

REGAL ENTERTAINMENT GROUP
Form 10-K
March 02, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended January 1, 2009

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)

7132 Regal Lane
Knoxville, TN
(Address of Principal Executive Offices)

37918
(Zip Code)

Registrant's Telephone Number, Including Area Code: **865/922-1123**

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$.001 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and

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(2) has been subject to such filing requirements for the past 90 days: Yes No

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 26, 2008, computed by reference to the closing price for the registrant's Class A common stock on the New York Stock Exchange on such date was \$1,957,717,242 (128,797,187 shares at a closing price per share of \$15.20).

Shares of Class A common stock outstanding 130,132,356 shares at February 25, 2009

Shares of Class B common stock outstanding 23,708,639 shares at February 25, 2009

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement to be used in connection with its 2009 Annual Meeting of Stockholders and to be filed within 120 days of January 1, 2009 are incorporated by reference into Part III, Items 10-14, of this report on Form 10-K.

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REGAL ENTERTAINMENT GROUP

PART I

The information in this Form 10-K contains certain forward-looking statements, including statements related to trends in the Company's business. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as those discussed elsewhere in this Form 10-K.

Item 1. BUSINESS

THE COMPANY

Regal Entertainment Group, a Delaware corporation organized on March 6, 2002 ("we," "us," "our," 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. Regal Cinemas' subsidiaries include Regal Cinemas, Inc. ("RCI") and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards"), Regal CineMedia Corporation ("RCM"), Hoyts Cinemas Corporation ("Hoyts") and United Artists Theatre Company ("United Artists"). The terms Regal or the Company, REH, Regal Cinemas, RCI, Edwards, RCM, Hoyts and United Artists 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.

Our Internet address is www.regalentertainmentgroup.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to these reports, are available free of charge on our Internet website under the heading "Investor Relations" as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

The Company manages its business under one reportable segment: theatre exhibition operations.

DESCRIPTION OF BUSINESS

Overview

We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 6,801 screens in 552 theatres in 39 states and the District of Columbia as of January 1, 2009, with over 245 million annual attendees for the fifty-three week fiscal year ended January 1, 2009 ("fiscal 2008"). Our geographically diverse circuit includes theatres in all of the top 33 and 44 of the top 50 U.S. designated market areas. We operate multi-screen theatres and have an average of 12.3 screens per location, which is well above the North American motion picture exhibition industry 2007 average of 6.5 screens per location. We develop, acquire and operate multi-screen theatres primarily in mid-sized metropolitan markets and suburban growth areas of larger metropolitan markets throughout the U.S.

The Company's fiscal year ends on the first Thursday after December 25, which in certain years (such as fiscal 2008) results in a 53-week fiscal year. For fiscal 2008, we reported total revenues, income from operations and net income of \$2,771.9 million, \$284.4 million and \$72.5 million, respectively. In addition, we generated \$270.9 million of cash flows from operating activities during fiscal 2008.

We also maintain an investment in National CineMedia, LLC ("National CineMedia" or "NCM"). National CineMedia primarily concentrates on in-theatre advertising and creating complementary business lines that leverage the operating personnel, asset and customer bases of its theatrical exhibition partners, which includes us, AMC Entertainment, Inc. ("AMC") and Cinemark, Inc. ("Cinemark"). National CineMedia operates the largest digital in-theatre network in North America

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and utilizes its in-theatre digital content network to distribute pre-feature advertising, cinema and lobby advertising and entertainment programming content. See "National CineMedia Joint Venture" under Part I, Item I of this Form 10-K for further discussion of National CineMedia.

Business Strategy

Our business strategy focuses on enhancing our position in the motion picture exhibition industry by capitalizing on prudent industry consolidation opportunities, realizing selective growth opportunities through new theatre construction and expanding and upgrading our existing asset base with new technologies. This strategy should enable us to continue to produce the free cash flow necessary to maintain a prudent allocation of our capital among dividend payments, debt service and repayment and investment in our theatres assets, all to provide meaningful value to our stockholders. Key elements of our strategy include:

Maximizing Stockholder Value. We believe that our cash dividends are an efficient means of distributing value to our stockholders. From our initial public offering in May 2002 through January 1, 2009, we have returned over \$2.7 billion to our stockholders in the form of cash dividends.

Pursuing Strategic Acquisitions. We believe that our acquisition experience and capital structure position us well to take advantage of future acquisition opportunities. We intend to selectively pursue accretive theatre acquisitions that enhance our asset base and improve our consolidated operating results.

Pursuing Selective Growth Opportunities. We intend to selectively pursue expansion opportunities through new theatre construction that meets our strategic and financial return criteria. We also intend to enhance our theatre operations by selectively expanding and upgrading existing properties in prime locations. In addition, we will continue to create new strategic marketing and loyalty programs aimed at increasing attendance and enhance our food and beverage offerings.

Pursuing Premium Experience Opportunities. We continue to embrace new technologies to enhance the movie-going experience and broaden our content offerings. Specifically, the installation of digital projection systems, when combined with 3D technology or IMAX® theatre systems, will allow us to offer our patrons premium 3D and large format movie experiences, which we believe will generate incremental revenue for the Company. In addition, we believe digital projections systems will allow us to broaden our offerings by permitting producers of specialty content cost-efficient access to our screens.

Competitive Strengths

We believe that the following competitive strengths position us to capitalize on future opportunities:

Industry Leader. We are the largest domestic motion picture exhibitor operating 6,801 screens in 552 theatres in 39 states and the District of Columbia. We believe that the quality and size of our theatre circuit is a significant competitive advantage for negotiating attractive national contracts and generating economies of scale. We believe that our market leadership allows us to capitalize on favorable attendance trends and attractive consolidation opportunities.

Superior Management Drives Strong Operating Margins. We have developed a proven operating philosophy focused on efficient operations and strict cost controls at both the corporate and theatre levels. At the corporate level, we are able to capitalize on our size and operational expertise to achieve economies of scale in purchasing and marketing functions. We have developed an efficient purchasing and distribution supply chain that generates favorable concession margins. At the theatre level, management devotes significant attention to cost controls through the use of detailed management

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reports and performance-based compensation programs to encourage theatre managers to control costs effectively and increase concession sales.

Proven Acquisition and Integration Expertise. We have significant experience identifying, completing and integrating acquisitions of theatre circuits. Since our 2002 initial public offering, we have demonstrated our ability to enhance revenues and realize operating efficiencies through the successful acquisition and integration of seven theatre circuits, consisting of 149 theatres and 1,702 screens, including the acquisition of Consolidated Theatre Holdings, G.P. ("Consolidated Theatres") in fiscal 2008. We have generally achieved immediate cost savings at acquired theatres and improved their profitability through the application of our consolidated operating functions and key supplier contracts.

Quality Theatre Portfolio. We believe that we operate one of the most modern theatre circuits among major motion picture exhibitors. As of January 1, 2009, approximately 78% of our screens were located in theatres featuring stadium seating. As of January 1, 2009, approximately 85% of our screens were located in theatres with 10 or more screens. Our theatres have an average of 12.3 screens per location, which is well above the North American motion picture exhibition industry 2007 average of 6.5 screens per location. We believe that our modern theatre portfolio coupled with our operating margins should allow us to generate significant cash flows from operations. We believe that our theatre circuit will be further enhanced with the installation of digital projection systems in our theatres.

Investment in National CineMedia. National CineMedia operates the largest digital in-theatre network in North America representing approximately 17,000 U.S. and Canadian theatres screens (of which 14,700 are part of National CineMedia's digital content network) as of September 25, 2008 and reaching over 685 million movie guests annually. National CineMedia utilizes its in-theatre digital content network to distribute pre-feature advertising, cinema and lobby advertising and entertainment programming content. We believe our investment in National CineMedia will generate incremental value for our stockholders.

Dividend Policy

We believe that paying dividends on our shares of common stock is important to our stockholders. To that end, during fiscal 2008, we paid to our stockholders four quarterly cash dividends of \$0.30 per share, on each outstanding share of our Class A and Class B common stock, or approximately \$184.2 million in the aggregate. Further, on January 21, 2009, we declared a cash dividend of \$0.18 per share on each outstanding share of Class A and Class B common stock. The dividend is payable on March 17, 2009 to our stockholders of record on March 5, 2009. This dividend reflects a \$0.12 per share reduction from our last quarterly cash dividend of \$0.30 per share declared on October 23, 2008. These dividends have been or will be funded through cash flow from operations and available cash on hand. We, at the discretion of our board of directors and subject to applicable law, anticipate paying regular quarterly dividends on our Class A and Class B common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors. Dividends are considered quarterly and may be paid only when approved by our board of directors.

INDUSTRY OVERVIEW AND TRENDS

The domestic motion picture exhibition industry is a mature business which has historically maintained steady long-term growth in revenues and attendance. Since 1965, total box office revenues have grown at a compound annual growth rate of approximately 5% with annual attendance of approximately 1.4 billion attendees in 2008. Against this background of steady long-term growth in revenues and attendance, the exhibition industry has experienced periodic short-term increases and

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decreases in attendance and, consequently, box office revenues. We expect the cyclical nature of the domestic motion picture exhibition industry to continue for the foreseeable future.

More recently, the domestic motion picture exhibition industry has experienced increased competition from other methods of delivering films to consumers, including cable television, in-home video and DVD, satellite and pay-per-view services and downloads via the Internet. Traditionally, when motion picture distributors licensed their films to the domestic exhibition industry, they refrained from licensing their products to other delivery channels for a period of time, commonly called the theatrical release window. Over the past several years, the average period between a film's theatrical release and its in-home video or DVD release has remained relatively stable. Fundamentally, we believe that movie-going is a convenient, affordable and attractively priced form of out-of-home entertainment, which, on an average price per patron basis, continues to compare favorably to other out-of-home entertainment alternatives, such as concerts and sporting events.

We believe a modern megaplex featuring stadium seating is preferred by patrons over a sloped-floor multiplex theatre, the predominant theatre-type built prior to 1996. We believe theatres larger than the current 10 to 18 screen megaplex are not able to generate attractive returns in most locations because of the substantial market suitability requirements to generate a level of profitability similar to the current megaplex format. We also believe that another evolution of theatre formats beyond the current megaplex is unlikely to occur in the foreseeable future.

The domestic motion picture industry is in the process of converting from film-based media to electronic-based media, including the distribution of feature films in a digital format rather than a 35 mm film format. Virtually all entertainment content today can be exhibited digitally. Digital projection produces a consistent state-of-the-art presentation for patrons as there is no degradation of image over the life of a film. We believe that operating a digital theatre circuit will enable us to generate incremental revenue from differentiated motion picture formats such as digital 3D and IMAX®, generate additional revenue from exhibition of specialty content offerings and provide greater flexibility in exhibiting our programming content, which we expect will enhance our capacity utilization. Given our market presence, the overall diversity of our patron base and our high average screen per theatre count, we believe the benefits associated with digital technologies will be significant for our theatre circuit and will provide us with the opportunity for incremental revenue. We remain optimistic regarding the benefits of digital cinema primarily as it relates to future growth potential associated with 3D film product and other 3D content and are pleased to see growing support of 3D and IMAX® film product by the major studios. We have also experienced an increase in alternative content available to us. As directors and producers continue to embrace new technology in their productions, we expect new and innovative content generation to continue.

To that end, on February 12, 2007, we, along with AMC and Cinemark, formed Digital Cinema Implementation Partners, LLC ("DCIP"), to create a financing model and establish agreements with major motion picture studios for the implementation of digital cinema. Travis Reid, the former president and chief executive officer of Loews Theatres, serves as the chief executive officer of DCIP and DCIP has engaged J.P. Morgan Securities Inc. to assist with the review of a business plan for digital cinema and with identifying and evaluating potential financing and capital structure alternatives. Future digital cinema developments will be managed by DCIP, subject to the approval of us, AMC and Cinemark. Each of Regal, AMC and Cinemark has an equal ownership and voting interest in DCIP. Recently, DCIP announced the execution of long-term deployment agreements with five film studios. DCIP is continuing to work with the film studios and financial institutions to negotiate and finalize the related financing plans that would provide for a studio-financed conversion to digital projection. Upon completion of the financing, we are prepared to begin converting our existing theatres from 35 mm film projection to digital projection and intend to complete the conversion of our entire circuit in approximately three to four years. Through January 1, 2009, we operated 246 digital screens outfitted with digital projection systems and increased our digital 3D screen count to 168. During 2008, we

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announced an agreement with IMAX® to expand our IMAX® presence by agreeing to install a total of 52 IMAX® digital projection systems by the end of 2010. With the rollout of digital cinema, we expect to increase our total digital 3D screen count to approximately 1,500.

The costs of implementing digital projection in our theatres will be substantially funded by DCIP. DCIP has yet to execute definitive agreements concerning the extent of such funding, but based on current negotiations, we expect that with respect to our existing theatres, allowances from DCIP will cover substantially all of the costs of installing digital projection systems, and with respect to our new-build theatres, allowances from DCIP will cover the estimated incremental cost of digital projection systems over conventional film projectors. We expect DCIP to fund allowances through the collection of virtual print fees ("VPFs") from motion picture studios. We will bear operating and maintenance costs with respect to digital projection systems in our theatres, which we expect to be similar to what we currently spend on our conventional film projectors.

Our ability to implement digital cinema systems in accordance with our plans will depend on the availability of equipment from third-party vendors and on the ongoing negotiation of definitive agreements by DCIP for financing, payment of VPFs by motion picture studios and equipment use agreements with participating exhibitors. We believe that the supply of digital cinema equipment will be sufficient for our needs and that such definitive agreements are likely to be executed during calendar 2009.

THEATRE OPERATIONS

We operate the largest theatre circuit in the United States with 6,801 screens in 552 theatres in 39 states and the District of Columbia as of January 1, 2009. We operate theatres in all of the top 33 and 44 of the top 50 U.S. designated market areas, which include locations in suburban growth areas. We target prime locations with excellent access to large, high patron-traffic areas. We operate our theatre circuit using our Regal Cinemas, United Artists and Edwards brands through our wholly owned subsidiaries.

We operate multi-screen theatres. Our multi-screen theatre complexes typically contain 10 to 18 screens, each with auditoriums ranging from 100 to 500 seats. As a result, our theatres appeal to a diverse group of patrons because we offer a wide selection of films and convenient show times. In addition, many of our theatres feature modern amenities such as wall-to-wall screens, digital stereo surround-sound, multi-station concessions stands, computerized ticketing systems, plush stadium seating with cup holders and retractable armrests, enhanced interiors and exteriors and video game areas adjacent to the theatre lobby.

We believe that our theatre circuit will be further enhanced with the installation of digital projection systems in our theatres. We believe that operating a digital theatre circuit will enable us to generate incremental revenue from differentiated motion picture formats such as digital 3D and IMAX®, generate additional revenue from exhibition of specialty content offerings and provide greater flexibility in exhibiting our programming content, which we expect will enhance our capacity utilization.

Our modern, multi-screen theatres are designed to increase profitability by optimizing revenues per square foot and reducing the cost per square foot of operation. We vary auditorium seating capacities within the same theatre, allowing us to exhibit films on a more cost effective basis for a longer period of time by shifting films to smaller auditoriums to meet changing attendance levels. In addition, we realize significant operating efficiencies by having common box office, concessions, projection, lobby and restroom facilities, which enables us to spread some of our costs, such as payroll, advertising and rent, over a higher revenue base. We stagger movie show times to reduce staffing requirements and lobby congestion and to provide more desirable parking and traffic flow patterns. We also actively monitor ticket sales in order to quickly recognize demand surges, which enables us to add seating

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capacity quickly and efficiently. In addition, we believe that operating a theatre circuit consisting primarily of modern theatres enhances our ability to attract patrons.

The following table details the number of locations and theatre screens in our theatre circuit ranked by the number of screens in each state and the District of Columbia as of January 1, 2009:

State/District	Locations	Number of Screens
California	98	1,150
Florida	52	736
New York	51	569
Virginia	30	386
Washington	32	336
Ohio	22	298
North Carolina	25	295
Pennsylvania	23	287
Texas	19	267
Georgia	16	235
South Carolina	17	228
Oregon	22	224
Maryland	14	188
Tennessee	13	175
New Jersey	12	155
Nevada	11	146
Massachusetts	13	141
Colorado	10	119
Indiana	6	82
Idaho	5	73
Illinois	4	67
New Mexico	7	66
Connecticut	5	57
Mississippi	7	56
Louisiana	5	50
Hawaii	4	47
Alaska	5	43
Alabama	3	42
Minnesota	2	36
Missouri	2	36
New Hampshire	3	33
Delaware	2	33
Maine	3	30
West Virginia	2	22
Arizona	2	21
Kentucky	1	16
Wisconsin	1	16
District of Columbia	1	14
Michigan	1	14
Arkansas	1	12
Total	552	6,801

We have implemented a best management practices program across all of our theatres, including daily, weekly and monthly management reports generated for each individual theatre, as well as

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maintaining active communication between the theatres, divisional management and corporate management. We use these management reports and communications to closely monitor admissions and concessions revenues as well as accounting, payroll and workforce information necessary to manage our theatre operations effectively and efficiently.

We seek experienced theatre managers and require new theatre managers to complete a comprehensive training program within the theatres and at the "Regal Entertainment University," which is held at our corporate office. The program is designed to encompass all phases of theatre operations, including our operating philosophy, policies, procedures and standards. In addition, we have an incentive compensation program for theatre-level management that rewards theatre managers for controlling operating expenses while complying with our operating standards.

In addition, we have implemented quality assurance programs in all of our theatres to maintain clean, comfortable and modern facilities. To maintain quality and consistency within our theatre circuit, district and regional managers regularly inspect each theatre. We also operate a "mystery shopper" program, which involves unannounced visits by unidentified customers who report on the quality of service, film presentation and cleanliness at individual theatres.

NATIONAL CINEMEDIA JOINT VENTURE

In March 2005, Regal and AMC announced the combination of the operations of RCM and AMC's subsidiary, National Cinema Network, Inc. ("NCN"), into a joint venture company known as National CineMedia. In July 2005, Cinemark, through a wholly owned subsidiary, joined the National CineMedia joint venture. Since its inception, National CineMedia has primarily concentrated its efforts on in-theatre advertising, business meetings and non-feature film content distribution.

As discussed in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, AMC and Regal, through their subsidiaries, retained all advertising contracts signed on or before the close of business on March 31, 2005, and Cinemark retained all advertising contracts signed on or before the close of business on July 15, 2005, subject to an administrative fee (32% during fiscal 2006 through the date of the IPO of National CineMedia, Inc. ("NCM, Inc.") in February 2007) payable to National CineMedia to service such contracts. Revenues and expenses attributable to these advertising contracts were recorded as a component of other operating revenues and other operating expenses in the Company's financial statements. For contracts signed by National CineMedia after the close of business on March 31, 2005 through February 12, 2007, AMC and Regal, and with respect to advertising contracts signed after the close of business on July 15, 2005, Cinemark, through their respective subsidiaries, received revenue from National CineMedia with respect to advertising and event services at their respective theatres through an agreed upon formula as well as equity in income/loss of National CineMedia. Such formula was based on the weighted average number of screens owned by, and the number of theatre patrons of, the applicable exhibitor's theatres for any measurement period.

On February 13, 2007, NCM, Inc., a newly formed entity that serves as the sole manager of National CineMedia, completed an IPO of its common stock. NCM, Inc. sold 38.0 million shares of its common stock for \$21 per share in the IPO, less underwriting discounts and expenses. NCM, Inc. used a portion of the net cash proceeds from the IPO to acquire newly issued common units from National CineMedia. As a result of the NCM, Inc.'s acquisition of common units in National CineMedia, the Company recognized a change in interest gain of approximately \$182.7 million along with a corresponding increase in the Company's equity investment in National CineMedia.

At the closing of the IPO, the underwriters exercised their over-allotment option to purchase an additional 4.0 million shares of common stock of NCM, Inc. at the initial offering price of \$21 per share, less underwriting discounts and commissions. In connection with this over-allotment option exercise, Regal, AMC and Cinemark each sold to NCM, Inc. common units of National CineMedia on a pro rata basis at the initial offering price of \$21 per share, less underwriting discounts and expenses.

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Regal sold approximately 1.6 million common units to NCM, Inc. for proceeds of approximately \$32.2 million and recognized a gain on the sale of such units of approximately \$19.3 million. Upon completion of this sale of common units, Regal held approximately 21.2 million common units of National CineMedia. Such common units are immediately redeemable on a one-to-one basis for shares of NCM, Inc. common stock.

Upon the closing of the IPO, National CineMedia entered into a \$725.0 million term loan facility, the net cash proceeds of which were used to redeem preferred units issued to each of Regal, AMC and Cinemark on a pro rata basis pursuant to a recapitalization of National CineMedia prior to completion of the IPO. We received approximately \$315.1 million as a result of the preferred unit redemption. The Company recognized such cash distributions from National CineMedia by (1) reducing its equity investment in National CineMedia from approximately \$166.4 million to zero and (2) recording distributions in excess of the investment balance in National CineMedia of approximately \$148.7 million as a gain. Because the investment (and net advances) in National CineMedia has been reduced to zero, we will not provide for any additional losses as we have not guaranteed obligations of National CineMedia and we are not otherwise committed to provide further financial support for National CineMedia. In addition, during future periods, the Company will not recognize its share of any undistributed equity in the earnings of National CineMedia from the Company's initial investment in National CineMedia until National CineMedia's future net earnings equal or exceed the amount of the above excess distribution. Until such time, equity earnings related to the Company's initial investment in National CineMedia will be recognized only to the extent that the Company receives cash distributions from National CineMedia.

In connection with the completion of the IPO, the joint venture partners, including RCI, amended and restated their exhibitor services agreements ("ESA") with National CineMedia. In exchange for a significant portion of its pro rata share of the IPO proceeds, RCI agreed to a modification of National CineMedia's payment obligation under the ESA. The modification extended the term of the ESA to 30 years, provided National CineMedia with a five year right of first refusal beginning one year prior to the end of the term and changed the basis upon which RCI is paid by National CineMedia from a percentage of revenues associated with advertising contracts entered into by National CineMedia to a monthly theatre access fee. The theatre access fee is composed of a fixed \$0.07 payment per patron which will increase by 8% every five years starting at the end of fiscal 2011 and a fixed \$800 payment per digital screen each year, which will increase by 5% annually starting at the end of fiscal 2007 (or \$840 for fiscal 2008). The access fee revenues received by the Company under its contract are determined annually based on a combination of both fixed and variable factors which include the total number of theatre screens, attendance and actual revenues (as defined in the ESA) generated by National CineMedia. The ESA does not require us to maintain a minimum number of screens and does not provide a fixed amount of access fee revenue to be earned by the Company in any period. The theatre access fee paid in the aggregate to us, AMC and Cinemark will not be less than 12% of NCM's aggregate advertising revenue, or it will be adjusted upward to meet this minimum payment. On-screen advertising time provided to our beverage concessionaire is provided by National CineMedia under the terms of the ESA. In addition, we receive mandatory quarterly distributions of any excess cash from National CineMedia.

The amount we received for agreeing to the ESA modification was approximately \$281.0 million, which represents the estimated fair value of the ESA modification payment. We estimated the fair value of the ESA payment based upon a valuation performed by the Company with the assistance of third party specialists. This amount has been recorded as deferred revenue and will be amortized to advertising revenue over the 30 year term of the agreement following the units of revenue method. Under the units of revenue method, amortization for a period is calculated by computing a ratio of the proceeds received from the ESA modification payment to the total expected decrease in revenues due

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to entry into the new ESA over the 30 year term of the agreement and then applying that ratio to the current period's expected decrease in revenues due to entry into the new ESA.

As described more fully in Note 4 to the consolidated financial statements included in Part II, Item 8, of this Form 10-K, from time to time, common units of National CineMedia held by the joint venture partners will be adjusted up or down through a formula primarily based on increases or decreases in the number of theatre screens operated and theatre attendance generated by each joint venture partner. On April 9, 2008, we received from National CineMedia approximately 0.8 million newly issued common units of National CineMedia in accordance with the annual adjustment provisions of the Common Unit Adjustment Agreement dated as of February 13, 2007, by and among National CineMedia, NCM, Inc., Regal CineMedia Holdings, LLC, RCI and other parties thereto (the "Common Unit Adjustment Agreement"). On May 29, 2008, we received from National CineMedia approximately 2.9 million newly issued common units of National CineMedia in accordance with the adjustment provisions of the Common Unit Adjustment Agreement for our increase in screens in connection with our acquisition of Consolidated Theatres. These adjustments increased the number of National CineMedia common units held by us to approximately 24.9 million and as a result, on a fully diluted basis, we own a 25.1% interest in NCM, Inc. as of January 1, 2009.

FILM DISTRIBUTION

Domestic movie theatres are the primary initial distribution channel for domestic film releases. The theatrical success of a film is often the most important factor in establishing its value in other film distribution channels. Motion pictures are generally made available through several alternative distribution methods after the theatrical release date, including home video and DVD, cable television, broadcast television and satellite and pay-per-view services. A strong opening run at the theatre can help establish a film's success and substantiate the film's revenue potential. For example, the value of home video, DVD and pay cable distribution agreements frequently depends on the success of a film's theatrical release. As the primary distribution mechanism for the public's evaluation of films, we believe that domestic theatrical distribution remains the cornerstone of a film's overall financial success.

The development of additional distribution channels has given motion picture producers the ability to generate a greater portion of a film's revenues through channels other than its theatrical release. Historically, this potential for increased revenue after a film's initial theatrical release has enabled major studios and some independent producers to increase the budgets for film production and advertising.

FILM EXHIBITION

Evaluation of Film. We license films on a film-by-film and theatre-by-theatre basis by negotiating directly with film distributors. Prior to negotiating for a film license, we evaluate the prospects for upcoming films. Criteria we consider for each film may include cast, producer, director, genre, budget, comparative film performances and various other market conditions. Successful licensing depends greatly upon the exhibitor's knowledge of trends and historical film preferences of the residents in markets served by each theatre, as well as the availability of commercially successful motion pictures.

Access to Film Product. Films are licensed from film distributors owned by major production companies and from independent film distributors that distribute films for smaller production companies. Film distributors typically establish geographic licensing zones and allocate each available film to one theatre within that zone.

In licensing zones where we are the sole exhibitor, we obtain film licenses by selecting a film from among those films being offered and negotiating directly with the distributor. In zones where there is competition, a distributor will allocate films among the exhibitors in the zone. When films are licensed

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under the allocation process, a distributor will select an exhibitor for each film who then negotiates film rental terms directly with the distributor.

Film Rental Fees. Film licenses typically specify rental fees or formulas by which rental fees may be calculated. The primary formulas used are the "sliding scale" formula, a "firm term" formula and a "review or settlement." Under a sliding scale formula, the distributor receives a percentage of the box office receipts using a pre-determined and mutually agreed upon film rental template. This formula establishes film rental predicated on box office performance and is the predominant formula used by us to calculate film rental fees. Under the firm term formula, the exhibitor and distributor agree prior to the exhibition of the film on a specified percentage of the box office receipts to be remitted to the distributor. Lastly, under the review or settlement method, the exhibitor and distributor negotiate a percentage of the box office receipts to be remitted to the distributor upon completion of the theatrical engagement. These negotiations typically involve the use of historical settlements or past precedent.

Duration of Film Licenses. The duration of our film licenses are negotiated with our distributors on a case-by-case basis. The terms of our license agreements depend on performance of each film. Marketable movies that are expected to have high box office admission revenues will generally have longer license terms than movies with more uncertain performance and popularity.

Relationship with Distributors. Many distributors provide quality first-run movies to the motion picture exhibition industry. For the year ended January 1, 2009, ten major film distributors accounted for 93% of our admissions revenues. Six of the ten major film distributors each accounted for more than 10% of fiscal 2008 admission revenues. No single film distributor accounted for more than 20% of fiscal 2008 admissions revenues. We license films from each of the major distributors and believe that our relationships with these distributors are good. From year to year, the revenues attributable to individual distributors will vary widely depending upon the number and popularity of films that each one distributes.