REGAL ENTERTAINMENT GROUP
Form 10-Q
November 09, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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, 2010

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** (I.R.S. Employer Identification No.)
7132 Regal Lane **Knoxville, TN** (Address of Principal Executive Offices)	**37918** (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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 (Check one):

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

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

Class A Common Stock 130,572,036 shares outstanding at November 4, 2010

Class B Common Stock 23,708,639 shares outstanding at November 4, 2010

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

REGAL ENTERTAINMENT GROUP

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	September 30, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 414.0	$ 328.1
Trade and other receivables	21.8	69.0
Inventories	12.4	12.3
Prepaid expenses and other current assets	24.8	8.6
Assets held for sale	1.2	0.6
Deferred income tax asset	9.0	10.3
TOTAL CURRENT ASSETS	483.2	428.9
PROPERTY AND EQUIPMENT:		
Land	129.7	118.6
Buildings and leasehold improvements	1,964.7	1,921.4
Equipment	981.8	1,016.3
Construction in progress	4.4	8.8
Total property and equipment	3,080.6	3,065.1
Accumulated depreciation and amortization	(1,362.6)	(1,246.4)
TOTAL PROPERTY AND EQUIPMENT, NET	1,718.0	1,818.7
GOODWILL	178.8	178.8
INTANGIBLE ASSETS, NET	23.2	11.7
DEFERRED INCOME TAX ASSET	112.4	78.1
OTHER NON-CURRENT ASSETS	154.7	121.5
TOTAL ASSETS	$ 2,670.3	$ 2,637.7
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES:		
Current portion of debt obligations	$ 121.7	$ 17.1
Accounts payable	104.3	198.5
Accrued expenses	66.9	65.2
Deferred revenue	64.1	93.9
Interest payable	12.1	21.8
TOTAL CURRENT LIABILITIES	369.1	396.5
LONG-TERM DEBT, LESS CURRENT PORTION	1,951.6	1,892.6
LEASE FINANCING ARRANGEMENTS, LESS CURRENT PORTION	67.6	72.0
CAPITAL LEASE OBLIGATIONS, LESS CURRENT PORTION	13.7	15.4
NON-CURRENT DEFERRED REVENUE	342.5	341.2
OTHER NON-CURRENT LIABILITIES	193.1	166.9
TOTAL LIABILITIES	2,937.6	2,884.6
DEFICIT:		
	0.1	0.1

Class A common stock, $0.001 par value; 500,000,000 shares authorized, 130,572,036 and 130,292,790 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively				
Class B common stock, $0.001 par value; 200,000,000 shares authorized, 23,708,639 shares issued and outstanding at September 30, 2010 and December 31, 2009				
Preferred stock, $0.001 par value; 50,000,000 shares authorized; none issued and outstanding				
Additional paid-in capital (deficit)		(278.3)		(282.9)
Retained earnings		28.0		47.0
Accumulated other comprehensive loss, net		(15.8)		(10.3)
TOTAL STOCKHOLDERS DEFICIT OF REGAL ENTERTAINMENT GROUP		(266.0)		(246.1)
Noncontrolling interest		(1.3)		(0.8)
TOTAL DEFICIT		(267.3)		(246.9)
TOTAL LIABILITIES AND DEFICIT	$	2,670.3	$	2,637.7

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

REGAL ENTERTAINMENT GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in millions, except share and per share data)

	Quarter Ended September 30, 2010	Quarter Ended October 1, 2009	Three Quarters Ended September 30, 2010	Three Quarters Ended October 1, 2009
REVENUES:				
Admissions	$ 486.1	$ 463.4	$ 1,498.1	$ 1,464.6
Concessions	183.0	182.6	560.6	576.9
Other operating revenues	27.3	27.5	88.2	86.8
TOTAL REVENUES	696.4	673.5	2,146.9	2,128.3
OPERATING EXPENSES:				
Film rental and advertising costs	254.7	244.6	791.2	767.7
Cost of concessions	25.9	27.1	79.4	82.8
Rent expense	96.7	93.7	285.7	282.2
Other operating expenses	196.7	194.2	595.2	575.9
General and administrative expenses (including share-based compensation of $1.9 and $1.7 for the quarters ended September 30, 2010 and October 1, 2009, respectively, and $5.5 and $4.3 for the three quarters ended September 30, 2010 and October 1, 2009, respectively)	16.5	17.1	49.6	47.8
Depreciation and amortization	51.9	51.2	162.5	151.6
Net (gain) loss on disposal and impairment of operating assets	(4.1)	7.2	11.6	23.1
TOTAL OPERATING EXPENSES	638.3	635.1	1,975.2	1,931.1
INCOME FROM OPERATIONS	58.1	38.4	171.7	197.2
OTHER EXPENSE (INCOME):				
Interest expense, net	38.3	40.3	110.0	114.5
Loss on extinguishment of debt	4.0	7.4	22.4	7.4
Earnings recognized from NCM	(8.7)	(7.4)	(28.7)	(26.8)
Gain on sale of NCM, Inc. common stock	(52.0)		(52.0)	
Other, net	8.5	1.0	15.5	2.0
TOTAL OTHER EXPENSE (INCOME), NET	(9.9)	41.3	67.2	97.1
INCOME (LOSS) BEFORE INCOME TAXES	68.0	(2.9)	104.5	100.1
PROVISION FOR (BENEFIT FROM) INCOME TAXES	25.4	(1.0)	40.8	40.3
NET INCOME (LOSS)	42.6	(1.9)	63.7	59.8
NONCONTROLLING INTEREST, NET OF TAX		0.1	0.2	0.2
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTEREST	$ 42.6	$ (1.8)	$ 63.9	$ 60.0
EARNINGS (LOSS) PER SHARE OF CLASS A AND CLASS B COMMON STOCK:				
Basic	$ 0.28	$ (0.01)	$ 0.42	$ 0.39
Diluted	$ 0.28	$ (0.01)	$ 0.41	$ 0.39

AVERAGE SHARES OUTSTANDING (in thousands):				
Basic	153,408	153,053	153,393	153,050
Diluted	154,322	153,053	154,513	154,061
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.18	$ 0.18	$ 0.54	$ 0.54

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

REGAL ENTERTAINMENT GROUP

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Three Quarters Ended September 30, 2010	Three Quarters Ended October 1, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 63.7	$ 59.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	162.5	151.6
Amortization of debt discount	4.7	3.3
Amortization of debt acquisition costs	5.5	6.8
Share-based compensation expense	5.5	4.3
Deferred income tax benefit	(31.3)	(1.7)
Net loss on disposal and impairment of operating assets	11.6	23.1
Equity in earnings of non-consolidated entities and other	12.1	1.0
Excess cash distribution on NCM shares	5.1	4.6
Gain on sale of NCM, Inc. common stock	(52.0)	
Loss on extinguishment of debt	22.4	7.4
Non-cash rent expense	2.6	4.8
Changes in operating assets and liabilities (excluding effects of acquisition):		
Trade and other receivables	52.0	40.6
Inventories	(0.1)	(2.3)
Prepaid expenses and other assets	(8.0)	(8.4)
Accounts payable	(94.2)	(45.7)
Income taxes payable	13.4	6.6
Deferred revenue	(34.4)	(27.1)
Accrued expenses and other liabilities	(26.6)	(8.7)
NET CASH PROVIDED BY OPERATING ACTIVITIES	114.5	220.0
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(69.8)	(86.3)
Proceeds from disposition of assets	32.3	0.4
Cash used for acquisition	(55.0)	
Net proceeds from sale of NCM, Inc. common stock	66.0	
Investment in DCIP	(29.8)	(2.5)
Distributions to partnership	(0.1)	
NET CASH USED IN INVESTING ACTIVITIES	(56.4)	(88.4)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash used to pay dividends	(83.3)	(83.1)
Proceeds from issuance of Regal Entertainment Group 91/8% Senior Notes	275.0	
Cash used to repurchase 6¼% Convertible Senior Notes	(97.9)	
Net payments on long-term obligations	(27.7)	(397.9)
Debt discount paid on amended senior credit facility	(12.5)	
Payment of debt acquisition costs and other	(25.6)	(18.4)
Cash used to purchase treasury shares and other	(0.9)	(0.4)
Proceeds from stock option exercises	0.7	0.1
Net proceeds from issuance of Regal Cinemas 85/8% Senior Notes		390.2
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	27.8	(109.5)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85.9	22.1
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	328.1	170.2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 414.0	$ 192.3

SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for income taxes, net of refunds received	$	54.2	$	39.0
Cash paid for interest	$	111.3	$	103.5
SUPPLEMENTAL NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Investment in NCM	$	5.9	$	7.0
Investment in DCIP	$	12.6	$	
Investment in RealD, Inc.	$	15.1	$	
Property and equipment acquired with debt	$	13.3	$	

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

REGAL ENTERTAINMENT GROUP

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND OCTOBER 1, 2009

1. THE COMPANY AND BASIS OF PRESENTATION

Regal Entertainment Group (the Company, Regal, we or us) is the parent company of Regal Entertainment Holdings, Inc. (REH), which is tl 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), Hoyts Cinemas Corporation (Hoyts) and United Artists Theatre Company (United Artists). The terms Regal or the Company, REH, Regal Cinemas, RCI, Edwards, 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.

Regal operates the largest theatre circuit in the United States, consisting of 6,723 screens in 542 theatres in 37 states and the District of Columbia as of September 30, 2010. 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 results in a 53-week fiscal year. As of September 30, 2010, the Company managed its business under one reportable segment: theatre exhibition operations.

For a discussion of significant transactions that have occurred through December 31, 2009, 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 1, 2010 with the Securities and Exchange Commission (the Commission) (File No. 001-31315) for the fiscal year ended December 31, 2009 (the 2009 Audited Consolidated Financial Statements).

On February 12, 2007, we, along with AMC Entertainment, Inc. (AMC) and Cinemark, Inc. (Cinemark) formed a joint venture company known as Digital Cinema Implementation Partners, LLC, a Delaware limited liability company (DCIP), to create a financing model and establish agreements with major motion picture studios for the implementation of digital cinema in our theatres. As further described in Note 3 Investments, on March 10, 2010, DCIP executed definitive agreements and related financing transactions in connection with the conversion to digital projection. As part of the closing, the Company made equity contributions to DCIP of approximately $41.7 million, consisting of $29.1 million in cash and 200 existing digital projection systems with a fair value of approximately $12.6 million. In connection with the contribution of its 200 existing digital projection systems, the Company recorded a loss on the contribution of $2.0 million based on the excess of the carrying value of the digital projection systems contributed over the $12.6 million fair value (as determined by an independent appraisal) of such equipment. In addition, during May 2010, Regal sold an additional 337 digital projection systems to DCIP for aggregate proceeds of approximately $20.0 million. In connection with this sale, the Company recorded a loss on disposal of approximately $2.8 million. Such losses have been presented as a component of Net (gain) loss on disposal and impairment of operating assets in the accompanying unaudited condensed consolidated statement of income for the three quarters ended September 30, 2010. After giving effect to the equity contributions, the Company holds a 46.7% economic interest in DCIP as of September 30, 2010, while continuing to maintain a one-third voting interest along with each of AMC and Cinemark.

On May 24, 2010 and June 24, 2010, the Company acquired eight theatres with 106 screens located in Illinois, Indiana and Colorado from an affiliate of AMC. Regal purchased five of these AMC theatres representing 63 screens for approximately $55.0 million in cash, subject to post-closing adjustments, and acquired the other three AMC theatres representing 43 screens in exchange for two Regal theatres consisting of 26 screens. The results of operations of the eight acquired theatres have been included in the Company s consolidated financial statements for periods subsequent to the respective acquisition dates. See Note 2 Acquisition for further discussion of this transaction.

As discussed further in Note 3 Investments, in accordance with the annual adjustment provisions of the Common Unit Adjustment Agreement with National CineMedia, LLC (National CineMedia), on March 17, 2010,

Table of Contents

we received from National CineMedia approximately 0.3 million newly issued common units of National CineMedia. On August 18, 2010, we redeemed 4.2 million of our National CineMedia common units for a like number of shares of National CineMedia, Inc. (NCM, Inc.) common stock, which we sold in an underwritten public offering for $16.00 per share, reducing our investment in National CineMedia by $13.7 million, the average carrying amount of the shares sold. We received approximately $64.5 million in proceeds after deducting related fees and expenses payable by us, resulting in a gain on sale of $50.8 million. In addition, on September 8, 2010, we redeemed an additional 0.1 million National CineMedia common units for a like number of shares of NCM, Inc. common stock and sold them to the underwriters to cover over-allotments at $16.00 per share, further reducing our investment in National CineMedia by $0.3 million, the average carrying amount of the shares sold. We received approximately $1.5 million of net proceeds from this sale, resulting in a gain on sale of $1.2 million. These transactions, together with National CineMedia s issuance of 6.5 million common units to AMC in the second quarter of 2010 as a result of an acquistion, had the effect of decreasing the Company s ownership share in National CineMedia. As a result, on a fully diluted basis, we own a 19.4% interest in NCM, Inc. as of September 30, 2010.

As described in Note 4 Debt Obligations, on May 19, 2010, Regal Cinemas entered into a sixth amended and restated credit agreement with Credit Suisse AG, Cayman Islands Branch, as Administrative Agent and the lenders party thereto which amends, restates and refinances its fifth amended and restated credit agreement. The sixth amended and restated credit agreement consists of a term loan facility in an aggregate principal amount of $1,250.0 million with a final maturity date in November 2016 and a revolving credit facility in an aggregate principal amount of $85.0 million with a final maturity date in May 2015. Proceeds of the term loan facility (approximately $1,237.5 million, net of a $12.5 million debt discount) were applied to refinance the term loan under the fifth amended and restated credit agreement, which had an aggregate principal balance of approximately $1,262.1 million. Upon the execution of the sixth amended and restated credit agreement, Regal recognized a loss on debt extinguishment of approximately $18.4 million.

On August 10, 2010, Regal Entertainment Group entered into an Underwriting Agreement with Credit Suisse Securities (USA) LLC, Barclays Capital Inc., Banc of America Securities LLC and Deutsche Bank Securities Inc., as the representatives of the underwriters, with respect to the Company s issuance and sale of $275.0 million in aggregate principal amount of the Company s 91/8% Senior Notes due 2018 (the 91/8% Senior Notes). On August 16, 2010, the Company issued the 91/8% Senior Notes under an indenture with Wells Fargo Bank, National Association, as trustee (the Indenture). The net proceeds from the offering, after deducting offering expenses paid by the Company, were approximately $269.5 million. Subsequent to the issuance of the 91/8% Senior Notes, during August and September 2010, we used a portion of the net proceeds from the offering to repurchase a total of approximately $95.3 million aggregate principal amount of the 6¼% Convertible Senior Notes (as defined herein), in a series of privately negotiated transactions. As a result of these repurchases, the Company recorded a $4.2 million loss on debt extinguishment during the quarter ended September 30, 2010. See Note 4 Debt Obligations for further discussion of these transactions.

Total comprehensive income (loss) for the quarters ended September 30, 2010 and October 1, 2009 was $42.3 million and $(3.9) million, respectively. Total comprehensive income for the three quarters ended September 30, 2010 and October 1, 2009 was $58.4 million and $57.4 million, respectively. Total comprehensive income (loss) consists of net income (loss) attributable to controlling interest and other comprehensive loss, net of tax, related to the change in the aggregate unrealized gain/loss on the Company s interest rate swap arrangements and available-for-sale equity securities during each of the quarters and three quarters ended September 30, 2010 and October 1, 2009. The Company s interest rate swap arrangements and available-for-sale equity securities are further described in Note 4 Debt Obligations and Note 11 Fair Value of Financial Instruments.

During the three quarters ended September 30, 2010, Regal paid three quarterly cash dividends of $0.18 on each outstanding share of the Company s Class A and Class B common stock, or approximately $83.3 million in the aggregate.

The Company has prepared the unaudited condensed consolidated balance sheet as of September 30, 2010 and the unaudited condensed consolidated statements of income (loss) and cash flows for the quarters and three quarters ended September 30, 2010 and October 1, 2009 in accordance with U.S. generally accepted accounting

Table of Contents

principles for interim financial information and the rules and regulations of the 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 December 31, 2009 unaudited condensed consolidated balance sheet information is derived from the 2009 Audited Consolidated Financial Statements. 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, 2010 are not necessarily indicative of the operating results that may be achieved for the full 2010 fiscal year.

2. ACQUISITION

Acquisition of Eight AMC Theatres

On May 24, 2010 and June 24, 2010, the Company acquired eight theatres with 106 screens located in Illinois, Indiana and Colorado from an affiliate of AMC. The Company purchased five of these AMC theatres representing 63 screens for approximately $55.0 million in cash, subject to post-closing adjustments, and acquired the other three AMC theatres representing 43 screens in exchange for two Regal theatres consisting of 26 screens. As of the acquisition date, the exchanged Regal theatres had a net book value of approximately $0.2 million. The Company accounted for the exchanged theatre assets as a non-monetary transaction and as such, allocated the net book value of the Regal theatres to the exchanged AMC theatres. Total cash paid of approximately $55.0 million was directly allocated to the other five AMC theatres using the acquisition method of accounting. Accordingly, the total cash purchase price was allocated to the identifiable assets acquired and liabilities assumed for each of the respective theatre locations based on their estimated fair values at the dates of acquisition. The allocation of the purchase price is based on management s judgment after evaluating several factors, including an independent third party valuation. The results of operations of the eight acquired theatres have been included in the Company s consolidated financial statements for periods subsequent to the respective acquisition dates.

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

Property and equipment, net	$	40.6
Intangible assets		14.4
Total purchase price	$	55.0

The transaction included the acquisition of certain identifiable intangible assets, consisting of $14.4 million related to favorable leases with a weighted average amortization period of 35 years. During the quarter and three quarters ended September 30, 2010, the Company recognized $0.1 million of amortization related to these intangible assets. Unaudited pro forma results of operations for the quarters and three quarters ended September 30, 2010 and October 1, 2009 reflecting the above acquisition have not been presented herein because the impact was inconsequential to the historical unaudited consolidated statements of income (loss) presented herein.

3. INVESTMENTS

Investment in Digital Cinema Implementation Partners

On February 12, 2007, we, along with AMC and Cinemark, formed DCIP, to create a financing model and establish agreements with major motion picture studios for the implementation of digital cinema in our theatres. On March 10, 2010, DCIP executed definitive agreements and related financing transactions in connection with the conversion to digital projection. DCIP s financing raised approximately $660.0 million, consisting of approximately $445.0 million in senior bank debt, approximately $135.0 million in additional junior capital and approximately $80.0 million in equity contributions (consisting of cash and existing digital projection systems) from us, AMC and Cinemark. Concurrent with closing, the Company entered into a master equipment lease agreement (the Master Lease) and other related agreements (collectively, the Digital Cinema Agreements) with Kasima, LLC, a wholly owned subsidiary of DCIP. Upon execution of the Digital Cinema Agreements, the Company made equity

Table of Contents

contributions to DCIP of approximately $41.7 million, consisting of $29.1 million in cash and 200 existing digital projection systems with a fair value of approximately $12.6 million (collectively, the DCIP Contributions). The Company recorded such DCIP Contributions as an increase in its investment in DCIP. In connection with the contribution of its 200 existing digital projection systems, the Company recorded a loss on the contribution of $2.0 million based on the excess of the carrying value of the digital projection systems contributed over the $12.6 million fair value (as determined by an independent appraisal) of such equipment. In addition, during May 2010, Regal sold an additional 337 digital projection systems to DCIP for aggregate proceeds of approximately $20.0 million. In connection with this sale, the Company recorded a loss on disposal of approximately $2.8 million. Such losses have been presented as a component of Net (gain) loss on disposal and impairment of operating assets in the accompanying unaudited condensed consolidated statement of income for the three quarters ended September 30, 2010.

After giving effect to the DCIP Contributions, the Company holds a 46.7% economic interest in DCIP as of September 30, 2010, while continuing to maintain a one-third voting interest along with each of AMC and Cinemark. Since the Company determined that it is not the primary beneficiary of DCIP or any of its subsidiaries, it will continue to account for its investment in DCIP under the equity method of accounting. The Company s investment in DCIP is included as a component of Other non-current assets in the accompanying unaudited condensed consolidated balance sheets. The changes in the carrying amount of our investment in DCIP for the three quarters ended September 30, 2010 are as follows (in millions):

Balance as of December 31, 2009	$	0.7
Equity contributions(1)		42.3
Equity in loss of DCIP(2)		(15.5)
Balance as of September 30, 2010	$	27.5

(1) In addition to cash investments in DCIP totaling $0.6 million, upon execution of the Digital Cinema Agreements, the Company effected additional equity contributions to DCIP of approximately $41.7 million, consisting of cash and existing digital projection systems.

(2) For the three quarters ended September 30, 2010 and October 1, 2009, the Company recorded losses of $15.5 million and $2.5 million, respectively, representing its share of the net loss of DCIP. Such amounts are presented as a component of Other, net in the accompanying unaudited condensed consolidated statements of income.

We expect DCIP to fund the cost of conversion to digital projection principally through the collection of virtual print fees from motion picture studios and equipment lease payments from participating exhibitors, including us. In accordance with the Master Lease, the digital projection systems are leased from Kasima, LLC under a twelve-year term with ten one-year fair value renewal options. The Master Lease also contains a fair value purchase option. Under the Master Lease, the Company pays annual minimum rent of $1,000 per digital projection system for the first six and half years from the effective date of the agreement and is, upon certain conditions, subject to minimum annual rent of $3,000 per digital projection system beginning at six and half years from the effective date of the agreement through the end of the lease term. The Company is also subject to various types of other rent if such digital projection systems do not meet minimum performance requirements as outlined in the Master Lease. Certain of the other rent payments are subject to either a monthly or an annual maximum. The Company accounts for the Master Lease as an operating lease for accounting purposes.

During the early stage of deployment, the Company is focusing on an accelerated deployment of 3D compatible digital projection systems to a majority of its first run U.S. theatres. With respect to the Company s existing 35mm projection equipment that is scheduled to be replaced with digital projection systems, the Company has begun to accelerate depreciation on such 35 mm projection equipment over the expected deployment schedule since the Company plans to dispose of such equipment prior to the end of their useful lives. To that end, during the quarter and three quarters ended September 30, 2010, the Company recorded approximately $3.5 million and $16.4 million, respectively, of accelerated depreciation related to such 35mm projection equipment. As of September 30, 2010, we operated 1,648 screens outfitted with digital projection systems, 1,156 of which are digital 3D capable.

Investment in National CineMedia, LLC

In March 2005, Regal and AMC announced the combination of the operations of Regal CineMedia Corporation (RCM), and AMC s subsidiary, National Cinema Network, Inc., into a new joint venture company known as National CineMedia. In July 2005, Cinemark, through a wholly owned subsidiary, acquired an interest in National CineMedia. National CineMedia 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 Regal, AMC and Cinemark. National CineMedia is, subject to limited exceptions, the exclusive provider of advertising and event services to Regal, AMC and Cinemark. The Company did not recognize any gain or loss resulting from the initial formation of National CineMedia due to the Company s continued involvement in the operations of National CineMedia. Pursuant to the other documents entered into in connection with the joint venture transaction, 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 payable to National CineMedia to service such contracts.

On February 13, 2007, NCM, Inc., a newly formed entity that serves as the sole manager of National CineMedia, completed an initial public offering, or IPO, of its common stock. In connection with the IPO of NCM, Inc., RCM, through its wholly owned subsidiary Regal CineMedia Holdings, LLC, AMC and Cinemark amended and restated the operating agreement of National CineMedia and other ancillary agreements. In connection with the series of transactions completed in connection with the IPO, Regal received gross cash proceeds totaling approximately $628.3 million and retained a 22.6% interest in NCM, Inc. After the payment of current taxes, net cash proceeds from these transactions totaled approximately $447.4 million. The Company used a portion of the net cash proceeds to fund an extraordinary cash dividend of $2.00 per share on each outstanding share of its Class A and Class B common stock, including outstanding restricted stock, or approximately $302.0 million in the aggregate. Stockholders of record at the close of business on March 28, 2007 were paid this $302.0 million dividend on April 13, 2007. As a result of the transactions completed in connection with the IPO, the Company recognized a gain of approximately $350.7 million during fiscal 2007.

In connection with the IPO, the joint venture partners entered into a Common Unit Adjustment Agreement with National CineMedia. The Common Unit Adjustment Agreement was created to account for changes in the number of theatre screens operated by each of the joint venture partners. Pursuant to our Common Unit Adjustment Agreement, from time to time, common units of National CineMedia held by the joint venture partners will be adjusted up or down through a formula (common unit adjustment) primarily based on increases or decreases in the number of theatre screens operated and theatre attendance generated by each joint venture partner. The common unit adjustment is computed annually, except that an earlier common unit adjustment will occur for a joint venture partner if its acquisition or disposition of theatres, in a single transaction or cumulatively since the most recent common unit adjustment, will cause a change of two percent or more in the total annual attendance of all of the joint venture partners. The formation of National CineMedia, related IPO of NCM, Inc. and other related transactions are further described in Note 4 to the 2009 Audited Consolidated Financial Statements.

We account for our investment in National CineMedia following the equity method of accounting and such investment is included as a component of Other non-current assets in the accompanying unaudited condensed consolidated balance sheets. The changes in the carrying amount of our investment in National CineMedia for the three quarters ended September 30, 2010 are as follows (in millions):

Balance as of December 31, 2009	$	79.1
Receipt of common units(1)		5.9
Redemption of common units(2)		(14.0)
Equity in earnings attributable to additional common units(3)		3.5
Earnings recognized from National CineMedia(4)		25.2
Distributions received from National CineMedia(4)		(30.4)
Balance as of September 30, 2010	$	69.3

(1) As a result of the annual adjustment provisions of the Common Unit Adjustment Agreement, on March 17, 2010, we received from National CineMedia approximately 0.3 million newly issued common units of National CineMedia. The

Company recorded the additional units at fair value using the available closing stock price of NCM, Inc. on March 17, 2010. Since the additional common units received do not represent the funding of prior losses of National CineMedia, the fair value of such units were recorded as a separate investment tranche in National CineMedia. As a result of these adjustments, the Company recorded an increase of $5.9 million to its investment in National CineMedia during the three quarters ended September 30, 2010. With respect to the common units received on March 17, 2010, the Company

Table of Contents

recorded a corresponding $5.9 million increase to deferred revenue. This amount is being amortized to advertising revenue over the remaining term of the exhibitor services agreement (ESA) following the units of revenue method.

(2) On August 18, 2010, we redeemed 4.2 million of our National CineMedia common units for a like number of shares of NCM, Inc. common stock, which we sold in an underwritten public offering for $16.00 per share, reducing our investment in National CineMedia by $13.7 million, the average carrying amount of the shares sold. We received approximately $64.5 million in proceeds after deducting related fees and expenses payable by us, resulting in a gain on sale of $50.8 million. Finally, on September 8, 2010, we redeemed an additional 0.1 million National CineMedia common units for a like number of shares of NCM, Inc. common stock and sold them to the underwriters to cover over-allotments at $16.00 per share, further reducing our investment in National CineMedia by $0.3 million, the average carrying amount of the shares sold. We received approximately $1.5 million of net proceeds from this sale, resulting in a gain on sale of $1.2 million. These transactions caused a decrease in the Company s ownership share in National CineMedia. As a result, on a fully diluted basis, we own a 19.4% interest in NCM, Inc. as of September 30, 2010.

(3) Since additional common units received pursuant to the Common Unit Adjustment Agreement represent separate investment tranches in National CineMedia, any undistributed equity in the earnings of National CineMedia pertaining to these tranches will be recognized under the equity method of accounting. As a result, the Company s share in the net income of National CineMedia with respect to these tranches totaled $3.5 million during the three quarters ended September 30, 2010. The Company s share in the net income of National CineMedia with respect to additional common units received totaled approximately $1.5 million during the three quarters ended October 1, 2009. Such amounts have been included as a component of Earnings recognized from NCM in the accompanying unaudited condensed consolidated statements of income.

(4) During the three quarters ended September 30, 2010, the Company received $30.4 million in cash distributions from National CineMedia. Approximately $5.2 million of these cash distributions received during the three quarters ended September 30, 2010 were attributable to the receipt of additional common units pursuant to the Common Unit Adjustment Agreement and were recognized as a reduction in our investment in National CineMedia. During the three quarters ended October 1, 2009, the Company received $29.9 million in cash distributions from National CineMedia. Approximately $4.6 million of these cash distributions received during the three quarters ended October 1, 2009 were recognized as a reduction in our investment in National CineMedia. The remaining amounts were recognized in equity earnings during each of these periods and have been included as component of Earnings recognized from NCM in the accompanying unaudited condensed consolidated statements of income.

As a result of the amendment to the ESA and related modification payment, the Company recognizes various types of other revenue from National CineMedia, including per patron and per digital screen theatre access fees, net of payments for on-screen advertising time provided to our beverage concessionaire, other NCM revenue and amortization of upfront ESA modification fees utilizing the units of revenue amortization method.

These revenues are presented as a component of other operating revenues in the Company s financial statements and consist of the following amounts (in millions):

	Quarter Ended September 30, 2010	Quarter Ended October 1, 2009	Three Quarters Ended September 30, 2010	Three Quarters Ended October 1, 2009
Theatre access fees per patron	$ 3.6	$ 3.7	$ 11.1	$ 11.8
Theatre access fees per digital screen	1.4	1.3	4.1	3.9
Other NCM revenue	0.7	0.6	2.0	1.9
Amortization of ESA modification fees				