). The terms Regal or the Company, REH, Regal Cinemas, United Artists, Edwards, Regal CineMedia, Hoyts and UATG shall be deemed to include the respective subsidiaries of such entities when used in discussions included herein regarding the current operations or assets of such entities.

Regal operates the largest theatre circuit in the United States, consisting of 6,242 screens in 560 theatres in 40 states as of September 30, 2004. Regal CineMedia focuses on the development of ancillary revenues. The Company formally operates on a 52-week fiscal year with each quarter generally consisting of 13 weeks, unless otherwise noted. The Company's fiscal year ends on the first Thursday after December 25, which in certain years (such as fiscal 2003) results in a 53-week fiscal year.

During 2000 and 2001, United Artists and a majority of its subsidiaries at that time (the "United Artists Bankrupt Entities"), Edwards Theatre Circuit Affiliated Group and its subsidiaries at that time (the "Edwards Bankrupt Entities"), and Regal Cinemas, Inc. and its subsidiaries at that time (the "Regal Cinemas, Inc. Bankrupt Entities") filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Courts identified below, as well as joint plans of reorganization. The joint plans of reorganization, as amended, for the United Artists Bankrupt Entities and the Edwards Bankrupt Entities were approved by the United States Bankruptcy Courts for the District of Delaware and the Central District of California, respectively. Such joint plans of reorganization became effective on March 2, 2001 ("UA Effective Date") for the United Artists Bankrupt Entities and September 29, 2001 ("Edwards Effective Date") for the Edwards Bankrupt Entities. Edwards was formed in connection with the reorganization of the Edwards Bankrupt Entities to, among other things, effect the substantive consolidation of the Edwards Bankrupt Entities through their merger into Edwards. As a result of the merger transaction, Edwards succeeded to all of the assets and liabilities of the Edwards Bankrupt Entities. The United States Bankruptcy Court for the Middle District of Tennessee approved the Regal Cinemas, Inc. Bankrupt Entities' joint plan of reorganization on December 7, 2001, and it became effective on January 29, 2002. Also on that date, the Anschutz Corporation and its subsidiaries ("Anschutz") and the other stockholders of Regal Cinemas, Inc. exchanged their equity interests in Regal Cinemas, Inc. for equity interests in Regal Cinemas and as a result, Regal Cinemas, Inc. became a wholly owned subsidiary of Regal Cinemas. Regal Cinemas was formed for the primary purpose of acquiring and holding the shares of common stock of Regal Cinemas, Inc.

Anschutz acquired controlling equity interests in United Artists, Edwards and Regal Cinemas, Inc. upon each of the entities' emergence from bankruptcy reorganization. Anschutz's contributions of these equity interests to the Company were recorded in the financial statements of the Company at the combined historical cost basis of Anschutz, which represents Anschutz's net cost to acquire certain debt of the United Artists, Edwards and Regal Cinemas, Inc. Bankrupt Entities prior to their filing voluntary petitions for relief under Chapter 11. Anschutz exchanged such debt holdings for controlling equity interests following the emergence from bankruptcy of the United Artists, Edwards and Regal Cinemas, Inc. Bankrupt Entities.

For further discussion of the series of events leading to the formation of the Company and other significant transactions which have occurred through January 1, 2004, please refer to Note 1 to the consolidated financial statements included in Part II, Item 8 of our annual report on Form 10-K filed on March 16, 2004 with the Securities and Exchange Commission (File No. 001-31315) for the fiscal year ended January 1, 2004.

Regal acquired certain theatre operations of Hoyts on March 28, 2003. The results of operations of the acquired theatre locations have been included in the accompanying unaudited condensed consolidated financial statements for the periods subsequent to the acquisition date of March 28, 2003. See Note 2 "Acquisitions" for further discussion of this transaction.

On April 29, 2004, Regal acquired five theatres representing 49 screens in the Northeastern United States. On May 5, 2004, Regal acquired two additional theatres with 26 screens in the Northeastern United States. On September 30, 2004, Regal acquired 30 theatres comprising 309 screens (including two theatres with 30 screens under construction) in California and Hawaii from Signature Theatres. The total aggregate cash purchase price for the combined acquisitions totaled approximately $223.6 million, including approximately $196.7 million for the Signature Theatres acquisition, subject to post-closing adjustments. The results of operations of the acquired theatre operations have been included in the Company's unaudited condensed consolidated financial statements for periods subsequent to the respective acquisition dates. See Note 2 "Acquisitions" for further discussion of these transactions.

On May 12, 2004, Regal, along with a newly created subsidiary of Regal Cinemas, Regal Cinemas Bonds Corporation ("RCBC"), completed a cash tender offer and consent solicitation for the $350.0 million aggregate principal amount of the Regal Cinemas 9 3/8% Senior Subordinated Notes due 2012 (the "Notes"). Approximately $298.1 million aggregate principal amount of the Notes were purchased, with total additional consideration for the tender offer and consent solicitation of approximately $56.3 million being paid to the tendering holders. Regal and RCBC financed the tender offer and consent solicitation with a portion of the proceeds from a refinancing of Regal Cinemas' then existing indebtedness. The new indebtedness consists of a $1,750.0 million senior secured credit facility of Regal Cinemas, including a senior secured term loan facility of approximately $1,650.0 million and a senior secured revolving credit facility of $100.0 million. Upon consummation of the refinancing, Regal recognized a loss on debt extinguishment of approximately $76.1 million. See Note 3 "Debt Obligations" for further discussion of these transactions. On July 15, 2004, the Company purchased an additional $361,000 principal amount of the Notes from a third party.

On May 13, 2004, Regal declared an extraordinary cash dividend of $5.00 per share on each outstanding share of its Class A and Class B common stock. Stockholders of record at the close of business on May 21, 2004 were paid this dividend on June 2, 2004. The dividend was recorded as a reduction of additional paid-in capital upon declaration. A portion of the net proceeds from Regal Cinemas' new $1,750.0 million senior secured credit facility was used to fund the approximate $718.3 million extraordinary dividend. See Note 3 "Debt Obligations" for further description of the new Regal Cinemas senior secured credit facility.

On June 30, 2004, Regal made a $50.0 million voluntary prepayment of the outstanding senior secured term loan.

On July 13, 2004, Regal Cinemas entered into four hedging relationships via four distinct interest rate swap agreements with final maturity terms ranging from three to five years each. These swaps were assigned to hedge approximately $800.0 million of variable rate liabilities under the senior secured credit facility. Under the terms of the interest rate swap agreements, Regal Cinemas pays interest at various fixed rates ranging from 3.49% to 4.15% and will receive interest at a variable rate based on the 3-month LIBOR. As of September 30, 2004, the aggregate fair value of the swaps was determined to be approximately ($11.9 million), which has been recorded as a component of "Other Non-Current Liabilities" with a corresponding debit of $7.2 million, net of tax, recorded to "Accumulated Other Comprehensive Loss." The swaps exhibited no ineffectiveness for the quarter ended September 30, 2004. See Note 3 "Debt Obligations" for further description of these hedging arrangements.

In addition to the $718.3 million extraordinary dividend paid on June 2, 2004, Regal paid two cash dividends of $0.18 per share and one cash dividend of $0.20 per share on each outstanding share of the Company's Class A and Class B common stock, or $80.3 million in the aggregate, during the three quarters ended September 30, 2004.

During the quarter ended September 30, 2004, the Company instituted a share repurchase program, which provides for the authorization to repurchase up to $50 million of its outstanding Class A common stock within a twelve month period. Repurchases can be made from time to time as market conditions warrant, through open market purchases, negotiated transactions, or in such a manner deemed appropriate by the Company.

The Company has prepared the unaudited condensed consolidated balance sheet as of September 30, 2004 and the unaudited condensed consolidated statements of operations and cash flows in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly in all material respects the financial position, results of operations and cash flows for all periods presented have been made. The January 1, 2004 unaudited condensed consolidated balance sheet information is derived from the audited consolidated financial statements of the Company included in its annual report on Form 10-K for the fiscal year ended January 1, 2004. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto. The results of operations for the quarter and three quarters ended September 30, 2004 are not necessarily indicative of the operating results that may be achieved for the full 2004 fiscal year.

Net income and total comprehensive income are the same for the quarter and three quarters ended September 25, 2003. Total comprehensive income for the quarter and three quarters ended September 30, 2004 consists of net income and approximately $7.2 million of accumulated other comprehensive loss, net of tax, related to the change in the aggregate fair value of the interest rate swap arrangements described further in Note 3 "Debt Obligations."

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

2. ACQUISITIONS

Acquisition of Signature Theatres and Other Fiscal 2004 Acquisitions

On April 29, 2004, Regal acquired five theatres representing 49 screens in the Northeastern United States. On May 5, 2004, Regal acquired two additional theatres with 26 screens in the Northeastern United States. On September 30, 2004, Regal acquired 30 theatres comprising 309 screens (including two theatres with 30 screens under construction) in California and Hawaii from Signature Theatres. The total aggregate cash purchase price for the combined acquisitions totaled approximately $223.6 million, including approximately $196.7 million for the Signature Theatres acquisition, subject to post-closing adjustments. The transactions have been accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed for each of the respective theatre locations based on their estimated fair values at the date of acquisition, with the remaining balance allocated to goodwill. The results of operations of the acquired theatre operations have been included in the Company's unaudited condensed consolidated financial statements for periods subsequent to the respective acquisition dates.

The following is a summary of the preliminary allocations of the aggregate cash purchase price to the estimated fair values of the assets acquired and liabilities assumed at the respective dates of acquisition (in millions):

Current assets	$	0.1
Land		1.0
Buildings, leasehold improvements and equipment, net		212.5
Goodwill		2.1
Other non-current assets		15.7
Current liabilities		(5.1)
Other non-current liabilities		(2.7)
Total purchase price	$	223.6

Pro Forma Results of Operations

The following unaudited pro forma results of operations for the quarter and three quarters ended September 30, 2004 and September 25, 2003 assume the fiscal 2004 acquisitions occurred as of the beginning of fiscal 2003. The results from the Hoyts acquisition described below are not included in the following pro forma results for periods prior to Regal's acquisition of Hoyts since Hoyts was acquired in fiscal 2003. As a result, the Hoyts results for the first three months of 2003 have been excluded. The pro forma results have been prepared for comparative purposes only and do not purport to indicate the

results of operations which would actually have occurred had the combination been in effect on the dates indicated, or which may occur in the future.

	Quarter Ended September 30, 2004	Quarter Ended September 25, 2003	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
	(in millions except per share amounts)			
Revenues	$ 641.3	$ 665.2	$ 1,923.2	$ 1,902.6
Income from operations	76.6	99.1	257.2	269.4
Net income	29.3	46.5	62.5	131.5
Earnings per share				
Basic:	0.20	0.33	0.44	0.96
Diluted:	0.20	0.32	0.42	0.93

Acquisition of Hoyts Cinemas Corporation

On March 28, 2003, Regal acquired 52 Hoyts theatres representing 554 screens located in 10 states in the Northeastern United States, pursuant to a stock purchase agreement dated February 3, 2003, among Regal, HUSH Holdings U.S. Inc. ("HUSH") and Hoyts. The purchase price of approximately $213.1 million includes cash of approximately $100.0 million, the issuance of 4,761,904 shares of Regal's Class A common stock to HUSH with an aggregate fair value of $88.1 million as of the date of issuance, and the assumption of certain capital lease and other obligations with an aggregate fair value of approximately $25.0 million. The value of the 4,761,904 Class A common shares issued was determined based on the closing market price of Regal's common shares on February 4, 2003, the date on which the terms of the acquisition were agreed to and announced. The transaction was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed for each of the respective theatre locations based on their estimated fair values at the date of acquisition, with the remaining balance allocated to goodwill. The results of operations of the acquired theatre operations have been included in the accompanying financial statements for the periods subsequent to the acquisition date of March 28, 2003.

The following is a summary of the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in millions):

Current assets	$ 1.1
Buildings, leasehold improvements and equipment, net	200.2
Goodwill	0.9
Deferred income tax asset	33.0
Other assets	0.2
Current liabilities	(22.0)
Other liabilities	(0.3)
Total purchase price	$ 213.1

3. DEBT OBLIGATIONS

Debt obligations at September 30, 2004 and January 1, 2004 consist of the following (in millions):

	September 30, 2004	January 1, 2004
Regal 3 3/4% Convertible Senior Notes	$ 240.0	$ 240.0
Regal Cinemas 9 3/8% Senior Subordinated Notes	51.5	350.0
Regal Cinemas Senior Secured Credit Facility	1,591.9	509.6
Lease financing arrangements, 11.5%, maturing in various installments through 2021	94.4	96.0
Capital lease obligations	24.9	25.4
Other	4.2	6.2
Total debt obligations	2,006.9	1,227.2
Less current portion	(260.0)	(31.1)
Total debt obligations, net of current maturities	$ 1,746.9	$ 1,196.1

Regal 3 3/4% Convertible Senior Notes On May 28, 2003, Regal issued $240.0 million aggregate principal amount of 3 3/4% Convertible Senior Notes due May 15, 2008. Interest on the notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning November 15, 2003. The notes are senior unsecured obligations of Regal and rank on parity with all of our existing and future senior unsecured indebtedness and prior to all of our subordinated indebtedness. The notes are effectively subordinated to all of our future secured indebtedness to the extent of the assets securing that indebtedness and to any indebtedness and other liabilities of our subsidiaries. None of our subsidiaries have guaranteed any of our obligations with respect to the notes. On or after May 15, 2007, our note holders will have the option to convert their notes, in whole or in part, into shares of our Class A common stock at any time prior to maturity, subject to certain limitations, unless previously purchased by us at the note holder's option upon a change in control, at the current conversion price of $15.9741 per share (which conversion price has been adjusted pursuant to the antidilution provisions of the Notes in connection with the payment by Regal of dividends on its common stock). Prior to May 15, 2007, our note holders will have the right, at their option, to convert their notes, in whole or in part, into shares of our Class A common stock, subject to certain limitations, unless previously purchased by us at the note holder's option upon a change in control, at the current conversion price of $15.9741 per share, subject to further adjustments described below, if:

the closing sale price of our Class A common stock on the previous trading day was 110% or more of the then current conversion price;

we distribute to all or substantially all holders of our common stock certain rights entitling them to purchase common stock at less than the closing sale price of our Class A common stock on the day preceding the declaration of such distribution;

other than the extraordinary dividend paid on July 1, 2003, we distribute to all or substantially all holders of our common stock cash or other assets, debt securities or certain rights to purchase oursecurities, which distribution has a per share value as determined by our board of directors exceeding 10% of the closing sale price of our Class A common stock on the day preceding the declaration for such distribution;

we become a party to a consolidation, merger or sale of all or substantially all of our assets or a change in control occurs, in each case, pursuant to which our common stock would be converted into cash, stock or other property unless, in the case of a consolidation or merger, all of the consideration, excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights, in such merger or consolidation consists of shares of common stock, American Depositary Shares or other certificates representing common equity interests traded on a United States national securities exchange or quoted on The NASDAQ Stock Market, or will be so traded or quoted when issued or exchanged in connection with such merger or consolidation, and as a result of such merger or consolidation the notes become convertible solely into such common stock or other certificates representing common equity interests; or

after any five consecutive trading-day period in which the average of the trading prices for the notes for that five trading-day period was less than 100% of the average of the conversion values for the notes during that period.

At the current conversion price of $15.9741 per share, each $1,000 of aggregate principal amount of notes are convertible into approximately 62.6013 shares of our Class A common stock. Upon conversion, we may elect to deliver cash in lieu of shares of Class A common stock or a combination of cash and shares of Class A common stock. As explained below, with respect to the par amount of the conversion obligation, we intend to deliver cash to note holders upon conversion. The conversion price and the number of shares delivered on conversion are subject to adjustment upon certain events.

In connection with the issuance of the notes, we used approximately $18.8 million of the net proceeds of the offering to enter into convertible note hedge and warrant transactions with respect to our Class A common stock to reduce the potential dilution from conversion of the notes. Under the terms of the convertible note hedge arrangement (the "Convertible Note Hedge") with Credit Suisse First Boston ("CSFB"), we paid $36.2 million for a forward purchase option contract under which we are entitled to purchase from CSFB a fixed number of shares of our Class A common stock (at a current price per share of $15.9741). In the event of the conversion of the notes, this forward purchase option contract allows us to purchase, at a fixed price equal to the implicit conversion price of shares issued under the convertible notes, a number of shares equal to the shares that we issue to a note holder upon conversion. Settlement terms of this forward purchase option allow the Company to elect cash or share settlement based on the settlement option it chooses in settling the conversion feature of the notes. We accounted for the Convertible Note Hedge pursuant to the guidance in EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock." Accordingly, the $36.2 million purchase price of the forward stock purchase option contract was recorded as a debit to consolidated stockholders' equity.

We also sold to CSFB a warrant (the "Warrant") to purchase shares of our Class A common stock. The Warrant is currently exercisable for 15,024,321 shares of our Class A common stock at a current exercise price of $18.4317 per share (which exercise price has been adjusted pursuant to the antidilution provisions of the Warrant in connection with the payment by Regal of dividends on its common stock). We received $17.4 million cash from CSFB in return for the sale of this forward share purchase option contract. CSFB cannot exercise the Warrant unless and until a conversion event occurs. We have the option of settling the Warrant in cash or shares of our Class A common stock. We accounted for the sale of the Warrant as the sale of a permanent equity instrument pursuant to the

guidance in EITF 00-19. Accordingly, the $17.4 million sales price of the forward stock purchase option contract was recorded as a credit to consolidated stockholders' equity.

The Convertible Note Hedge and the Warrant allow us to acquire sufficient Class A common shares from CSFB to meet our obligation to deliver Class A common shares upon conversion by the note holder, unless the Class A common share price exceeds $18.4317. When the fair value of our Class A common shares exceeds such price, the equity contracts have an offsetting economic impact, and accordingly will no longer be effective as a hedge of the dilutive impact of possible conversion.

The Regal 3³/₄% Convertible Senior Notes allow us to settle any conversion, and we have the intent to settle any conversion, by remitting to the note holder the accreted value of the note in cash, while settling the conversion spread (the excess conversion value over the accreted value) in the shares of our Class A common stock. The accounting for convertible debt with such settlement features is addressed in the consensus reached by the EITF with respect to the accounting for Instrument C as set forth in EITF 90-19, "Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion." It is our intent to settle the notes' conversion obligations consistent with Instrument C. Because the accreted value of the notes will be settled for cash upon the conversion, only the conversion spread (the excess conversion value over the accreted value), which will be settled in stock, will result in potential dilution in our earnings-per-share computations.

On September 30, 2004, the closing sale price of our Class A common stock was $19.10, which exceeded 110% of the then current conversion price of $15.9741. Accordingly, as of September 30, 2004, our note holders held the right, at their option, to convert their notes, in whole or in part, into shares of our Class A common stock, subject to certain limitations, at the conversion price of $15.9741. This conversion option, coupled with the Company's stated policy to settle any conversion by remitting to the note holder the accreted value of the note in cash, resulted in the classification of the $240.0 million principal amount of the Regal 3³/₄% Convertible Senior Notes as a current liability on the accompanying unaudited condensed consolidated balance sheet as of September 30, 2004. The future balance sheet classification of this liability (i.e., current versus non-current presentation) will be monitored at each quarterly reporting date, and will be determined based on an analysis of the various conversion rights described above.

Regal Cinemas 9³/₈% Senior Subordinated Notes On April 15, 2004, Regal and its subsidiary, RCBC, commenced a cash tender offer and consent solicitation for the $350.0 million aggregate principal amount of the Regal Cinemas 9³/₈% Senior Subordinated Notes due 2012. On April 27, 2004, the Company completed its consent solicitation with respect to the Notes amending the indenture governing the Notes to eliminate substantially all of the restrictive covenants and certain default provisions. Consideration for each $1,000 principal amount of Notes tendered was $1,169.05, plus a consent payment of $20.00 per $1,000 principal amount of Notes for those holders who properly tendered their Notes with a consent on or before April 27, 2004. Such consideration was determined as of April 28, 2004 by reference to a fixed spread above the yield to maturity of the 2.25% U.S. Treasury Note due February 15, 2007. The tender offer was completed on May 12, 2004 and approximately $298.1 million aggregate principal amount of the Notes were purchased. Total additional consideration paid for the tender offer and consent solicitation was approximately $56.3 million. The tender offer and consent solicitation were financed with a portion of the proceeds from the new Senior Credit Facility described below. Approximately $918.3 million of the proceeds from the new Senior Credit Facility, together with a portion of Regal Cinemas' available cash, was distributed by Regal Cinemas to Regal,

which used approximately $718.3 million of the proceeds to pay an extraordinary dividend of $5.00 per share to its holders of Class A and Class B common stock on June 2, 2004, as described in Note 1 "The Company and Basis of Presentation." The remaining balance was retained for the fiscal 2004 acquisitions disclosed in Note 2 "Acquisitions" and for general corporate purposes. Upon consummation of the refinancing of Regal Cinemas' senior indebtedness, Regal recognized a loss on debt extinguishment of approximately $76.1 million. On July 15, 2004, the Company purchased an additional $361,000 principal amount of the Notes from a third party.

Regal Cinemas Fourth Amended and Restated Credit Agreement, as Amended On May 10, 2004, Regal Cinemas entered into the Fourth Amended and Restated Credit Agreement (the "Senior Credit Facility"), with Credit Suisse First Boston, acting through its Cayman Islands Branch, as Administrative Agent, and the other lenders and agents party thereto. The Senior Credit Facility consists of a term loan facility (the "Term Facility") in an aggregate principal amount of up to $1,650.0 million and a revolving credit facility in an aggregate principal amount of up to $100.0 million (the "Revolving Facility"). The Revolving Facility has a sublimit of $10.0 million for short term loans and a sublimit of $30.0 million for letters of credit.

The Term Facility will mature on November 10, 2010 and the Revolving Facility will mature on May 10, 2009. Interest is payable (a) in the case of base rate loans, quarterly in arrears, and (b) in the case of Eurodollar rate loans, at the end of each interest period, but in no event less often than every 3 months. The Term Facility amortizes in equal quarterly installments in an aggregate annual amount equal to 1.0% of the original principal amount of the Term Facility during the first six years thereof, with the balance payable in two equal installments, the first on June 30, 2010 and the second on November 10, 2010. On June 30, 2004, Regal made a $50.0 million voluntary prepayment of the outstanding Term Facility.

The obligations of Regal Cinemas are secured by, among other things, a lien on substantially all of its tangible and intangible personal property (including but not limited to accounts receivable, inventory, equipment, general intangibles, investment property, deposit and securities accounts, and intellectual property) and certain real property. The obligations under the Senior Credit Facility are also guaranteed by certain subsidiaries of Regal Cinemas and secured by a lien on all or substantially all of such subsidiaries' personal property and certain real property. The obligations are further guaranteed by Regal Entertainment Holdings, Inc., on a limited recourse basis, with such guarantee being secured by a lien on the capital stock of Regal Cinemas.

As of September 30, 2004, Regal Cinemas had approximately $98.6 million available for drawing under the Revolving Facility. Regal Cinemas also maintains a letter of credit sub-facility of up to $30 million (of which approximately $1.4 million was outstanding as of September 30, 2004), which reduces the availability of the Revolving Facility.

Borrowings under the Senior Credit Facility bear interest, at Regal Cinemas' option, at either a base rate or an adjusted Eurodollar rate plus, in each case, an applicable margin. The base rate is the higher of Prime Rate, as determined by Credit Suisse First Boston, and the Federal Funds Effective Rate plus 0.5%. Regal Cinemas may elect interest periods of 1, 2, 3, 6 or (if available to all lenders) 12 months for the adjusted Eurodollar rate. The applicable margin is determined according to the consolidated leverage ratio of Regal Cinemas and its subsidiaries. On July 27, 2004, Regal Cinemas entered into an amendment to the Senior Credit Facility to reduce the interest rate applicable to the Term Facility by 50 basis points. Borrowings under the Term Facility and Revolving Facility bear interest, at Regal Cinemas' option, at either an adjusted Eurodollar rate or a base rate plus, in each case, an applicable margin. Effective July 27, 2004, the applicable margin was reduced from 2.75% to 2.25% on the Term Facility. The applicable margin will be further reduced to 2.0% if the consolidated leverage ratio of Regal Cinemas is maintained at 3.0 or less. As of September 30, 2004, the interest rate on the Term Facility was approximately 4.2%.

Regal Cinemas may prepay borrowings under the Senior Credit Facility, in whole or in part, in minimum amounts and subject to other conditions set forth in the Senior Credit Facility. Regal Cinemas is required to make mandatory prepayments with:

- 50% of excess cash flow, with elimination based upon achievement and maintenance of a leverage ratio of less than 3.50:1.00;

- 100% of the net cash proceeds of all asset sales or other dispositions of property by Regal Cinemas and its subsidiaries, subject to certain exceptions (including reinvestment rights);

- 100% of the net cash proceeds of issuances of funded debt of Regal Cinemas and its subsidiaries, subject to exceptions; and

- 50% of the net cash proceeds of issuances of equity securities by Regal Cinemas, including the net cash proceeds of capital contributions to Regal Cinemas, with elimination based upon achievement and maintenance of a leverage ratio of less than 3.50:1.00.

The above-described mandatory prepayments are required to be applied pro rata to the remaining amortization payments under the Term Facility. When there are no longer outstanding loans under the Term Facility, mandatory prepayments are to be applied to prepay outstanding loans under the Revolving Facility with no corresponding permanent reduction of commitments under the Revolving Facility.

The Senior Credit Facility includes several financial covenants including:

- maximum ratios of (i) the sum of funded debt (net of unencumbered cash) plus the product of eight (8) times lease expense to (ii) consolidated EBITDAR (as defined in the Senior Credit Facility) (initially set at 6.00:1.00 and declining in subsequent periods);

- maximum ratios of funded debt (net of unencumbered cash) to consolidated EBITDA, (initially equal to 4.00:1.00 and declining in subsequent periods);

- minimum ratio of (i) consolidated EBITDAR to (ii) the sum of interest expense plus lease expense of 1.50 to 1.0 throughout the term of the Senior Credit Facility; and

- maximum capital expenditures not to exceed 35% of consolidated EBITDA for the prior fiscal year plus a one-year carryforward for unused amounts from the prior fiscal year.

The Senior Credit Facility contains customary affirmative covenants including, among other things, maintenance of corporate existence and rights; performance of obligations; delivery of financial statements and other financial information; delivery of notices of default, litigation, ERISA events and material adverse change; maintenance of properties; maintenance of insurance; maintenance of a rating of the Senior Credit Facility by each of Standard & Poor's Ratings Services and Moody's Investors

Service, Inc; compliance with laws; inspection of books and properties; further assurances; and payment of taxes.

The Senior Credit Facility also contains customary negative covenants (subject to exceptions, limitations and baskets) which limit the ability of Regal Cinemas and its subsidiaries to, among other things, incur indebtedness, grant liens, make investments or acquisitions, engage in affiliate transactions, or pay dividends. These limitations will restrict the ability of Regal Cinemas to fund the operations of the Company or any subsidiary of the Company that is not a subsidiary of Regal Cinemas.

The Senior Credit Facility specifies customary events of default including, among other things, nonpayment of principal, interest or other amounts; violation of covenants; incorrectness of representations and warranties in any material respect; cross default and cross acceleration with respect to indebtedness in an aggregate principal amount of $25.0 million or more; bankruptcy; judgments involving liability of $25.0 million or more; ERISA events; actual or asserted invalidity of guarantees or security documents; and change of control.

Interest Rate Swaps On July 13, 2004, Regal Cinemas entered into four hedging relationships via four distinct interest rate swap agreements with final maturity terms ranging from three to five years each. These swaps were assigned to hedge approximately $800.0 million of variable rate liabilities under the Senior Credit Facility. Under the terms of the interest rate swap agreements, Regal Cinemas pays interest at various fixed rates ranging from 3.49% to 4.15% and will 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 following three-month period. The interest rate swaps settle any accrued interest for cash on the last day of each calendar quarter, until expiration. At such dates, the differences to be paid or received on the swaps will be included in interest expense. No premium or discount was incurred upon the Company entering into the swaps, because the pay and receive rates on the swaps represented prevailing rates for each counterparty at the time the swaps were entered into. The interest rate swaps prospectively qualified 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 3-month LIBOR on approximately $800.0 million of the aforementioned credit facility. The change in the fair values of the swaps is recorded on the Company's consolidated balance sheet as an asset or liability with the effective portion of the swaps' gains or losses reported as a component of other comprehensive income (loss) and the ineffective portion reported in earnings. As interest expense is accrued on the debt obligation, amounts in accumulated other comprehensive income/loss related to the designated hedging instruments (the four interest rate swaps) will be reclassified into earnings to obtain a net cost on the debt obligation equal to the effective yield of the fixed rate of each swap. The fair value of the Company's interest rate swaps is based on dealer quotes, and represents an estimate of the amounts Regal Cinemas would receive or pay to terminate the agreements taking into consideration various factors, including current interest rates. As of September 30, 2004, the aggregate fair value of the swaps was determined to be approximately ($11.9 million), which has been recorded as a component of "Other Non-Current Liabilities" with a corresponding debit of $7.2 million, net of tax, recorded to "Accumulated Other Comprehensive Loss." The swaps exhibited no ineffectiveness for the quarter ended September 30, 2004.

Other Long-Term Obligations All other long-term obligations not explicitly discussed herein are described in Note 7 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2004.

4. INCOME TAXES

The provision for income taxes of $19.5 million and $29.4 million for the quarters ended September 30, 2004 and September 25, 2003 reflect effective tax rates of approximately 41.2% and

39.9%, respectively. The provision for income taxes of $40.7 million and $83.5 million for the three quarters ended September 30, 2004 and September 25, 2003 reflect effective tax rates of approximately 41.2% and 39.7%, respectively. The effective tax rates for the quarter and three quarters ended September 30, 2004 reflect the impact of certain non-deductible expenses.

For federal income tax purposes, the Company has carryover tax basis in certain assets acquired in the Hoyts acquisition described in Note 2 "Acquisitions." Such acquired entities had net operating loss carryforwards totaling approximately $155.4 million as of the date of acquisition. Pursuant to certain IRS limitations, the Company's minimum allowable annual deduction with respect to the Hoyts net operating loss carryforwards is approximately $8.6 million. As of September 30, 2004, the Company has recorded deferred tax assets in the amount of approximately $33.9 million, net of a valuation allowance of approximately $13.9 million, in connection with the Hoyts acquisition.

In assessing the realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The Company has recorded a valuation allowance against deferred tax assets at September 30, 2004 and January 1, 2004, totaling $48.0 million and $48.9 million, respectively, as management believes it is more likely than not that the deferred tax assets would not be realized in future tax periods. The valuation allowance relates to pre-acquisition deferred tax assets of Edwards, United Artists and Hoyts. Accordingly, future reductions in the valuation allowance will reduce goodwill related to these respective acquisitions.

5. CAPITAL STOCK AND STOCK BASED COMPENSATION

Capital Stock

As of September 30, 2004, the Company's authorized capital stock consisted of:

500,000,000 shares of Class A common stock, par value $0.001 per share;

200,000,000 shares of Class B common stock, par value $0.001 per share; and

50,000,000 shares of preferred stock, par value $0.001 per share.

Of the authorized shares of Class A common stock, 18,000,000 shares were sold in connection with the Company's initial public offering in May 2002. The Company's Class A common stock is listed on the New York Stock Exchange ("NYSE") under the trading symbol "RGC." As of September 30, 2004, 55,105,061 shares of Class A common stock were outstanding. Of the authorized shares of Class B common stock, 89,216,142 shares were outstanding as of September 30, 2004, all of which are held by The Anschutz Company and OCM Principal Opportunities Fund II, L.P. and its subsidiaries. Each share of Class B common stock converts into one share of Class A Common stock at the option of the holder or upon certain transfers of a holder's Class B common stock. Each holder of Class B common stock is entitled to ten votes for each outstanding share of Class B common stock owned by that stockholder on every matter properly submitted to the Stockholders for their vote. Of the authorized shares of the preferred stock, no shares were issued and outstanding as of September 30, 2004. The Class A common stock is entitled to one vote for each outstanding share of Class A common stock on every matter properly submitted to the stockholders for a vote. The Class A and Class B common stock vote together as a single class on all matters submitted to the stockholders for a vote. The material terms and provisions of the Company's certificate of incorporation affecting the relative rights of the Class A common stock and the Class B common stock are described in Note 12 to the financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2004.

Warrants

Other than as disclosed in Notes 3 and 8, no warrants to acquire the Company's common stock were outstanding as of September 30, 2004.

Stock-based Compensation

In connection with the June 2, 2004 extraordinary cash dividend and pursuant to the antidilution adjustment terms of the 2002 Stock Incentive Plan, the exercise price and the number of shares of Class A common stock subject to options held by the Company's option holders were adjusted to prevent dilution and restore their economic position to that existing immediately before the extraordinary dividend. The antidilution adjustments made with respect to such options resulted in a decrease in the range of exercise prices, which is currently from $2.6901 to $17.83 per share, an increase in the aggregate number of shares issuable upon exercise of such options by 2,617,820 and an increase in the total number of authorized shares under the Plan to 16,110,241. As of September 30, 2004 and after giving effect to the antidilution adjustments, the Company had outstanding options to purchase a total of 11,010,832 shares of Class A common stock under the Plan. There were no accounting consequences for changes made to reduce the exercise prices and increase the number of shares underlying options as a result of the extraordinary dividend because (1) the aggregate intrinsic value of the awards immediately after the extraordinary dividend was not greater than the aggregate intrinsic value of the awards immediately before the extraordinary dividend and (2) the ratio of the exercise price per share to the market value per share was not reduced.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure." SFAS No.148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to SFAS No. 123's fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No.123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. Under SFAS No. 123, entities are permitted to recognize as expense the fair value of all stock-based awards on the date of grant over the vesting period and alternatively allows entities to continue to apply the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, and provide pro forma net income or loss and earnings or loss per share disclosures as if the fair-value-based method defined in SFAS No. 123 had been applied.

The Company has elected to continue accounting for its stock option grants under its 2002 Stock Incentive Plan using the intrinsic value method in accordance with the provisions of APB No. 25, which requires compensation costs to be recognized for the excess of the fair value of options on the date of grant over the option exercise price. Had the fair value of options granted under the Company's 2002 Stock Incentive Plan been recognized in accordance with SFAS No. 123, as compensation expense on a straight-line basis over the vesting period of the grants, the Company's reported net income and diluted

earnings per share would have been recorded in the amounts indicated below (in millions, except per share data):

	Quarter Ended September 30, 2004	Quarter Ended September 25, 2003	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
Net income:	$ 27.8	$ 44.2	$ 58.0	$ 126.6
Less: additional stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$ (0.8)	$ (0.7)	$ (2.2)	$ (2.2)
Pro forma net income	$ 27.0	$ 43.5	$ 55.8	$ 124.4
Basic earnings per share:				
As reported	$ 0.19	$ 0.31	$ 0.40	$ 0.92
Pro forma	$ 0.19	$ 0.31	$ 0.39	$ 0.91
Diluted earnings per share:				
As reported	$ 0.19	$ 0.30	$ 0.39	$ 0.89
Pro forma	$ 0.18	$ 0.30	$ 0.38	$ 0.88

6. COMMITMENTS AND CONTINGENCIES

Sale-Leaseback Transaction

During the quarter ended April 1, 2004, Regal Cinemas entered into a sale and leaseback transaction involving one of its owned theatres. Under the terms of this transaction, Regal Cinemas sold the land and related improvements of the theatre for approximately $11.5 million and leased it back for an initial lease term of approximately 14 years. The Company accounts for this lease as an operating lease. The gain on the transaction of $2.0 million was deferred and is being amortized over the term of the lease agreement.

Bankruptcy Claims

Regal Cinemas, Inc. and Edwards have bankruptcy claims that remain unsettled and are subject to ongoing negotiation and possible litigation. At September 30, 2004, Regal Cinemas had accrued approximately $1.2 million for the estimated costs to resolve such bankruptcy claims. In the opinion of management, based on its examination of these matters, its experience to date and discussions with legal counsel, the outcome of these legal matters, after taking into consideration the amounts already accrued, is not expected to have a material effect on the Company's liquidity or results of operations. To the extent claims are allowed by the bankruptcy court, they will be funded with cash on hand or cash flow from operations.

Other

Regal Cinemas, Inc., Edwards and United Artists are defendants in a number of claims arising from their decision to file voluntary petitions for bankruptcy relief and to close theatre locations or to cease construction of theatres on sites for which such entities had contractual obligations to lease such property. We are also presently involved in various legal proceedings arising in the ordinary course of our business operations, including personal injury claims, employment and contractual matters and

other disputes. We believe we have adequately provided for the settlement of such matters. Management believes any additional liability with respect to the above proceedings will not be material in the aggregate to our consolidated financial position, results of operations or cash flows.

On March 18, 2003, Reading International, Inc., Citadel Cinemas, Inc. and Sutton Hill Capital, LLC (collectively, the "Plaintiffs") filed a complaint and demand for jury trial in the United States District Court for the Southern District of New York against Oaktree Capital Management LLC, Onex Corporation, Regal, United Artists, United Artists Theatre Circuit, Inc., Loews Cineplex Entertainment Corporation ("Loews"), Columbia Pictures Industries, Inc., The Walt Disney Company, Universal Studios, Inc., Paramount Pictures Corporation, Metro-Goldwyn-Mayer Distribution Company, Fox Entertainment Group, Inc., Dreamworks LLC, Stephen Kaplan and Bruce Karsh (collectively, the "Defendants") alleging various violations by the Defendants of federal and state antitrust laws and New York common law. The Plaintiffs allege, among other things, that the consolidation of the theatre industry and alleged agreements between and among Regal, movie distributors, and Loews have adversely impacted their ability to exhibit first-run industry-anticipated top-grossing commercial films at their Village East theatre in Lower Manhattan, and are seeking, among other things, a declaration that the Defendants' conduct is in violation of antitrust laws, damages, and equitable relief enjoining Defendants from engaging in future anticompetitive conduct. On December 10, 2003, the court granted Defendants' motion to dismiss in part, thereby dismissing several of Plaintiffs' claims and dismissing Sutton Hill as a plaintiff. On December 24, 2003, Plaintiffs amended their complaint to add Village East Limited Partnership as a Plaintiff. Management believes that the remaining allegations and claims are without merit and intends to defend vigorously the Plaintiffs' claims.

Our theatres must comply with Title III of the Americans with Disabilities Act of 1990 (the "ADA") to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires that public accommodations "reasonably accommodate" individuals with disabilities and that new construction or alterations made to "commercial facilities" conform to accessibility guidelines unless "structurally impracticable" for new construction or technically infeasible for alterations. Non-compliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants and additional capital expenditures to remedy such non-compliance. United Artists and several of its subsidiaries and UATG are subject to a consent decree arising from a lawsuit captioned Connie Arnold et. al. v. United Artists Theatre Circuit, Inc. et. al. The plaintiffs alleged nationwide violations with the ADA for failure to remove barriers to access at existing theatres in a timely manner. In 1996, the parties involved in the case entered into a settlement agreement in which United Artists agreed to remove physical barriers to access at its theatres prior to July 2001. In January 2001, the settlement agreement was amended to, among other things, extend the completion date for barrier removal to July 2006 and require minimum expenditures of $250,000 a year for barrier removal.

On August 13, 2003, the United States Court of Appeals for the Ninth Circuit reversed the United States District Court for the District of Oregon's award of summary judgment in favor of our subsidiaries identified below with respect to an ADA claim on appeal before it, and remanded the case to the district court with instructions to enter summary judgment in favor of the plaintiffs (other than Oregon Paralyzed Veterans of America, which did not join in the appeal). The lawsuit was originally filed in the district court on April 11, 2000 by the Oregon Paralyzed Veterans of America, Kathy Stewmon, Tina Smith and Kathy Braddy against Regal Cinemas, Inc. and Eastgate Theatre Inc. dba Act III Theatre, Inc. The plaintiffs alleged, among other things, that the "stadium seating" plans in six of the defendants' movie theatres violate the ADA and the related regulations of the Department of Justice. The appellate court did not address specific changes, if any, that might be required to bring the stadium-style theatres into compliance with its interpretation of the ADA, and its decision conflicts with

a decision, based upon substantially similar facts, of the United States Court of Appeals for the Fifth Circuit captioned *Lara v. Cinemark USA, Inc*. We believe we are in compliance with the ADA regulation with respect to the subject theatres and as such appealed the Ninth Circuit's decision to the Supreme Court of the United States. On June 28, 2004, the Supreme Court denied our request for review. The matter is currently pending and will revert back to the District court for a determination of what, if anything, the Company will be required to do with respect to the claimed need to make the facilities more accessible.

On December 18, 2000, the United States filed an action against Hoyts in the District of Massachusetts entitled *United States v. Hoyts Cinema Corporation*. The complaint alleges that the seating in each of Hoyts' 26 stadium-style theaters violated the ADA because it fails to provide wheelchair-bound patrons with lines of sight comparable to those available to other members of the general public and denies persons in wheelchairs access to the stadium portion of the theater. In March 28, 2003, Regal acquired 19 of the affected theatres from Hoyts and assumed the litigation associated therewith. On March 31, 2003, the district court granted summary judgment to the United States finding that in order to comply with the ADA wheelchair seats had to be placed in the stadium section, but also ruled that the only theaters that required retrofitting by placing wheelchair seating within the stadium section of the theater, were those constructed or refurbished after December 18, 2000. Both Hoyts and the United States appealed the district court's decision. On August 20, 2004, the United States Court of Appeals for the First Circuit vacated the district court's summary judgment decision finding that the government's interpretation that the ADA requires access to the stadium portion of the theater for wheelchair-bound patrons was not controlling and remanded the case to the district court for further proceedings.

We believe that we are in substantial compliance with all current applicable regulations relating to accommodations for the disabled. We intend to comply with future regulations in this regard, and except as set forth above, we do not currently anticipate that compliance will require us to expend substantial funds. Our theatre operations are also subject to federal, state and local laws governing such matters as wages, working conditions, citizenship and health and sanitation requirements. We believe that we are in substantial compliance with all of such laws.

7. RELATED PARTY TRANSACTIONS

During the quarter ended September 30, 2004, the Company incurred approximately $0.9 million of expenses payable to an Anschutz affiliate for telecommunication services and less than $0.1 million of expenses payable to an Anschutz affiliate for reimbursement of travel related expenses, primarily the use of an airplane, and approximately $0.1 million of expenses payable to Anschutz affiliates for certain programming content, marketing and business services.

During the quarter ended September 30, 2004, an Anschutz affiliate paid us for rent and other expenses related to a theatre facility, which totaled less than $0.1 million. Under this agreement, the Anschutz affiliate pays Regal Cinemas approximately $0.3 million annually for rent and other expenses related to this facility.

8. EARNINGS PER SHARE

Basic earnings per share is computed on the basis of the weighted average number of the common shares outstanding. Diluted earnings per share is computed on the basis of the weighted average number of common shares outstanding plus the effect of potentially dilutive common stock options and

warrants, using the treasury stock method. The components of basic and diluted earnings per share are as follows (in millions, except share data):

	Quarter Ended September 30, 2004	Quarter Ended September 25, 2003	Three Quarters Ended September 30, 2004	Three Quarters Ended September 25, 2003
Net income	$ 27.8	$ 44.2	$ 58.0	$ 126.6
Weighted average shares outstanding (in thousands):				
Basic:	144,028	141,816	143,244	137,365
Add common stock equivalents	6,067	3,525	4,508	4,508
Diluted:	150,095	145,341	147,752	141,873
Earnings per share				
Basic:	$ 0.19	$ 0.31	$ 0.40	$ 0.92
Diluted	$ 0.19	$ 0.30	$ 0.39	$ 0.89

Common stock equivalents consist principally of stock options and warrants. Stock options and warrants to purchase 11.6 million shares of common stock were outstanding at September 25, 2003, but were not included in the computation of diluted earnings per share because their inclusion would have been antidilutive. There were no antidilutive stock options and warrants outstanding as of September 30, 2004.

The $240.0 million convertible senior notes discussed in Note 3 allow us to settle any conversion, and we have the intent to settle any conversion, by remitting to the note holder the accreted value of the note in cash, while settling the conversion spread in the shares of our Class A common stock. The accounting for convertible debt with such settlement features is addressed in the consensus reached by the EITF with respect to the accounting for Instrument C as set forth in EITF 90-19, "Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion." It is our intent to settle the notes' conversion obligations consistent with Instrument C. Because the accreted value of the notes will be settled for cash upon the conversion, only the conversion spread, which will be settled in stock, will result in potential dilution in our earnings-per-share computations under current accounting standards. On September 30, 2004, the closing sale price of our Class A common stock was $19.10, which exceeded 110% of the then current conversion price of $15.9741 on the notes. Accordingly, as of September 30, 2004, our note holders held the right, at their option, to convert their notes, in whole or in part, into shares of our Class A common stock, subject to certain limitations, at the then conversion price of $15.9741. The average sales price of our Class A common stock was $18.47 during the quarter ended September 30, 2004. Utilizing the treasury stock method, the conversion spread resulted in dilution of approximately 2.0 million and 0.7 million shares in our diluted earnings per share computations for the quarter and three quarters ended September 30, 2004.

In addition, as described in Note 3, we entered into convertible note hedge and warrant transactions which, in combination, have the effect of reducing the dilutive impact of the Regal 3³/₄% Convertible Senior Notes by increasing the effective conversion price for these notes from our economic perspective to $18.4317. SFAS No. 128, "Earnings Per Share," however, requires us to analyze the impact of the Convertible Note Hedge and Warrant on diluted earnings per share separately. As a result, the purchase of the Convertible Note Hedge is excluded because its impact will always be antidilutive. SFAS No. 128 further requires that the impact of the sale of the Warrant be computed using the treasury stock method. The average share price of our stock was $18.47 during the quarter ended September 30, 2004. The Warrant resulted in dilution of approximately less than

0.1 million shares in our diluted earnings per share computations for the quarter and three quarters ended September 30, 2004. If the average sales price of our Class A common stock during the period ended September 30, 2004 had been $18.4317, $20.00 or $22.00, the number of shares from the Warrant to be included in diluted earnings per share for the quarter ended September 30, 2004 would have been zero, 1.2 million and 2.4 million, respectively. As of September 30, 2004, the maximum number of shares that could potentially be included under the Warrant is 15.0 million.

The FASB has issued an Exposure Draft entitled, "Earnings per Share, an amendment of SFAS No. 128." The Exposure Draft proposes that when an entity has issued a contract that may be settled either in shares or in cash at the entity's option, the entity should presume that the contract will be settled in shares, if the effect to earnings per share is dilutive. That presumption may not be overcome, regardless of past practice or stated policy to the contrary. As a result, shares that would be issued upon the assumed conversion of the Company's $240.0 million convertible senior notes would be included in diluted earnings per share to the extent dilutive using the "if-converted" method. The comment period for the Exposure Draft ended April 13, 2004, and the effective date for the proposed Statement is fiscal years ending after December 15, 2004. Upon adoption, all prior period earnings per share data would be adjusted to conform to the provisions of the Statement. Had the provisions of the Exposure Draft been effective for the reporting periods included herein, diluted earnings per share for the quarter ended September 30, 2004 would have been $0.01 lower than the reported amount. There would have been no impact to reported diluted earnings per share for the three quarters ended September 30, 2004. Diluted earnings per share for the quarter and three quarters ended September 25, 2003 would have been $0.01 and $0.02 lower, respectively, than reported amounts. The Company is evaluating the Exposure Draft and potential alternative courses of action it might pursue, if any, with respect to the convertible notes to address the impact of the proposed literature.

9. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. The adoption of this interpretation did not have a material impact on the Company's consolidated financial position or results of operations. Interpretive guidance relating to FIN 46 is continuing to evolve and the Company's management will continue to assess various aspects of consolidations and variable interest entity accounting as additional guidance becomes available.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires certain financial instruments that embody obligations of the issuer and have

characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and as such, SFAS No. 150 represents a significant change in practice in the accounting for a number of mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS No. 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The Company's adoption of SFAS No. 150 did not have a material impact on its consolidated financial position, cash flows or results of operations.

In March 2004, the FASB issued a proposed Statement, "Share-Based Payment," that addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The proposed Statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees," and generally would require instead that such transactions be accounted for using a fair-value-based method. The proposed Statement would be effective for awards granted, modified, or settled in periods beginning after June 15, 2005, for public entities that used the fair-value based method of accounting under the original provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" for recognition or pro forma disclosure purposes. The Company is currently evaluating the impact the proposed Statement may have on its consolidated financial position, cash flows and results of operations.

10. SUBSEQUENT EVENTS

On October 26, 2004, the Company declared a cash dividend of $0.30 per share on each share of the Company's Class A and Class B common stock, payable on December 15, 2004, to stockholders of record on December 1, 2004.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-Q, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations", may constitute forward-looking statements. In some cases you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain factors as more fully discussed under the heading "Risk Factors" contained in our annual report on Form 10-K filed on March 16, 2004 with the Securities and Exchange Commission (File No. 001-31315) for the Company's fiscal year ended January 1, 2004. The following discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein.

The Company

We conduct our operations primarily through our wholly owned subsidiaries, Regal Cinemas, United Artists, Edwards, Hoyts and Regal CineMedia. We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 6,242 screens in 560 theatres in 40 states as of September 30, 2004. Regal CineMedia focuses exclusively on the expansion of ancillary businesses, such as advertising, and the creation of new complementary business lines that leverage our existing asset and customer bases. We believe the size, reach and quality of our theatre circuit provide an exceptional platform to realize economies of scale in our theatre operations and capitalize on Regal CineMedia's ancillary revenue opportunities.

We generate revenues primarily from admissions and concession sales. Additional revenues are generated by on-screen advertisements, rental of theatres for business meetings, concerts and other events distributed on a live or pre-recorded basis by Regal CineMedia over the Regal CineMedia Digital Content Network^{SM} (the "DCN"), vendor marketing programs and electronic video games located adjacent to the lobbies of certain of our theatres. Film rental costs depend on the popularity of a film and the length of time since the film's release and generally decline as a percentage of admission revenues the longer a film is in exhibition. Because we purchase certain concession items, such as fountain drinks and popcorn, in bulk and not pre-packaged for individual servings, we are able to improve our margins by negotiating volume discounts. Other operating expenses consist primarily of theatre labor and occupancy costs.

Regal was created through a series of transactions during 2001 and 2002. Anschutz acquired controlling equity interests in United Artists (our predecessor for accounting purposes) upon the emergence from bankruptcy reorganization on March 2, 2001 of the United Artists Bankrupt Entities. In the same manner, on September 29, 2001, Anschutz acquired controlling equity interests in the Edwards Bankrupt Entities. On January 29, 2002, Anschutz acquired a controlling equity interest in Regal Cinemas, Inc. when the Regal Cinemas, Inc. Bankrupt Entities emerged from bankruptcy reorganization. Anschutz exchanged its controlling equity interest in Regal Cinemas, Inc. for a controlling equity interest in Regal Cinemas immediately thereafter. In addition, Regal CineMedia was formed in February 2002 to focus on the development of ancillary revenues. Regal acquired the controlling equity interests of United Artists, Edwards, Regal Cinemas and Regal CineMedia through a series of transactions described in further detail in Note 1 to the financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2004.

The Company's financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas. These controlling equity interests have been recorded in the Company's financial statements at Anschutz's combined historical cost basis. The results of operations of the acquired Hoyts theatre locations have been included in the Company's financial statements for periods subsequent to the acquisition date of March 28, 2003. The results of operations of the seven theatres acquired during the quarter ended July 1, 2004 and the 28 operating theatres acquired from Signature Theatres on September 30, 2004 (see Note 2 "Acquisitions") have been included in the Company's financial statements for periods subsequent to the respective acquisition dates.

For a summary of industry trends as well as other risks and uncertainties relevant to the Company, see "Business Industry Trends" and "Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors" contained in our annual report on Form 10-K for the fiscal year ended January 1, 2004 and "Results of Operations" below.

Results of Operations for the Quarters and Three Quarters Ended September 30, 2004 and September 25, 2003

Overview

Based on our review of industry sources, national box office revenues were estimated to have increased approximately 2.9% for the first three calendar quarters of 2004. We believe that year-to-date national 2004 box office results have benefited from increased average ticket prices per patron, coupled with a slight increase in national attendance. The increase in average ticket price per patron is primarily attributable to increases in ticket prices and a favorable first quarter 2004 film mix consisting of a higher percentage of R-rated films, which resulted in sales of a greater proportion of full price tickets. During the second and third quarter of 2004, the film mix shifted to a more family-oriented and concession-friendly product, which moderated average ticket prices, but favorably impacted average concession revenues per patron for the year-to-date 2004 period. Based on our review of the same industry sources, we believe national box office revenues in the third calendar quarter of 2004 increased approximately 0.3% over that of the third calendar quarter of 2003. The leveling of third calendar quarter box office revenues is primarily attributable to film product that underperformed film product released in the comparable period of 2003 and to a lesser extent, the impact of the hurricanes in the Southeastern United States.

Total revenue for the Company's fiscal quarter ended September 30, 2004 ("Q3 2004 Period") was $611.3 million, a 3.0% decrease from total revenue of $629.9 million for the quarter ended September 25, 2003 ("Q3 2003 Period"). Total revenue for the Q3 2004 Period was unfavorably impacted by a 6.2% decline in attendance, primarily attributable to the industry factors discussed above and a significant calendar shift in the Company's Q3 2004 Period calendar, which exchanged the strong attendance week leading up to the July 4 holiday (June 27 through July 1) for the slow attendance week ended September 30, 2004 (September 26 through September 30). This calendar shift accounted for an estimated 5.7% decrease in attendance during the Q3 2004 Period, translating into lower box office and concession revenues. The decrease in total revenues for the Q3 2004 Period was partially offset by a combination of an increase in average ticket prices of 2.8% and increases in other revenues as a result of a 15% increase in Regal CineMedia revenues. Income from operations decreased 22.3% to $74.2 million for the Q3 2004 Period compared to $95.5 million in the Q3 2003 Period. Net income decreased 37.1% to $27.8 million in the Q3 2004 Period as compared to net income of $44.2 million in the Q3 2003 Period. Earnings per diluted share decreased to $0.19 for the Q3 2004 Period compared to $0.30 during the Q3 2003 Period. Earnings before interest, taxes, depreciation and amortization ("EBITDA") was $118.4 million for the Q3 2004 Period, a decrease of 12.4% from $135.1 million in the Q3 2003 Period and represented an EBITDA margin (EBITDA divided by total revenues) of approximately 19.4%. The decline in net income, diluted earnings per share, EBITDA and EBITDA

margin for the Q3 2004 Period was primarily attributable to the calendar shift and industry factors described above and the fixed cost nature of certain operating expenses discussed later in this section. A tabular reconciliation of net cash provided by operating activities to EBITDA to net income is provided below under "Results of Operations EBITDA."

Total revenue for the three quarters ended September 30, 2004 ("Fiscal 2004 Period") was $1,824.9 million, a 1.0% increase from total revenue of $1,806.1 million for the three quarters ended September 25, 2003 ("Fiscal 2003 Period"). The timing of our fiscal 2004 calendar resulted in a significant calendar shift for the Fiscal 2004 Period from the Fiscal 2003 Period. As a result, the Fiscal 2004 Period results lacked the benefit of the traditionally high attendance week between Christmas and New Year's Day included in the Fiscal 2003 Period results. The Fiscal 2004 Period results, however, include the benefit of the results of operations of the acquired Hoyts Cinemas theatres for all periods, whereas the results of operations of the acquired Hoyts Cinemas theatres were excluded from the first three months of the Fiscal 2003 Period because the Hoyts Cinemas acquisition did not occur until March 28, 2003. Excluding the negative impact of the calendar shift and the growth in total revenues due to the acquired Hoyts Cinemas theatres, the Company's calendar box office results on a per screen basis approximates the industry box office results for the comparative time period in the prior year. The Fiscal 2004 Period box office results also benefited from a 2.8% increase in average ticket prices per patron due to increases in ticket prices and sales of a greater proportion of full-price tickets from R-rated films during the first quarter of the Fiscal 2004 Period, partially offset by a decline in attendance of approximately 2.4%. In addition to the growth in box office revenues, we achieved growth in average concession revenues per patron and other revenues, on a per screen basis. The growth in average concession revenues per patron was benefited by price increases and a return to family-oriented and concession friendly film product in the second and third quarters of the Fiscal 2004 Period. In addition, an increase of 39% in Regal CineMedia revenues contributed to the increase in other revenues for the Fiscal 2004 Period. Income from operations decreased 4.5% to $249.7 million for the Fiscal 2004 Period compared to $261.4 million in the Fiscal 2003 Period. Net income decreased 54.2% to $58.0 million in the Fiscal 2004 Period as compared to net income of $126.6 million in the Fiscal 2003 Period. Earnings per diluted share decreased to $0.39 for the Fiscal 2004 Period compared to $0.89 during the Fiscal 2003 Period. EBITDA was $296.9 million for the Fiscal 2004 Period, a decrease of 21.0% from $375.9 million in the Fiscal 2003 Period and represented an EBITDA margin of 16.3%. The decline in net income, diluted earnings per share, EBITDA and EBITDA margin is primarily attributable to the factors discussed above and a loss on extinguishment of debt of $76.1 million recorded in the Fiscal 2004 Period as a result of the refinancing transactions described further in Notes 1 and 3 to the accompanying unaudited condensed consolidated financial statements. A tabular reconciliation of net cash provided by operating activities to EBITDA to net income is provided below under "Results of Operations EBITDA."

During the Q3 2004 Period and Fiscal 2004 Period, the Company made significant progress with its strategic initiatives:

- We demonstrated our commitment to providing incremental value to our stockholders. Total cash dividends distributed to our stockholders during the Fiscal 2004 Period, including the $718.3 million extraordinary dividend paid on June 2, 2004, totaled approximately $798.6 million. During the second and third quarters of 2004, we announced two increases (totaling approximately 67%) to our quarterly Class A and Class B common stock cash dividend to $0.30 per share. The $0.30 per share dividend will be effective for the upcoming fourth quarter 2004 dividend, declared on October 26, 2004. In addition, during the Q3 2004 Period, we instituted a share repurchase program, which provides for the authorization to repurchase up to $50 million of our outstanding Class A common stock.

- In May 2004, we completed a cash tender offer and consent solicitation for the $350.0 million aggregate principal amount of the Regal Cinemas $9^3/_8$% Senior Subordinated Notes due 2012

(the "Notes"). Approximately $298.5 million aggregate principal amount of the Notes were purchased, with total additional consideration for the tender offer and consent solicitation of approximately $56.3 million being paid. We financed the tender offer and consent solicitation with a portion of the proceeds from our new $1,750.0 million Senior Credit Facility.

On April 29, 2004, Regal acquired five theatres representing 49 screens in the Northeastern United States. On May 5, 2004, Regal acquired an additional two theatres with 26 screens in the Northeastern United States. On September 30, 2004, Regal acquired 30 theatres comprising 309 screens (including two theatres with 30 screens under construction) in California and Hawaii from Signature Theatres. The total aggregate cash purchase price for the combined acquisitions totaled approximately $223.6 million, including approximately $196.7 million for the Signature Theatres acquisition, subject to post-closing adjustments.

In addition to the Signature acquisition, we added 1 screen through expansion to an existing facility and closed 12 theaters with 91 screens, ending the Q3 2004 Period with 560 theaters and 6,242 screens.

Our Regal CineMedia business continued to contribute incremental revenue and EBITDA growth and EBITDA margin expansion for the Q3 2004 Period and the Fiscal 2004 Period.

The following table sets forth the percentage of total revenues represented by certain items included in our consolidated statements of operations for the Q3 2004 Period, the Q3 2003 Period, the Fiscal 2004 Period and the Fiscal 2003 Period (dollars and attendance in millions, except average ticket prices and average concession per patron):

	Q3 2004 Period		Q3 2003 Period		Fiscal 2004 Period		Fiscal 2003 Period	
	$	**% of Revenue**	**$**	**% of Revenue**	**$**	**% of Revenue**	**$**	**% of Revenue**
Revenues:								
Admissions	$ 410.4	67.1%	$ 425.7	67.6%	$ 1,229.5	67.4%	$ 1,226.9	67.9%
Concessions	154.6	25.3	160.9	25.5	470.6	25.8	471.1	26.1
Other operating revenues	46.3	7.6	43.3	6.9	124.8	6.8	108.1	6.0
Total Revenue	611.3	100.0	629.9	100.0	1,824.9	100.0	1,806.1	100.0
Operating Expenses:								
Film rental and advertising costs(1)	218.3	53.2	225.8	53.0	643.2	52.3	661.2	53.9
Cost of concessions(2)	23.8	15.4	23.4	14.5	70.4	15.0	66.8	14.2
Rent expense(3)	71.0	11.6	71.5	11.4	210.1	11.5	204.9	11.3
Other operating expense(3)	162.5	26.6	156.9	24.9	480.0	26.3	446.3	24.7
General and administrative expense(3)	15.6	2.6	15.9	2.5	47.9	2.6	46.3	2.6
Depreciation and amortization(3)	44.3	7.2	39.7	6.3	130.8	7.2	114.9	6.4
Merger and restructuring expenses and amortization of deferred stock compensation(3)	1.5	0.2	2.0	0.3	4.9	0.3	6.8	0.4
Net loss (gain) on disposal and impairment of operating assets(3)	0.1		(0.8)	(0.1)	(3.9)	(0.2)	(2.5)	(0.1)
Gain on lawsuit settlement(3)					(8.2)	(0.4)		
Total operating expenses(3)	537.1	87.9	534.4	84.8	1,575.2	86.3	1,544.7	85.5
Income from operations(3)	74.2	12.1	95.5	15.2	249.7	13.7	261.4	14.5
Interest expense, net(3)	26.8	4.4	21.8	3.5	67.4			