REGAL ENTERTAINMENT GROUP
Form 10-Q
May 12, 2009
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-Q

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

**For the quarterly period ended April 2, 2009**

**Commission file number: 001-31315**

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# Regal Entertainment Group

(Exact name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Delaware**<br>(State or Other Jurisdiction of Incorporation or Organization) | **02-0556934**<br>(Internal Revenue Service Employer Identification Number) |
| **7132 Regal Lane**<br>**Knoxville, TN** | **37918** |

| (Address of Principal Executive Offices) | (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 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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o<br>(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 130,136,676 shares outstanding at May 7, 2009

Class B Common Stock 23,708,639 shares outstanding at May 7, 2009

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## PART I FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

### REGAL ENTERTAINMENT GROUP

### UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

**(in millions, except share data)**

| | April 2, 2009 | January 1, 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 187.0 | $ 170.2 |
| Trade and other receivables, net | 23.1 | 73.2 |
| Inventories | 9.7 | 8.3 |
| Prepaid expenses and other current assets | 15.9 | 6.1 |
| Assets held for sale | 0.6 | 0.9 |
| Deferred income tax asset | 13.4 | 14.8 |
| TOTAL CURRENT ASSETS | 249.7 | 273.5 |
| PROPERTY AND EQUIPMENT: | | |
| Land | 118.6 | 118.6 |
| Buildings and leasehold improvements | 1,911.6 | 1,911.5 |
| Equipment | 982.2 | 974.5 |
| Construction in progress | 20.9 | 14.1 |
| Total property and equipment | 3,033.3 | 3,018.7 |
| Accumulated depreciation and amortization | (1,123.3) | (1,082.2) |
| TOTAL PROPERTY AND EQUIPMENT, NET | 1,910.0 | 1,936.5 |
| GOODWILL | 178.8 | 178.8 |
| INTANGIBLE ASSETS, NET | 14.6 | 15.5 |
| DEFERRED INCOME TAX ASSET | 84.2 | 78.2 |
| OTHER NON-CURRENT ASSETS | 125.7 | 113.3 |
| TOTAL ASSETS | $ 2,563.0 | $ 2,595.8 |
| **LIABILITIES AND DEFICIT** | | |
| CURRENT LIABILITIES: | | |
| Current portion of debt obligations | $ 23.6 | $ 23.4 |
| Accounts payable | 119.7 | 162.0 |
| Accrued expenses | 58.0 | 77.8 |
| Deferred revenue | 123.1 | 95.6 |
| Interest payable | 4.2 | 7.4 |
| TOTAL CURRENT LIABILITIES | 328.6 | 366.2 |
| LONG-TERM DEBT, LESS CURRENT PORTION | 1,883.7 | 1,887.0 |
| LEASE FINANCING ARRANGEMENTS, LESS CURRENT PORTION | 76.0 | 77.2 |
| CAPITAL LEASE OBLIGATIONS, LESS CURRENT PORTION | 16.3 | 17.3 |
| NON-CURRENT DEFERRED REVENUE | 345.5 | 339.9 |
| OTHER NON-CURRENT LIABILITIES | 159.8 | 144.1 |

| | | | | |
|---|---|---|---|---|
| TOTAL LIABILITIES | | 2,809.9 | | 2,831.7 |
| DEFICIT: | | | | |
| Class A common stock, $0.001 par value; 500,000,000 shares authorized, 130,131,890 and 129,801,284 shares issued and outstanding at April 2, 2009 and January 1, 2009, respectively | | 0.1 | | 0.1 |
| Class B common stock, $0.001 par value; 200,000,000 shares authorized, 23,708,639 shares issued and outstanding at April 2, 2009 and January 1, 2009 | | | | |
| Preferred stock, $0.001 par value; 50,000,000 shares authorized; none issued and outstanding | | | | |
| Additional paid-in capital (deficit) | | (265.0) | | (265.8) |
| Retained earnings | | 33.7 | | 40.1 |
| Accumulated other comprehensive loss, net | | (15.3) | | (9.9) |
| TOTAL STOCKHOLDERS DEFICIT OF REGAL ENTERTAINMENT GROUP | | (246.5) | | (235.5) |
| Noncontrolling interest | | (0.4) | | (0.4) |
| TOTAL DEFICIT | | (246.9) | | (235.9) |
| TOTAL LIABILITIES AND DEFICIT | $ | 2,563.0 | $ | 2,595.8 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**REGAL ENTERTAINMENT GROUP**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(in millions, except share and per share data)**

| | Quarter Ended April 2, 2009 | Quarter Ended March 27, 2008 |
|---|---|---|
| REVENUES: | | |
| Admissions | $ 459.5 | $ 432.0 |
| Concessions | 179.4 | 166.1 |
| Other operating revenues | 26.7 | 28.7 |
| TOTAL REVENUES | 665.6 | 626.8 |
| OPERATING EXPENSES: | | |
| Film rental and advertising costs | 229.7 | 215.9 |
| Cost of concessions | 24.0 | 22.7 |
| Rent expense | 92.9 | 83.3 |
| Other operating expenses | 185.9 | 168.6 |
| General and administrative expenses (including share-based compensation of $1.6 and $1.4 for the quarters ended April 2, 2009 and March 27, 2008) | 15.3 | 15.0 |
| Depreciation and amortization | 49.9 | 46.3 |
| Net loss on disposal and impairment of operating assets | 5.4 | 2.2 |
| Joint venture employee compensation | | 0.2 |
| TOTAL OPERATING EXPENSES | 603.1 | 554.2 |
| INCOME FROM OPERATIONS | 62.5 | 72.6 |
| OTHER EXPENSE (INCOME): | | |
| Interest expense, net | 37.2 | 30.8 |
| Loss on extinguishment of debt | | 3.0 |
| Earnings recognized from NCM | (10.6) | (8.4) |
| Other, net | 0.2 | 0.6 |
| TOTAL OTHER EXPENSE, NET | 26.8 | 26.0 |
| INCOME BEFORE INCOME TAXES | 35.7 | 46.6 |
| PROVISION FOR INCOME TAXES | 14.4 | 19.1 |
| NET INCOME AND NET INCOME ATTRIBUTABLE TO CONTROLLING INTEREST | $ 21.3 | $ 27.5 |
| EARNINGS PER SHARE OF CLASS A AND CLASS B COMMON STOCK: | | |
| Basic | $ 0.14 | $ 0.18 |
| Diluted | $ 0.14 | $ 0.17 |
| AVERAGE SHARES OUTSTANDING (in thousands): | | |
| Basic | 153,045 | 152,802 |
| Diluted | 154,093 | 158,533 |
| Dividends declared per common share | $ 0.18 | $ 0.30 |

See accompanying notes to unaudited condensed consolidated financial statements.

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**REGAL ENTERTAINMENT GROUP**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in millions)**

| | Quarter Ended April 2, 2009 | Quarter Ended March 27, 2008 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income attributable to controlling interest | $ 21.3 | $ 27.5 |
| Adjustments to reconcile net income attributable to controlling interest to net cash provided by operating activities: | | |
| Depreciation and amortization | 49.9 | 46.3 |
| Amortization of debt discount | 1.0 | 1.1 |
| Amortization of debt acquisition costs | 2.3 | 1.6 |
| Share-based compensation expense | 1.6 | 1.4 |
| Noncontrolling interest | (0.1) | |
| Deferred income tax (benefit) expense | (1.6) | 0.7 |
| Net loss on disposal and impairment of operating assets | 5.4 | 2.2 |
| Equity in earnings of non-consolidated entities | 0.6 | 0.6 |
| Joint venture employee compensation | | 0.2 |
| Excess cash distribution on additional shares in NCM | 1.8 | |
| Loss on extinguishment of debt | | 3.0 |
| Non-cash rent expense | 1.8 | 1.6 |
| Changes in operating assets and liabilities (excluding effects of acquisitions): | | |
| Trade and other receivables | 50.1 | 33.5 |
| Inventories | (1.4) | 0.2 |
| Prepaid expenses and other assets | (9.5) | (3.7) |
| Accounts payable | (42.3) | (62.4) |
| Income taxes payable | 0.1 | 16.2 |
| Deferred revenue | 26.4 | 15.8 |
| Accrued expenses and other liabilities | (19.0) | (14.6) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 88.4 | 71.2 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (27.9) | (24.8) |
| Proceeds from disposition of assets | 0.4 | |
| Distributions to partnership | | (0.4) |
| Investment in DCIP | | (1.0) |
| NET CASH USED IN INVESTING ACTIVITIES | (27.5) | (26.2) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Cash used to pay dividends | (27.7) | (46.0) |
| Net payments on long-term obligations | (6.3) | (6.1) |
| Cash used to purchase treasury shares and other | (0.5) | |
| Payment of debt acquisition costs and other | (9.6) | (5.0) |
| Proceeds from stock option exercises | | 0.2 |
| Excess tax benefits from share-based payment arrangements | | 0.1 |
| Net proceeds from 3¾% Convertible Senior Notes hedge and warrant | | 13.7 |
| Proceeds from issuance of 6¼% Convertible Senior Notes | | 200.0 |
| Net cash paid for 6¼% Convertible Senior Notes convertible note hedge and warrant | | (6.6) |
| Cash used to redeem 3¾% Convertible Senior Notes | | (142.7) |
| NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | (44.1) | 7.6 |

| | | | | |
|---|---|---|---|---|
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 16.8 | | 52.6 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | 170.2 | | 435.2 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ | 187.0 | $ | 487.8 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | | |
| Cash paid for income taxes, net of refunds received | $ | 0.7 | $ | 2.1 |
| Cash paid for interest | $ | 36.8 | $ | 33.5 |
| SUPPLEMENTAL NON-CASH INVESTING ACTIVITIES: | | | | |
| Additional investment in NCM | $ | 7.0 | $ | |

See accompanying notes to unaudited condensed consolidated financial statements.

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**REGAL ENTERTAINMENT GROUP**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**APRIL 2, 2009 AND MARCH 27, 2008**

## 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 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 ), 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 6,773 screens in 549 theatres in 39 states and the District of Columbia as of April 2, 2009. 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 2008) results in a 53-week fiscal year. As of April 2, 2009, the Company managed its business under one reportable segment: theatre exhibition operations.

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. The Company s cumulative cash investment in DCIP totaled approximately $5.5 million as of April 2, 2009. Such investment is included as a component of Other Non-current Assets in the accompanying unaudited condensed consolidated balance sheets. We account for our investment in DCIP following the equity method of accounting. For each of the quarters ended April 2, 2009 and March 27, 2008, the Company recorded a loss of $0.6 million, respectively, representing its share of the net loss of DCIP. Such loss is presented as a component of Other, net in the accompanying unaudited condensed consolidated statements of income.

On March 10, 2008, Regal issued $200.0 million aggregate principal amount of 61/4% Convertible Senior Notes due March 15, 2011 (the 61/4% Convertible Senior Notes ). Concurrent with the issuance of the 61/4% Convertible Senior Notes, we entered into simultaneous convertible note hedge and warrant transactions with respect to our Class A common stock in order to reduce the potential dilution from conversion of the 61/4% Convertible Senior Notes into shares of our Class A common stock. The net cost of the convertible note hedge and warrant transactions was approximately $6.6 million and is included as a component of equity in the accompanying unaudited condensed consolidated balance sheets. See Note 4 Debt Obligations for further description of the 61/4% Convertible Senior Notes and the related convertible note hedge and warrant transactions. The Company used cash on hand and a portion of the net proceeds from the issuance of the 61/4% Convertible Senior Notes to redeem approximately $90.0 million principal amount of Regal s 33/4% Convertible Senior Notes due May 15, 2008 (the 33/4% Convertible Senior Notes ), in a series of privately negotiated transactions. As a result of the early redemption, the Company recorded a $3.0 million loss on debt extinguishment (as retrospectively adjusted for the adoption of FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt*

*Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* ( FSP 14-1 ), described below and in Note 4 Debt Obligations ) during the quarter ended March 27, 2008. In connection with the early redemption, the Company received net proceeds of approximately $13.7 million from Credit Suisse International ( Credit Suisse ) attributable to the convertible note hedge and warrant transactions associated with the 33/4% Convertible Senior Notes described further in Note 4 Debt Obligations. Such proceeds were recorded as an increase to additional paid-in capital. In connection with the final maturity of the 33/4% Convertible Senior Notes on May 15, 2008, holders of the remaining $33.7 million in principal amount exercised their conversion rights. The Company elected to settle these conversions entirely in cash for approximately $51.4 million using the remaining proceeds from the issuance of the 61/4% Convertible

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Senior Notes. In connection with these conversions, the Company received net proceeds of approximately $5.2 million from Credit Suisse attributable to the convertible note hedge and warrant transactions associated with the 33/4% Convertible Senior Notes. Such proceeds were also recorded as an increase to additional paid-in capital. See Note 4 Debt Obligations for further discussion of this transaction.

On April 30, 2008, the Company acquired Consolidated Theatres Holdings, G.P. ( Consolidated Theatres ), which holds a total of 28 theatres with 400 screens in Georgia, Maryland, North Carolina, South Carolina, Tennessee and Virginia. The total net cash purchase price for the acquisition was approximately $209.3 million. The results of operations of the acquired theatres have been included in the Company s consolidated financial statements for periods subsequent to the acquisition date. In conjunction with the closing, we entered into a final judgment with the Antitrust Division of the United States Department of Justice ( DOJ ), which required us to hold separate and divest ourselves of four theaters comprising 52 screens in North Carolina. During the quarter ended September 25, 2008, the Company entered into an agreement to sell three of the four theatres and recorded impairment charges of approximately $7.9 million related to these theatres. On October 23, 2008, the Company completed its divestiture of the three theatres comprising 42 screens in North Carolina pursuant to a final judgment with the DOJ. In accordance with the final judgment, a court-appointed trustee was selected to sell the last of the four theatres. See Note 2 Acquisition for further discussion of this transaction.

For a discussion of other significant transactions which have occurred through January 1, 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 2, 2009 with the Securities and Exchange Commission (the Commission ) (File No. 001-31315) for the fiscal year ended January 1, 2009.

As described more fully in Note 4 Debt Obligations, effective January 2, 2009, the Company retrospectively adopted the provisions of FSP 14-1. Our 61/4% Convertible Senior Notes and the 33/4% Convertible Senior Notes described in Note 4 are within the scope of FSP 14-1; therefore, we retrospectively recorded the debt portions of the 61/4% Convertible Senior Notes and the 33/4% Convertible Senior Notes at their fair values as of the respective dates of issuance and amortize the related debt discount into interest expense over the life of each debt instrument during the periods in which the debt instruments are outstanding. A cumulative effect of a change in accounting principle in the amount of $8.9 million was recorded as of the beginning of fiscal 2007 (December 29, 2006) with an offsetting credit to retained earnings. The accompanying unaudited condensed consolidated balance sheet as of January 1, 2009 and the unaudited condensed consolidated statement of income for the quarter ended March 27, 2008 presented herein have been retrospectively adjusted to give effect to the adoption of FSP 14-1. Please refer to Note 4 Debt Obligations for further discussion of the adoption of FSP 14-1.

As discussed further in Note 3 Investment in National CineMedia, LLC, as a result of the annual adjustment provisions of the Common Unit Adjustment Agreement with National CineMedia, LLC ( National CineMedia ), on March 17, 2009, we received from National CineMedia approximately 0.5 million newly issued common units of National CineMedia in accordance therewith. This adjustment increased the number of National CineMedia common units held by us to approximately 25.4 million and as a result, on a fully diluted basis, we own a 25.0% interest in National CineMedia, Inc. ( NCM, Inc. ) as of April 2, 2009.

During the quarter ended April 2, 2009, Regal paid one quarterly cash dividend of $0.18 on each outstanding share of the Company s Class A and Class B common stock, or approximately $27.7 million in the aggregate.

Total comprehensive income for the quarters ended April 2, 2009 and March 27, 2008 was $15.9 million and $15.4 million, respectively. Total comprehensive income consists of net income and other comprehensive loss, net of tax, related to the change in the aggregate unrealized loss on the Company s interest rate swap arrangements during each of the quarters ended April 2, 2009 and March 27, 2008. The Company s interest rate swap arrangements are further described in Note 4 Debt Obligations.

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The Company has prepared the unaudited condensed consolidated balance sheet as of April 2, 2009 and the unaudited condensed consolidated statements of income and cash flows for the quarters ended April 2, 2009 and March 27, 2008 in accordance with U.S. generally accepted accounting 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 January 1, 2009 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, 2009. 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 ended April 2, 2009 are not necessarily indicative of the operating results that may be achieved for the full 2009 fiscal year.

**2. ACQUISITION**

***Acquisition of Consolidated Theatres***

On April 30, 2008, the Company acquired Consolidated Theatres, which holds a total of 28 theatres with 400 screens in Georgia, Maryland, North Carolina, South Carolina, Tennessee and Virginia. The total net cash purchase price for the acquisition was approximately $209.3 million. In conjunction with the closing, we entered into a final judgment with the DOJ, which required us to hold separate and divest ourselves of four theaters comprising 52 screens in North Carolina. Three of the four theatres subject to the judgment were existing Regal properties and the fourth theatre was acquired from Consolidated Theatres. Because the fourth theatre had minimal and declining cash flows at the acquisition date, none of the purchase price was allocated to the long-lived assets associated with this theatre. Our impairment review during the quarter ended June 26, 2008 did not result in any impairment charges related to these four theatres on a stand alone basis. However, during the quarter ended September 25, 2008, the Company made the decision to sell three of these four theatres (two of the Regal theatres and the Consolidated theatre) together in order to partially satisfy our divestiture requirement. As a result of agreeing to sell the theatres as a package, we were required to evaluate the theatres for impairment as a disposal group (as opposed to the stand alone evaluation during the quarter ended June 26, 2008) and accordingly, we recorded an impairment charge of $7.9 million during the quarter ended September 25, 2008. On October 23, 2008, the Company completed its divestiture of the three theatres comprising 42 screens in North Carolina pursuant to a final judgment with the DOJ. In accordance with the final judgment, a court-appointed trustee was selected to sell the last of the four theatres. As described in Note 11 Subsequent Events, on April 30, 2009, the last of the four theatres was transferred to another theatre operator.

The acquisition has 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. 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 acquired theatres have been included in the Company s consolidated financial statements for periods subsequent to the acquisition date.

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

| | | |
|---|---|---|
| Current assets | $ | 1.4 |
| Property and equipment, net | | 209.9 |
| Intangible assets | | 18.1 |

| | | |
|---|---|---|
| Current liabilities | | (11.2) |
| Long-term liabilities | | (8.9) |
| Total purchase price | $ | 209.3 |

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The transaction included the acquisition of certain identifiable intangible assets, including $9.9 million related to favorable leases with a weighted average amortization period of 13.1 years and approximately $8.2 million related to an on-screen advertising contract which will be amortized on a straight-line basis through January 2011. During the quarter ended April 2, 2009, the Company recognized $1.0 million of amortization related to these intangible assets.

The following unaudited pro forma results of operations for the quarter ended March 27, 2008 assume the above acquisition occurred as of the beginning of fiscal 2008. Pro forma results were omitted for the quarter ended April 2, 2009 since actual reported results were the same as the pro forma results. 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 date indicated, or which may occur in the future (in millions, except per share data).

| | Quarter Ended March 27, 2008 |
|---|---|
| Revenues | $ 659.9 |
| Income from operations | 72.4 |
| Net income attributable to controlling interest | 27.4 |
| Earnings per share of Class A and Class B common stock: | |
| Basic | 0.18 |
| Diluted | 0.17 |

**3. 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. ( NCN ), 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 us, AMC and Cinemark. National CineMedia is, subject to limited exceptions, the exclusive provider of advertising and event services to Regal, AMC and Cinemark.

As part of the March 2005 joint venture transaction, RCM and NCN entered into a Contribution and Unit Holders Agreement with National CineMedia pursuant to which, among other things, RCM and NCN contributed assets to National CineMedia and National CineMedia assumed specified liabilities of RCM and NCN in consideration for the issuance of equity units by National CineMedia to RCM s wholly-owned subsidiary, Regal CineMedia Holdings ( RCH ) and NCN, respectively. The assets contributed to National CineMedia by RCM included fixed assets and agreements as well as approximately $1.3 million in cash. The Company accounts for its investment in National CineMedia using the equity method of accounting and 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.

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 RCH, AMC and Cinemark amended and

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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. The formation of National CineMedia and related IPO of NCM, Inc. are further described in Note 4 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009.

As further described in Note 4 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009, 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.

As a result of the annual adjustment provisions of the Common Unit Adjustment Agreement, on April 9, 2008, we received from National CineMedia approximately 0.8 million newly issued common units of National CineMedia. 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 our circuit in connection with our acquisition of Consolidated Theatres. Finally, on March 17, 2009, we received from National CineMedia approximately 0.5 million newly issued common units of National CineMedia in accordance with the annual adjustment provisions of the Common Unit Adjustment Agreement. These adjustments increased the number of National CineMedia common units held by us to approximately 25.4 million and as a result, on a fully diluted basis, we own a 25.0% interest in NCM, Inc. as of April 2, 2009. The Company recorded the additional units at fair value using the available closing stock prices of NCM, Inc. as of the dates at which the units were received. 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 separate investment tranches in National CineMedia. As a result, the Company recorded a $7.0 million increase in its investment in National CineMedia and a corresponding increase to deferred revenue during the quarter ended April 2, 2009. This amount will be amortized to advertising revenue over the remaining term of the exhibitor services agreements ( ESA ) following the units of revenue method.

Since the additional common units received 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 less than $0.1 million during the quarter April 2, 2009. Such amount has been included as a component of Earnings recognized from NCM in the unaudited condensed consolidated financial statements. As of April 2, 2009 and January 1, 2009, our investment in National CineMedia totaled approximately $78.3 million and $73.1 million, respectively.

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. During the quarters ended April 2,

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2009 and March 27, 2008, the Company received $12.4 million and $8.4 million, respectively, in cash distributions from National CineMedia. Approximately $1.8 million of these cash distributions received during the quarter ended April 2, 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 financial statements.

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 unaudited condensed consolidated financial statements and consist of the following amounts (in millions):

| | Quarter Ended April 2, 2009 | Quarter Ended March 27, 2008 |
|---|---|---|
| Theatre access fees per patron | $ 3.8 | $ 4.0 |
| Theatre access fees per digital screen | 1.3 | 1.2 |
| Other NCM revenue | 0.7 | 0.9 |
| Amortization of ESA modification fees | 0.9 | 0.6 |
| Payments to beverage concessionaire | (3.5) | (3.2) |
| Total | $ 3.2 | $ 3.5 |

As of April 2, 2009, approximately $2.4 million and $1.8 million due from/to National CineMedia were included in Trade and other receivables, net and Accounts payable, respectively. As of January 1, 2009, approximately $2.3 million and $2.2 million due from/to National CineMedia were included in Trade and other receivables, net and Accounts payable, respectively.

Summarized unaudited condensed consolidated statement of income information for National CineMedia for the quarters ended January 1, 2009 and December 27, 2007 is as follows (in millions):

| | Quarter Ended January 1, 2009 | Quarter Ended December 27, 2007 |
|---|---|---|
| Revenues | $ 112.4 | $ 94.5 |
| Income from operations | 58.6 | 50.5 |
| Net income | 17.4 | 36.7 |

As of the date of this quarterly report on Form 10-Q, no summarized financial information for National CineMedia was available for the quarter ended April 2, 2009.

**4. DEBT OBLIGATIONS**

Debt obligations at April 2, 2009 and January 1, 2009 consist of the following (in millions):

| | April 2, 2009 | January 1, 2009 |
|---|---|---|
| Regal 61/4% Convertible Senior Notes, net of debt discount | $ 191.5 | $ 190.5 |
| Regal Cinemas Amended Senior Credit Facility | 1,657.5 | 1,661.8 |
| Regal Cinemas 93/8% Senior Subordinated Notes | 51.5 | 51.5 |
| Lease financing arrangements, weighted average interest rate of 11.19%, maturing in various installments through January 2021 | 80.7 | 81.8 |
| Capital lease obligations, 8.5% to 10.3%, maturing in various installments through December 2017 | 18.1 | 19.0 |
| Other | 0.3 | 0.3 |
| Total debt obligations | 1,999.6 | 2,004.9 |
| Less current portion | 23.6 | 23.4 |
| Total debt obligations, net of current portion | $ 1,976.0 | $ 1,981.5 |

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***Regal 61/4% Convertible Senior Notes*** On March 10, 2008, Regal issued $200.0 million aggregate principal amount of the 61/4% Convertible Senior Notes. Interest on the 61/4% Convertible Senior Notes is payable semi-annually in arrears on March 15 and September 15 of each year, beginning September 15, 2008. The 61/4% Convertible Senior 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 61/4% Convertible Senior 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 61/4% Convertible Senior Notes. On or after December 15, 2010, our note holders will have the option to convert their 61/4% Convertible Senior 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 fundamental change (as defined in the indenture to the 61/4% Convertible Senior Notes dated March 10, 2008) at the then-existing conversion price per share. Prior to December 15, 2010, our note holders have the right, at their option, to convert their 61/4% Convertible Senior 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 fundamental change, at the then existing conversion price per share, subject to further adjustments described below, if:

- during any calendar quarter commencing after June 30, 2008, and only during such calendar quarter, if the last reported sale price per share of Class A common stock for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price per share of Class A common stock for the 61/4% Convertible Senior Notes on the last trading day of such immediately preceding calendar quarter;

- during the five consecutive business days immediately after any ten consecutive trading day period (such 10 consecutive trading day period, the Note Measurement Period ) in which the trading price (calculated using the trading price for each of the trading days in the Note Measurement Period) per $1,000 principal amount of the 61/4% Convertible Senior Notes was less than 95% of the product of the last reported sale price per share of Class A common stock and the conversion rate for each day of the Note Measurement Period as determined following a request by a holder of the notes in accordance with the procedures described more fully in the 61/4% Convertible Senior Notes indenture;

- during certain periods if specified corporate transactions occur or specified distributions to holders of common stock are made, each as set forth in the 61/4% Convertible Senior Notes indenture (excluding certain distributions and excluding quarterly dividends not in excess of the base dividend amount (as defined in the 61/4% Convertible Senior Notes indenture)), in which case, the conversion price per share will be adjusted as set forth in the 61/4% Convertible Senior Notes indenture; or

- a fundamental change (as defined in the 61/4% Convertible Senior Notes indenture) occurs, a note holder may elect to convert all or a portion of its notes at any time commencing on the effective date of such transaction or 15 days prior to the anticipated effective date (in certain circumstances) until the latter of: (i) the day before the fundamental change repurchase date and (ii) 30 days following the effective date of such transaction (but in any event prior to the close of business on the business day prior to the maturity date), in which case we will increase the conversion rate for the notes surrendered for conversion by a number of additional shares of Class A common stock, as set forth in the table in the 61/4% Convertible Senior Notes indenture.

On April 2, 2009, at the then-current conversion price of $23.0336 per share (which conversion price may be adjusted pursuant to the certain events described further in the 61/4% Convertible Senior Notes indenture), each $1,000 of aggregate principal amount of 61/4% Convertible Senior Notes is convertible into approximately 43.4148 shares of our Class A common stock. Upon conversion, we may elect to deliver

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cash in lieu of shares of Class A common stock or a combination of cash and shares of Class A common stock. 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 61/4% Convertible Senior Notes, we used approximately $6.6 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 61/4% Convertible Senior Notes. Under the terms of the convertible note hedge arrangement (the 2008 Convertible Note Hedge ) with Credit Suisse, we paid $12.6 million for a forward purchase option contract under which we are entitled to purchase from Credit Suisse a fixed number of shares of our Class A common stock (at April 2, 2009, at a price per share of $23.0336). In the event of the conversion of the 61/4% Convertible Senior 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 61/4% Convertible Senior Notes, a number of shares of Class A Common stock 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 61/4% Convertible Senior Notes. We accounted for the 2008 Convertible Note Hedge pursuant to the guidance in Emerging Issues Task Force ( EITF ) 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company s Own Stock* ( EITF 00-19 ). Accordingly, the $12.6 million purchase price of the forward stock purchase option contract was recorded as an increase to consolidated stockholders deficit.

We also sold to Credit Suisse a warrant (the 2008 Warrant ) to purchase shares of our Class A common stock. The 2008 Warrant is currently exercisable for approximately 8.7 million shares of our Class A common stock at a April 2, 2009 exercise price of $25.376 per share (which exercise price may be adjusted pursuant to the provisions of the 2008 Warrant). We received $6.0 million in cash from Credit Suisse in return for the sale of this forward share purchase option contract. Credit Suisse cannot exercise the 2008 Warrant unless and until a conversion event occurs. We have the option of settling the 2008 Warrant in cash or shares of our Class A common stock. We accounted for the sale of the 2008 Warrant as the sale of a permanent equity instrument pursuant to the guidance in EITF 00-19. Accordingly, the $6.0 million sales price of the forward stock purchase option contract was recorded as a debit to consolidated stockholders deficit.

The 2008 Convertible Note Hedge and the 2008 Warrant allow us to acquire sufficient Class A common shares from Credit Suisse to meet our obligation to deliver Class A common shares upon conversion by the note holder, unless the Class A common share price exceeds $25.376 (as of April 2, 2009). When the fair value of our Class A common shares exceeds such price, the equity contracts no longer have an offsetting economic impact, and accordingly will no longer be effective as a share-for-share hedge of the dilutive impact of possible conversion.

The 61/4% Convertible Senior Notes allow us to settle any conversion by remitting to the note holder the accreted value of the note in cash plus the conversion spread (the excess conversion value over the accreted value) in either cash, shares of our Class A common stock or a combination of stock and cash. 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 B as set forth in EITF 90-19, *Convertible Bonds with Issuer Option to Settle for Cash upon Conversion*. Because the accreted value of the 61/4% Convertible Senior Notes may be settled in cash, shares of our Class A common stock or a combination of stock and cash, the accreted value of the 61/4% Convertible Senior Notes is assumed to be settled in shares and will result in dilution in our earnings per share computations using the if-converted method, if the effect is dilutive (see Note 10 Recent Accounting Pronouncements ).

***Regal 33/4% Convertible Senior Notes*** As further described in Note 5 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009, on May 28, 2003, Regal issued $240.0 million aggregate principal amount of the 33/4% Convertible Senior Notes due May 15, 2008.

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In connection with the issuance of the 6¼% Convertible Senior Notes described above, on March 5, 2008 and March 10, 2008, we redeemed a total of approximately $90.0 million principal amount of the 33/4% Convertible Senior Notes, in a series of privately negotiated transactions. As a result of the early redemption, the Company recorded a $3.0 million loss on debt extinguishment (as retrospectively adjusted for the adoption of FSP 14-1 described below) during the quarter ended March 27, 2008. In connection with the early redemption, the Company received net proceeds of approximately $13.7 million from Credit Suisse attributable to the convertible note hedge (the 2003 Convertible Note Hedge ) and the warrant (the 2003 Warrant ) associated with the 33/4% Convertible Senior Notes. Such proceeds were recorded as an increase to additional paid-in capital. In connection with the final maturity of the 33/4% Convertible Senior Notes on May 15, 2008, holders of the remaining $33.7 million in principal amount exercised their conversion rights. The Company elected to settle these conversions entirely in cash for approximately $51.4 million using the remaining proceeds from the issuance of the 6¼% Convertible Senior Notes. In connection with these conversions, the Company received net proceeds of approximately $5.2 million from Credit Suisse attributable to the convertible note hedge and warrant transactions associated with the 33/4% Convertible Senior Notes. Such proceeds were also recorded as an increase to additional paid-in capital.

***Adoption of FSP 14-1***

Effective January 2, 2009, the Company retrospectively adopted the provisions of FSP 14-1, which requires that issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity (conversion feature) components of such instruments. As a result, interest expense should be imputed and recognized based upon the entity s nonconvertible debt borrowing rate, which will result in incremental non-cash interest expense. Prior to FSP 14-1, Accounting Principles Board Opinion No. 14, *Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrant*, provided that no portion of the proceeds from the issuance of the instrument should be attributable to the conversion feature. Our 6¼% Convertible Senior Notes and our 33/4% Convertible Senior Notes are subject to FSP 14-1.

We have determined that if the liability and equity components of the 6¼% Convertible Senior Notes and the 33/4% Convertible Senior Notes had been separately valued at the time of their issuances on March 10, 2008 and May 28, 2003, respectively, the amounts allocated to long-term debt would have been $187.4 million (6¼% Convertible Senior Notes) and $203.8 million (33/4% Convertible Senior Notes), and the amounts allocated to equity would have been $12.6 million and $36.2 million, respectively. The effective interest rates on the 6¼% Convertible Senior Notes and the 33/4% Convertible Senior Notes (based upon the Company s estimated nonconvertible debt borrowing rate at the time of each respective issuance) would have been approximately 8.7% and 6.8%, respectively. Effective with the January 2, 2009 adoption of FSP 14-1, interest expense (amortization of debt discount) for fiscal 2003, 2004, 2005, 2006, 2007 and 2008 were increased by non-cash amounts of approximately $3.3 million, $6.0 million, $6.7 million, $5.7 million, $4.6 million and $4.2 million, respectively. In addition, the Company retrospectively reduced the previously recorded loss on debt extinguishment resulting from the early extinguishments of the 33/4% Convertible Senior Notes that occurred during fiscal 2006 and fiscal 2008 by approximately $35.1 million and $67.5 million, respectively. After giving effect to these adjustments and the application of the appropriate income tax benefits through the fiscal year ended December 28, 2006, a cumulative effect adjustment of $8.9 million was recorded as of the beginning of fiscal 2007 (December 29, 2006) with a corresponding credit to the opening balance of retained earnings.

During the quarter ended April 2, 2009, the Company recorded approximately $1.0 million of non-cash interest expense (amortization of debt discount) on the 6¼% Convertible Senior Notes. The amount of contractual coupon interest recognized on the 6¼% Convertible Senior Notes during the same period was approximately $3.1 million. During the quarter ended March 27, 2008, the Company retrospectively recorded approximately $1.1 million of non-cash interest expense (amortization of debt discount) for the 6¼% Convertible Senior Notes and the 33/4% Convertible Senior Notes. The amount of contractual coupon interest recognized on the 6¼% Convertible Senior Notes and the 33/4% Convertible Senior Notes during the same period was approximately $1.6 million. In addition, for the quarter ended March 27, 2008, amounts previously recorded for loss on debt extinguishment and provision for income taxes were retrospectively (reduced) increased by $(49.8) million and $18.2 million, respectively. The resulting

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increase in net income from the adoption of FSP 14-1 was approximately $30.5 million for the quarter ended March 27, 2008. The accompanying unaudited condensed consolidated statement of income for the quarter ended March 27, 2008 presented herein has been retrospectively adjusted to give effect to these adjustments resulting from the adoption of FSP 14-1. In addition, the accompanying unaudited condensed consolidated balance sheet as of January 1, 2009 presented herein has been retrospectively adjusted to give effect to the adoption of FSP 14-1 as follows (in millions):

| | As of January 1, 2009 (Previously Reported) | Impact of FSP 14-1 | As of January 1, 2009 (As Revised for FSP 14-1) |
|---|---|---|---|
| Other assets | $ 113.5 | $ (0.2) | $ 113.3 |
| Non-current deferred income tax asset | 81.7 | (3.5) | 78.2 |
| Long-term debt, less current portion | 1,896.5 | (9.5) | 1,887.0 |
| Additional paid-in capital (deficit) | (256.1) | (9.7) | (265.8) |
| Retained earnings | 24.6 | 15.5 | 40.1 |

As of April 2, 2009 and January 1, 2009, the carrying amounts of the $200.0 million 6¼% Convertible Senior Notes were approximately $191.5 million and $190.5 million, respectively, and the carrying amount of the related equity component (conversion feature) was $12.6 million. We anticipate recording additional non-cash interest expense on the 6¼% Convertible Senior Notes in the amount of $8.5 million (the unamortized discount as of April 2, 2009) through the March 2011 maturity date of the 6¼% Convertible Senior Notes, thereby increasing the carrying value to $200.0 million. As of April 2, 2009, the if-converted value of the 6¼% Convertible Senior Notes was approximately $200.0 million.

***Regal Cinemas Fifth Amended and Restated Credit Agreement*** On October 27, 2006, Regal Cinemas entered into a fifth amended and restated credit agreement (the Amended Senior Credit Facility ) with Credit Suisse, Cayman Islands Branch (as successor to Credit Suisse First Boston), as Administrative Agent and the other lenders party thereto, which consists of a term loan facility (the Term Facility ) in an aggregate original principal amount of $1,700.0 million and a revolving credit facility (the Revolving Facility ) in an aggregate principal amount of up to $100.0 million. Due to the bankruptcy filings by Lehman Brothers Holdings Inc. ( Lehman ) and certain of its affiliates and the sudden deterioration in the credit standing of the Lehman affiliate party to our Revolving Facility, the aggregate principal amount available for drawing under the Revolving Facility was reduced by $5.0 million to $95.0 million during the fiscal year ended January 1, 2009. The Revolving Facility has a separate 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 October 27, 2013 and the Revolving Facility will mature on October 27, 2011. 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 three 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, 2013 and the second on October 27, 2013. The Amended Senior Credit Facility is further described in Note 5 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009.

On January 20, 2009, Regal Cinemas entered into the First Amendment (the Amendment ) to the Amended Senior Credit Facility. As a result of the Amendment, either the Company, or its wholly-owned

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subsidiary, REH, will be permitted from time to time to purchase loans outstanding under the Amended Senior Credit Facility. The Amendment provides that the aggregate principal amount of loans that can be repurchased shall not be more than $300.0 million and all such repurchases shall close on or before the date that is 270 days after the First Amendment Effective Date (approximately October 17, 2009), as defined in the Amendment, and sets forth the terms for implementing an offer to repurchase such loans (such repurchase being the Dutch Auction. )

Under the Amendment, (i) the Applicable Margin, as defined in the Amendment, for Revolving Loans under the Revolving Facility and for Term Loans under the Term Facility (each of which are determined by reference to the then-applicable Consolidated Leverage Ratio) is increased by 2.0%, (ii) Regal Cinemas ability to elect interest periods for LIBOR borrowings is limited to interest periods of 2, 3, 6 or (if available to all lenders) 12 months, with 1 month interest periods no longer being available, and (iii) Regal Cinemas may exclude a minimum of $100.0 million, but not more than $200.0 million, of Subordinated Debt, as defined in the Amendment, that is used to repay amounts outstanding under the Term Loan from certain financial covenant calculations.

The Amendment also modifies other financial covenants to be less restrictive as follows:

- (i) extending the time period for which the Maximum Consolidated Adjusted Leverage Ratio, as defined in the Amendment, may not exceed 5.75:1.00 until the 2nd fiscal quarter of 2011 and (ii) providing that the Maximum Consolidated Adjusted Leverage Ratio may not exceed (x) 5.50:1.00 from the 3rd fiscal quarter of 2011 through the 4th fiscal quarter of 2011 and (y) 5.25:1.00 from the 1st fiscal quarter of 2012 and thereafter; and

- (i) extending the time period for which the Maximum Consolidated Leverage Ratio, as defined in the Amendment, may not exceed 3.75:1.00 until the 2nd fiscal quarter of 2011 and (ii) providing that the Maximum Consolidated Leverage Ratio may not exceed (x) 3.50:1.00 from the 3rd fiscal quarter of 2011 through the 4th fiscal quarter of 2011 and (y) 3.25:1.00 from the 1st fiscal quarter of 2012 and thereafter.

Upon the execution of the Amendment to the Amended Senior Credit Facility, Regal recorded approximately $9.6 million of new debt acquisition costs and incurred approximately $0.8 million of other third party costs.

Borrowings under the Amended Senior Credit Facility bear interest, at Regal Cinemas option, at either a base rate or an Adjusted Eurodollar Rate (as defined in the Amended Senior Credit Facility) plus, in each case, an applicable margin. As of April 2, 2009 and January 1, 2009, borrowings of $1,657.5 million and $1,661.8 million, respectively, were outstanding under the Term Facility at an effective interest rate of 6.46% (as of April 2, 2009) and 4.42% (as of January 1, 2009), after the impact of the interest rate swaps described below is taken into account.

***Interest Rate Swaps*** As described in Note 5 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009, 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. On September 8, 2005, Regal Cinemas entered into an additional hedging relationship via a distinct interest rate swap agreement with a maturity term of four years. These interest rate swaps were designated to hedge approximately $1,100.0 million of its variable rate debt obligations. On June 30, 2007, one of our interest rate swaps designated to hedge approximately $200.0 million of variable rate debt obligations matured. On August 9, 2007, Regal Cinemas entered into two additional hedging relationships via two distinct interest rate swap agreements with maturity terms of two years each. These interest rate swaps were designated to hedge approximately $200.0 million of variable rate debt obligations. On June 30, 2008, two of our interest rate swaps designated to hedge

$300.0 million of variable rate debt obligations matured. On October 3, 2008, an interest rate swap agreement designated to hedge approximately $100.0 million of variable rate debt obligations effectively terminated. During the quarter ended April 2, 2009, Regal Cinemas entered into four additional hedging relationships via four distinct interest rate swap agreements with maturity terms of two to three years each from the respective effective dates of the swaps and require Regal Cinemas to pay interest at fixed rates ranging from 2.15% to 2.53% and receive interest at a variable rate. These interest rate swaps were

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designated to hedge approximately $1.0 billion of variable rate debt obligations. One of these interest rate swap agreements (designated to hedge approximately $250.0 million of variable rate debt obligations) became effective during the quarter ended April 2, 2009. As a result, the Company s effective interest rate swap agreements hedge an aggregate of approximately $950.0 million of variable rate debt obligations as of April 2, 2009.

On September 15, 2008, because of the sudden deterioration in the credit standing of the Lehman counterparty to an interest rate swap agreement designated to hedge approximately $100.0 million of variable rate debt obligations, the Company concluded that the hedging relationship was no longer expected to be highly effective in achieving offsetting cash flows. As a result, on September 15, 2008, the hedging relationship ceased to qualify for hedge accounting under Statement of Financial Accounting Standards ( SFAS ) No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS No. 133 ). For the period from September 15, 2008 through September 25, 2008, the Company recognized $0.5 million (the change in fair value of the former hedging derivative) as a reduction of interest expense in the consolidated financial statements. On October 3, 2008, the Lehman counterparty filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. As a result, an event of default occurred under the provisions of the interest rate swap agreement between us and the Lehman counterparty, which effectively terminated the interest rate swap on October 3, 2008, as indicated above. Accordingly, $1.6 million of accumulated other comprehensive loss as of October 3, 2008 will be reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings (i.e., when interest payments are made on the variable rate debt obligations) as an adjustment to interest expense over the remaining life of the two-year original hedge as long as the variable rate debt obligations remain outstanding. During the quarter ended April 2, 2009, the Company released a portion of the deferred loss in accumulated other comprehensive loss by recording interest expense (net of related tax effects) of approximately $0.4 million and a corresponding $0.4 million reduction of other comprehensive loss. The Company is in the process of determining a final termination value associated with the interest rate swap, but does not expect the termination value to be materially different from the current liability recorded (approximately $2.1 million) as of April 2, 2009.

Under the terms of the Company s effective interest rate swap agreements as of April 2, 2009, Regal Cinemas pays interest at various fixed rates ranging from 2.353% to 4.994% and receives 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 interest rate swaps will be included in interest expense. No premium or discount was incurred upon the Company entering into the interest rate swaps, because the pay and receive rates on the interest rate swaps represented prevailing rates for each counterparty at the time the interest rate swaps were entered into. The interest rate swaps qualify for cash flow hedge accounting treatment in accordance with SFAS No. 133 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 $950.0 million of variable rate obligations. The change in the fair values of the interest rate swaps is recorded on the Company s consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps gains or losses reported as a component of other comprehensive income (loss) and the ineffective portion reported in earnings (interest expense). As interest expense is accrued on the debt obligation, amounts in accumulated other comprehensive income/loss related to the designated hedging instruments (the three 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.

As of April 2, 2009, the aggregate fair value of all of the Company s interest rate swaps was determined to be approximately $(23.8) million, of which $(14.8) million has recorded as a component of Other Non-Current Liabilities and $(9.0) million has been recorded as a component of Accrued Expenses with a corresponding amount of $(14.5) million, net of tax, recorded to Accumulated Other Comprehensive Loss. As of January 1, 2009, the aggregate fair value of the remaining three interest rate swaps was determined to be approximately $(14.2) million, which was recorded as a component of Accrued Expenses with a corresponding amount of $(8.7) million, net of tax, recorded to Accumulated Other Comprehensive Loss. These interest rate swaps exhibited no ineffectiveness during the quarters ended April 2, 2009 and March 27, 2008 and accordingly, the net losses on the swaps of $5.8 million and $12.1 million, respectively, were reported as a component of other comprehensive loss for the quarters ended April 2, 2009 and March 27, 2008. The fair

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value of the Company s interest rate swaps is based on level 2 inputs, as described by SFAS No. 157, *Fair Value Measurements*, which include observable inputs such as dealer quoted prices for similar assets or liabilities, and represents the estimated amount Regal Cinemas would receive or pay to terminate the agreements taking into consideration various factors, including current interest rates, credit risk and counterparty credit risk. The counterparties to the Company s interest rate swaps are major financial institutions. The Company evaluates the bond ratings of the financial institutions and believes that credit risk is at an acceptably low level.

***Other Long-Term Obligations*** All other long-term obligations (including the Regal Cinemas 93/8% Senior Subordinated Notes) not explicitly discussed herein are described in Note 5 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009 and incorporated by reference herein.

**5. INCOME TAXES**

The provision for income taxes of $14.4 million and $19.1 million for the quarters ended April 2, 2009 and March 27, 2008, respectively, reflect effective tax rates of approximately 40.3% and 41.0%, respectively. The reduction in the effective tax rate for the quarter ended April 2, 2009 is primarily attributable to the tax effects of the resolution of a state tax issue during the quarter ended March 27, 2008. The effective tax rates for the quarters ended April 2, 2009 and March 27, 2008 reflect the impact of certain non-deductible expenses.

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 April 2, 2009 and January 1, 2009, totaling $12.1 million as management believes it is more likely than not that certain deferred tax assets will not be realized in future tax periods. Future reductions in the valuation allowance associated with a change in management s determination of the Company s ability to realize these deferred tax assets will result in a decrease in the provision for income taxes.

The Company and its subsidiaries collectively file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. In June 2005, the Company was notified that the Internal Revenue Service ( IRS ) would examine its 2002 and 2003 federal income tax returns. During October 2005, the IRS completed its examination of the Company s federal tax returns for such years and the Company and the IRS agreed to certain adjustments to the Company s 2002 and 2003 federal tax returns. Such adjustments did not have a material impact on the Company s provision for income taxes. The Company is no longer subject to U.S. federal examinations by tax authorities for years before 2005, and with limited exceptions, is no longer subject to state income tax examinations for years before 2004. However, the taxing authorities still have the ability to review the propriety of tax attributes created in closed tax years if such tax attributes are utilized in an open tax year.

**6. CAPITAL STOCK AND SHARE-BASED COMPENSATION**

***Capital Stock***

As of April 2, 2009, 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.

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Of the authorized shares of Class A common stock, 18.0 million 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 under the trading symbol RGC. As of April 2, 2009, 130,131,890 shares of Class A common stock were outstanding. Of the authorized shares of Class B common stock, 23,708,639 shares were outstanding as of April 2, 2009, all of which are held by Anschutz Company ( Anschutz ). 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 April 2, 2009. 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. Except as required by law, the Class A and Class B common stock vote together as a single class on all matters submitted to the stockholders. 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 10 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009.

***Share Repurchase Program***

During 2004, the Company s board of directors authorized a share repurchase program, which provided for the authorization to repurchase up to $50.0 million of the Company s outstanding Class A common stock within a twelve month period. During 2005, the Company repurchased 520,386 shares of its outstanding Class A common stock at an aggregate cost of approximately $10.0 million. The Company s board of directors extended the share repurchase program during the fiscal year ended January 1, 2009 for an additional twelve month period. Accordingly, the Company can repurchase up to an additional $40.0 million under the share repurchase program through November 2009. The Company made no repurchases of its outstanding Class A common stock under the program during the quarters ended April 2, 2009 and March 27, 2008. 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. Treasury shares are retired upon repurchase. At retirement, the Company records treasury stock purchases at cost with any excess of cost over par value recorded as a reduction of additional paid-in capital.

***Warrants***

Other than disclosed in Note 4 Debt Obligations and Note 9 Earnings Per Share, no warrants to acquire the Company s Class A or Class B common stock were outstanding as of April 2, 2009.

***Share-Based Compensation***

In 2002, the Company established the 2002 Stock Incentive Plan (the Incentive Plan ) for a total of 11,194,354 authorized shares, which provides for the granting of incentive stock options and non-qualified stock options to officers, employees and consultants of the Company. As described below under Restricted Stock and Performance Share Units, the Incentive Plan also provides for grants of restricted stock and performance shares that are subject to restrictions and risks of forfeiture. Readers should refer to Note 10 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009 for additional information related to these awards and the Incentive Plan.

*Stock Options*

In connection with the July 1, 2003, June 2, 2004 and April 13, 2007 extraordinary cash dividends and pursuant to the antidilution adjustment terms of the 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 dividends. The antidilution adjustments made with respect to such options resulted in a decrease in the range of exercise prices, from $2.4407 to $16.1768 per share, an increase in the aggregate number of shares

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issuable upon exercise of such options by 5,185,100, and an increase in the total number of authorized shares under the Incentive Plan to 18,269,213 (after giving effect to the May 11, 2005 amendment to the Incentive Plan, which increased the total number of shares of Class A common stock authorized for issuance under the Incentive Plan by 1,889,759 shares). As of April 2, 2009 and after giving effect to the antidilution adjustments and the May 11, 2005 amendment to the Incentive Plan, options to purchase a total of 584,482 shares of Class A common stock were outstanding under the Incentive Plan, and 2,042,416 shares remain available for future issuance under the Incentive Plan. Stock option information presented herein has been adjusted to give effect to the extraordinary dividends. 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 cash dividends because (1) the aggregate intrinsic value of the awards immediately after the extraordinary dividends was not greater than the aggregate intrinsic value of the awards immediately before the extraordinary dividends and (2) the ratio of the exercise price per share to the market value per share was not reduced.

There were no stock options granted during the quarters ended April 2, 2009 and March 27, 2008. During the quarters ended April 2, 2009 and March 27, 2008, the Company recognized less than $0.1 million of share-based compensation expense related to stock options. Such expense is presented as a component of general and administrative expenses for the quarters ended April 2, 2009 and March 27, 2008. At April 2, 2009, there was $0.2 million of unrecognized compensation cost related to share-based payments.

We receive a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the stock is sold over the exercise price of the options. In accordance with SFAS No. 123(R), *Share-Based Payment*, we are required to report excess tax benefits from the award of equity instruments as financing cash flows. Excess tax benefits are recorded when a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes. There were no exercises of stock options during the quarter ended April 2, 2009. For the quarter ended March 27, 2008, our unaudited condensed consolidated statement of cash flows reflects $0.1 million of excess tax benefits as financing cash flows. Net cash proceeds from the exercise of stock options were $0.2 million for the quarter ended March 27, 2008. The actual income tax benefit realized from stock option exercises was $0.1 million for the same period.

The following table represents stock option activity for the quarter ended April 2, 2009:

| | **Number of Shares** | **Weighted Average Exercise Price** | **Weighted Average Contract Life (Yrs.)** |
|---|---|---|---|
| Outstanding options at beginning of period | 584,482 | $ 9.37 | 3.78 |
| Granted | | | |
| Exercised | | | |
| Forfeited | | | |
| Outstanding options at end of period | 584,482 | 9.37 | 3.49 |
| Exercisable options at end of period | 559,358 | 9.06 | 3.41 |

*Restricted Stock*

As described in Note 9 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009, the Company maintains the Incentive Plan which provides for restricted stock awards to officers, directors and key employees. Under the Incentive Plan, shares of Class A common stock of the Company may be granted at nominal cost to officers, directors and key employees, subject to a continued employment restriction. On January 14, 2009, 371,129 restricted shares were granted under the Incentive Plan at nominal cost to officers, directors and key employees. These awards vest 25% at the end of each year for four years in the case of officers and key employees and vest 100% at the end of one year in the case of directors. The closing price of our Class A common stock on the date of this grant was $10.01 per share.

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During the quarter ended April 2, 2009, the Company withheld approximately 37,576 shares of restricted stock at an aggregate cost of approximately $0.4 million, as permitted by the applicable equity award agreements, to satisfy employee tax withholding requirements related to the vesting of restricted stock awards.

During each of the quarters ended April 2, 2009 and March 27, 2008, the Company recognized approximately $0.9 million of share-based compensation expense related to restricted share grants. Such expense is presented as a component of general and administrative expenses. The compensation expense for these awards was determined based on the market price of our stock at the date of grant applied to the total numbers of shares that were anticipated to fully vest. As of April 2, 2009, we have unrecognized compensation expense of $8.2 million associated with restricted stock awards.

The following table represents the restricted stock activity for the quarter ended April 2, 2009:

| | **Quarter Ended April 2, 2009** |
|---|---|
| Unvested at beginning of period | 637,615 |
| Granted during the period | 371,129 |
| Vested during the period | (172,371) |
| Forfeited during the period | (2,947) |
| Unvested at end of period | 833,426 |

During the quarter ended April 2, 2009, the Company paid one cash dividend of $0.18 on each share of outstanding restricted stock totaling approximately $0.2 million. During the quarter ended March 27, 2008, the Company paid one cash dividend of $0.30 on each share of outstanding restricted stock totaling approximately $0.2 million.

*Performance Share Units*

The Incentive Plan also provides for grants in the form of performance share units to officers, directors and key employees. Performance share agreements are entered into between the Company and each grantee of performance share units (each a Performance Agreement ). Our 2006 Performance Agreement covered performance share grants in the fiscal years ended December 28, 2006, December 27, 2007 and January 1, 2009, and is described in Note 9 to the consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended January 1, 2009.

In 2009, we adopted an amended and restated form of Performance Agreement. On January 14, 2009, 401,907 performance shares were granted pursuant to the 2009 Performance Agreement, at nominal cost to officers and key employees. Under the 2009 Performance Agreement, which is described in the section entitled Compensation Discussion and Analysis Elements of Compensation Performance Shares, of our 2009 proxy statement, each performance share represents the right to receive from 0% to 150% of the target numbers of shares of restricted Class A common stock. The number of shares of restricted common stock earned will be determined based on the attainment of specified performance goals by January 14, 2012 (the third anniversary of the grant date) set forth in the Performance Agreement. The shares are subject to the terms and conditions of the Incentive Plan. The closing price of our Class A common stock on the date of this grant was $10.01 per share.

Pursuant to the terms and conditions of the 2006 and 2009 Performance Agreements, grantees will be issued shares of restricted common stock of the Company in an amount determined by the attainment of Company performance criteria set forth in such Performance Agreement. The shares of restricted common stock received upon attainment of the performance criteria will be subject to further vesting over a period of time, provided the grantee remains a service provider to the Company during such period.

During the quarters ended April 2, 2009 and March 27, 2008, the Company recognized approximately $0.7 million and $0.4 million, respectively, of share-based compensation expense related to performance share grants.  Such expense is presented as a component of general and administrative expenses.

The following table summarizes information about the Company s number of performance shares for the quarter ended April 2, 2009:

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| | Quarter Ended April 2, 2009 |
|---|---|
| Unvested at beginning of period | 793,005 |
| Granted (based on target) | 401,907 |
| Forfeited | (6,552) |
| Unvested at end of period | 1,188,360 |

The above table does not reflect the maximum or minimum number of shares of restricted stock contingently issuable. An additional 790,949 shares of restricted stock could be issued providing the performance criteria maximums are met.

**7. COMMITMENTS AND CONTINGENCIES**

***Acquisition of Consolidated Theatres***

As described in Note 2 Acquisition, in conjunction with the closing of Consolidated Theatres, we entered into a final judgment with the DOJ, which requires us to hold separate and divest ourselves of four theaters comprising 52 screens in North Carolina. During the fiscal year ended January 1, 2009, the Company entered into an agreement to sell three of the four theatres. On October 23, 2008, the Company completed its divestiture of the three theatres. In accordance with the final judgment, a court-appointed trustee was selected to sell the last of the four theatres.

***Other***

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, awards of damages to private litigants and additional capital expenditures to remedy such non-compliance.

In prior years, private litigants and the DOJ had filed claims against us or our subsidiaries alleging that a number of our theatres with stadium seating violated the ADA because these theatres allegedly failed to provide wheelchair-bound patrons with lines of sight comparable to those available to other members of the general public and denied persons in wheelchairs access to the stadium portion of the theatres. On June 8, 2005, Regal reached an agreement with the DOJ resolving and dismissing the private litigants claims and all claims made by the United States under the ADA. From time to time, we receive claims that the stadium seating offered by our theatres allegedly violates the ADA. In these instances, we seek to resolve or dismiss these claims based on the terms of the DOJ settlement or under applicable ADA standards.

In addition, we, from time to time, receive letters from the attorneys general of states in which we operate theatres regarding investigation into the accessibility of our theatres to persons with visual or hearing impairments. We believe we provide the members of the visually and hearing impaired communities with reasonable access to the movie-going experience.

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.

On or about January 3, 2007, suit was initiated against the Company in Federal Court, Central District of California, styled, *Bateman, individually and on behalf of all others similarly situated, v. Regal Cinemas, Inc. and United Artists Theatre Circuit, Inc., et al.,* alleging violations of the Fair and Accurate

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Transaction Act, for allegedly printing expiration dates and credit card numbers on customer receipts. The plaintiff sought to represent a class of individuals allegedly harmed by this alleged practice. The complaint sought actual damages and/or statutory damages of at least one hundred dollars or up to one thousand dollars per violation, and attorney fees and costs. We believe we are in substantial compliance with all applicable federal and state laws governing these trade practices. On November 21, 2008, the court entered an order of dismissal of the complaint in its entirety, without prejudice, with each party to bear their own costs.

We and our various subsidiary corporations 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 these claims and disputes will not be material in the aggregate to our consolidated financial position, results of operations or cash flows.

**8. RELATED PARTY TRANSACTIONS**

During the quarter ended April 2, 2009, Regal Cinemas incurred capitalized costs of $0.1 million to Qwest Communications and its subsidiaries for network infrastructure upgrades. Regal Cinemas incurred approximately $2.0 million of expenses payable to Qwest Communications and its subsidiaries for telecommunication and network monitoring services during the quarter ended April 2, 2009. In addition, Regal Cinemas incurred less than $0.1 million of expenses payable to Anschutz affiliates for certain advertising services during the quarter ended April 2, 2009. Also, during the quarter ended April 2, 2009, Regal Cinemas received less than $0.1 million from an Anschutz affiliate for rent and other expenses related to a theatre facility.

During the quarter ended March 27, 2008, Regal Cinemas incurred approximately $1.0 million of expenses payable to an Anschutz affiliate, Qwest Communications and its subsidiaries, for telecommunication services. In addition, Regal Cinemas incurred approximately $0.1 million of expenses payable to Anschutz affiliates for certain advertising services during the quarter ended March 27, 2008. During the quarter ended March 27, 2008, Regal Cinemas received less than $0.1 million from an Anschutz affiliate for rent and other expenses related to a theatre facility.

Regal entered into a management agreement with an Anschutz affiliate to manage a Los Angeles, California theatre site on their behalf. The ultimate financial terms of the management agreement were approved by the Company s board of directors, and the management fee payable to Regal will be based on a percentage of revenues generated by the theatre, subject to a minimum annual fee payable to Regal regardless of revenues generated. The theatre is scheduled to open in late 2009.

**9. EARNINGS PER SHARE**

We compute net income per share of Class A and Class B common stock in accordance with SFAS No. 128, *Earnings per Share* using the two-class method. Under the provisions of SFAS No. 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, common stock equivalents outstanding during the period. Potential common stock equivalents consist of the incremental common shares issuable upon the exercise of common stock options, restricted stock and performance shares, the conversion spread on the 33/4% Convertible Senior Notes, the 2003 Warrant, the assumed conversion of the 61/4% Convertible Senior Notes and the 2008 Warrant issued in connection with the 61/4% Convertible Senior Notes. The dilutive effect of outstanding stock options, restricted shares and performance shares, the conversion spread on the 33/4% Convertible Senior Notes, the 2003 Warrant and the 2008 Warrant issued in connection with the 61/4% Convertible Senior Notes is reflected in diluted earnings per share by application of the treasury-stock method. The dilutive effect of assumed conversion of the 61/4% Convertible Senior Notes is reflected in diluted earnings per share by application of the if-converted method. In addition, the computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock,

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while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting. In accordance with EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128,* the undistributed earnings for the periods presented are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the periods presented had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

The following table sets forth the computation of basic and diluted net income per share of Class A and Class B common stock (in millions, except share and per share data):

| | Quarter ended April 2, 2009 | | Quarter ended March 27, 2008 | |
|---|---|---|---|---|
| | **Class A** | **Class B** | **Class A** | **Class B** |
| Basic net income per share: | | | | |
| Numerator: | | | | |
| Allocation of undistributed earnings | $ 18.0 | $ 3.3 | $ 23.2 | $ 4.3 |
| Denominator: | | | | |
| Weighted average common shares outstanding (in thousands) | 129,336 | 23,709 | 129,093 | |