

REGAL ENTERTAINMENT GROUP

Form 10-Q

May 12, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 2, 2009

Commission file number: 001-31315

Regal Entertainment Group

(Exact name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

**7132 Regal Lane
Knoxville, TN**

02-0556934
(Internal Revenue Service
Employer Identification Number)

37918

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(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 ☒ No ☐

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 ☐ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

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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(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

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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.

Table of Contents**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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(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

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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 6 1/4% Convertible Senior Notes due March 15, 2011 (the 6 1/4%