REGAL ENTERTAINMENT GROUP
Form 10-K/A
December 04, 2003

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 26, 2002

Commission file number: **001-31315**

Regal Entertainment Group

(Exact name of Registrant as Specified in its Charter)

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 27, 2002, computed by reference to the closing price for such stock on the New York Stock Exchange on such date, was $511,488,969 (22,248,324 shares at a closing price per share of $22.99).

Shares of Class A common stock outstanding	46,765,646 shares at March 20, 2003
Shares of Class B common stock outstanding	85,287,957 shares at March 20, 2003

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement to be used in connection with its 2003 Annual Meeting of Stockholders and to be filed within 120 days of December 26, 2002 are incorporated by reference into Part III, Items 10-13, of this report on Form 10-K.

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REGAL ENTERTAINMENT GROUP

EXPLANATORY NOTE

On August 26, 2003, Regal Entertainment Group filed a registration statement on Form S-3 (Commission File No. 333-108212) with the Securities and Exchange Commission (the "Commission"), which was amended on November 14, 2003 and incorporates by reference Regal's annual report on Form 10-K for the fiscal year ended December 26, 2002, quarterly reports on Form 10-Q for the fiscal quarters ended March 27, 2003 and June 26, 2003, and other current reports (or portions thereof) filed by Regal during 2003. The Commission determined to review the registration statement and also has undertaken a review of our periodic reports filed with the Commission identified above. We believe the review of the periodic reports was undertaken as a result of the Commission's normal review process.

As a result of the review of the periodic reports, the Commission requested that Regal supplement or clarify certain textual information in, and include deferred revenues as a separate line item in its consolidated and combined balance sheets for the periods presented in, its annual report on Form 10-K. Following management's discussions with the Commission's staff, Regal agreed to make the suggested changes. Other than the balance sheet change noted above and supplemental or clarifying changes to the notes to the consolidated and combined financial statements included in the annual report on Form 10-K, this amended annual report on Form 10-K/A contains no changes to the consolidated and combined financial statements previously filed with the Commission by Regal.

The information contained in this amended annual report on Form 10-K/A has not been updated to reflect events and circumstances occurring since its original filing. Such matters have been or will be addressed in reports filed with the Commission (other than this amended report) subsequent to the date of the original filing of Regal's annual report on Form 10-K. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Regal has restated in its entirety each item of its originally filed annual report on Form 10-K affected by this amendment.

PART I

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

Item 1. BUSINESS

THE COMPANY

Regal Entertainment Group, a Delaware corporation organized on March 6, 2002 ("we," "us," "our," the "Company" or "Regal"), is the parent company of Regal Entertainment Holdings, Inc. ("REH"), which is the parent company of Regal Cinemas Corporation ("Regal Cinemas") and its subsidiaries and United Artists Theatre Company ("United Artists") and its subsidiaries. Regal Cinemas' subsidiaries include Regal Cinemas, Inc. and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards") and Regal CineMedia Corporation ("Regal CineMedia"). The terms Regal Cinemas, United Artists, Edwards and Regal CineMedia 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 acquired Regal Cinemas, United Artists, Edwards and Regal CineMedia through a series of transactions on April 12, 2002. For a detailed discussion of the transactions resulting in Regal's acquisition of its subsidiaries, please see Note 1 to the financial statements included in

Part II, Item 8, of this Form 10-K, which is incorporated herein by reference. Each of the theatre circuits operated by Regal Cinemas, United Artists and Edwards emerged from bankruptcy reorganization under Chapter 11 of Title 11 of the United States Code prior to Regal's acquisition of such entities. For a detailed discussion of these bankruptcy proceedings, please see Note 3 to such financial statements, which is incorporated herein by reference. The Company manages its business under one reportable segment theatre exhibition operations.

DESCRIPTION OF BUSINESS

Overview

Regal operates the largest and most geographically diverse theatre circuit in the United States, consisting of 5,663 screens in 524 theatres in 36 states as of December 26, 2002, with over 250 million annual attendees. Regal operates approximately 16% of all screens in the United States. The Company's geographically diverse circuit includes theatres in 9 of the top 10 and 41 of the top 50 U.S. demographic market areas, which includes locations in suburban growth areas. The Company primarily operates multi-screen theatres and has an average of 10.8 screens per location, which is well above the 2002 average of 5.8 screens per location for the North American motion picture exhibition industry. The Company develops, acquires and operates multi-screen theatres primarily in mid-sized metropolitan markets and suburban growth areas of larger metropolitan markets throughout the U.S. The Company seeks to locate each theatre where it will be the sole or leading exhibitor within a particular geographic film-licensing zone. Management believes that at December 26, 2002, approximately 83% of the Company's screens were located in film licensing zones in which the Company was the sole exhibitor. Regal CineMedia was formed during 2002 to focus exclusively on the expansion of ancillary businesses, such as advertising, and the creation of new complementary business lines that leverage the Company's existing asset and customer bases. The Company believes the size, reach and quality of its theatre circuit provide an exceptional platform to realize economies of scale in its theatre operations and capitalize on Regal CineMedia's ancillary revenue opportunities.

Business Strategy

Our business strategy is to continue to enhance our leading position in the motion picture exhibition industry and to create incremental revenue growth and opportunities through Regal CineMedia. Key elements of our strategy include:

Enhancing Operating Efficiencies. We intend to generate operating margins that are among the highest in the industry by continuously attempting to improve our operating efficiency. By combining the operations of Regal Cinemas, United Artists and Edwards, we believe we have taken an important step toward improving our operating efficiency by creating economies of scale and eliminating corporate redundancy. We believe we can further enhance our operating results through the application of best practices from across the combined company.

Pursuing Strategic Acquisitions. We believe that our acquisition experience and the financial flexibility provided by our conservative capital structure position us well to execute future acquisitions. We may selectively pursue theatre acquisitions, such as the Hoyts Cinemas Corporation acquisition described below under "Recent Developments", that enhance our market position and asset base and improve our consolidated operating results. In addition, we may pursue acquisitions that strengthen our ancillary business by broadening our service offerings.

Creating a Digital Network to Generate Ancillary Revenues. We are generating additional revenue growth by deploying the equipment necessary to create our Digital Content Network ("DCN"), the largest digital video and communications network among domestic exhibitors. We intend to use the DCN to generate additional revenue from on-screen and in-lobby advertising, the distribution of entertainment, sports, music and other digital content and corporate communications services, conferencing, product introductions and distance learning. We believe the technical capabilities and reach of the DCN will enhance our advertising and promotions business by providing a more efficient purchasing process for advertisers and by streamlining the delivery of advertising, thus allowing for more targeted marketing. Additionally, by providing high quality pre-show programs and improved projection and sound capabilities, the DCN will provide a better entertainment experience for our patrons. The DCN will also enable us to leverage our assets more efficiently during non-peak periods from the rental of auditoriums on a single site and networked basis for seminars, business conferencing, distance learning, and other business meetings and from the distribution of alternative digital programming in the sports, music, entertainment, and educational categories.

Pursuing Selective Growth Opportunities. We intend to selectively pursue theatre and screen expansion opportunities that meet our strategic and financial return criteria. We also intend to enhance our operations by selectively expanding and upgrading existing properties in prime locations. We have combined the capital spending programs of Regal Cinemas, United Artists and Edwards under one management team to maximize our return on investment by enabling us to make strategic capital expenditures that we believe will provide the highest returns among our theatre portfolio.

Competitive Strengths

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

Industry Leader. We are the largest domestic motion picture exhibitor with nearly twice as many screens as our nearest competitor. We operate 5,663 screens in 524 theatres in 36 states across the nation. We believe that the quality and size of our theatre circuit is a significant competitive advantage for negotiating attractive concession contracts and generating economies of scale. We believe that our market leadership positions us to capitalize on favorable attendance trends, attractive consolidation opportunities and ancillary businesses.

Superior Management Drives Strong Operating Margins. We have developed a proven operating philosophy focused on efficient operations and strict cost controls at both the corporate and theatre levels. At the corporate level, we are able to leverage our size and operational expertise to achieve economies of scale in purchasing and marketing functions. We have developed an efficient purchasing and distribution supply chain that generates favorable concession margins. At the theatre level, management devotes significant attention to cost controls through the use of detailed management reports and performance-based compensation programs to encourage theatre managers to practice effective cost control. For fiscal 2002, the Company reported total revenues, operating income and net income of $2,140.2 million, $283.6 million and $117.2 million, respectively. In addition, the Company generated $373.2 million of cash flows from operations.

Healthy Balance Sheet and Strong Cash Flow Generation. We believe that we have one of the most conservative capital structures among reporting motion pictures exhibitors with stockholders' equity of $1,270.8 million as of December 26, 2002. Regal Cinemas, Inc., United Artists and Edwards have invested approximately $1.9 billion in capital expenditures since 1997 to expand and upgrade their theatre circuits. As a result, we do not expect to require major capital reinvestments in the near term to maintain our operations in excess of those included in our capital spending programs. By combining our capital structure with our operating margins and limited need to make maintenance capital expenditures, we believe that we will generate significant cash flow from operations to take advantage of future growth opportunities.

Proven Acquisition and Integration Expertise. We have significant experience identifying, completing and integrating acquisitions of theatre circuits. We have demonstrated our ability to enhance revenues and realize operating efficiencies through the successful acquisition and integration of 13 theatre circuits since 1995. We have generally achieved immediate cost savings at acquired theatres and improved their profitability through the application of our consolidated operating functions and key supplier contracts.

Reorganizations Formed a Stronger Circuit with More Flexibility. Our theatre operations completed reorganizations that have enabled us to improve our asset base and profitability. By selectively closing under-performing locations and negotiating rent reductions and lease termination rights, we have enhanced our operational flexibility and created competitive advantages over major theatre operators that have not entered or completed a bankruptcy reorganization process. The reorganization process did, however, result in significant claims being asserted against Edwards and Regal Cinemas, Inc., which we continue to address. Several of those claims may result in significant payments to the claimants. At December 26, 2002, the Company had accrued approximately $23.6 million for the estimated costs to resolve these bankruptcy claims. To the extent these claims are allowed, they will be funded with cash on hand, cash flow from operations or borrowings under Regal Cinemas' revolving credit facility. In addition to these sources of funding, with respect to allowed Edwards claims, they may also be funded from restricted cash that has been set aside, and, if the allowed Edwards claims exceed $55 million, from contributions by The Anschutz Corporation and its subsidiaries ("Anschutz") and OCM Principal Opportunities Fund II, L.P. and its subsidiaries ("Oaktree's Principal Activities Group"). The timing of payment on these claims will depend upon the resolution of these claims.

Quality Theatre Portfolio. Regal Cinemas, Inc., United Artists and Edwards have invested approximately $1.9 billion in capital expenditures since 1997. As a result, we believe that we operate one of the most modern theatre circuits among major motion picture exhibitors. Approximately 61% of our screens are located in theatres featuring stadium seating. Approximately 76% of our screens are located in theatres with 10 or more screens. Our theatres have an average of 10.8 screens per location, which is well above the 2002 average of 5.8 screens per location for the North American motion picture exhibition industry.

Leading Access to First-Run Films. Approximately 83% of our screens are located in film licensing zones in which we are the sole exhibitor. Being the sole exhibitor in a film licensing zone provides us with access to all films distributed by major distributors and eliminates our need to compete with other exhibitors for films in that zone. As the sole exhibitor in a particular zone, we can exhibit all commercially successful films on our screens, subject to a successful negotiation with the distributor, and have the ability to compete for attendance generated from commercially popular films.

Distinctive Opportunity in Ancillary Revenues. We are the largest and most geographically diverse theatre circuit in the nation with over 250 million annual attendees and a nationwide presence that includes 9 of the top 10 and 23 of the top 25 U.S. demographic market areas. We believe our asset base, when combined with our DCN, provides an attractive platform for advertisers and entertainment, sports, music and other content providers to reach a desirable customer base and for businesses to use for corporate communications services, conferencing, product introductions, and distance learning. We believe we will be able to generate additional revenues from digital on-screen and in-lobby advertising, the distribution of entertainment, sports, music and other digital content, and by providing corporate communications services. Our subsidiary, Regal CineMedia, focuses exclusively on leveraging our theatre assets with digital distribution and projection and other new technology to increase our revenues from these complementary lines of business.

Dividend Policy

We believe that paying dividends on our shares of common stock is important to our stockholders and differentiates us from our competitors. To that end, the Company paid on December 13, 2002 our first cash dividend of $0.15 per share of Class A and Class B common stock, or approximately $19.8 million in the aggregate, to our stockholders of record on November 26, 2002, and declared on February 3, 2003 our second cash dividend of $0.15 per share of Class A and Class B common stock, payable on March 14, 2003, to our stockholders of record on February 25, 2003. Dividends are considered quarterly and may be paid only when approved by our board of directors.

RECENT DEVELOPMENTS

On February 3, 2003, the Company entered into a definitive stock purchase agreement pursuant to which the Company agreed to acquire certain assets of Hoyts Cinemas Corporation ("Hoyts Cinemas") for a combination of cash of approximately $100 million and Class A common stock (ranging from 4,308,390 to 4,761,905 shares based on the 14 trading days ending on the second trading day prior to closing of the transaction) and the assumption of certain capital leases. Under the stock purchase agreement, Regal expects to acquire 52 of the 97 Hoyts Cinemas theatres representing 554 screens located in 10 states in the Northeastern United States. Regal anticipates closing the transaction during the first half of 2003. There can be no assurance, however, that this transaction will be completed when anticipated or at all.

INDUSTRY OVERVIEW

The domestic motion picture exhibition industry has historically maintained steady growth in revenues and attendance. Since 1965, total box office revenues have grown at a compound annual growth rate of approximately 6% and annual attendance grew to approximately 1.6 billion attendees in 2002. The industry has been relatively unaffected by downturns in the economic cycle, with total box office revenues and attendance growing in three of the last five recessions. In 2002, total box office revenues increased for the eleventh consecutive year, increasing by approximately 13% to $9.5 billion, and attendance grew approximately 9% to 1.6 billion attendees.

During the late 1990's, the domestic motion picture exhibition industry underwent a period of extraordinary new theatre construction and the upgrade of older theatres. From 1996 to 1999, the number of screens increased at a compound annual growth rate of approximately 8%, which was more than double the industry's screen growth rate of approximately 3.5% from 1965 to 1995. The aggressive building strategies undertaken by exhibitors resulted in intensified competition in once stable markets and rendered many older theatres obsolete more rapidly than anticipated. This effect, together with the fact that many older theatres were under long-term, non-cancelable leases, created an oversupply of screens, which caused both attendance per screen and revenue and operating income per screen to decline. Most major exhibitors used extensive debt financing to fund their expansion efforts and experienced significant financial challenges in 1999 and 2000.

In 2000 and 2001, substantially all of the major exhibitors of motion pictures reduced their expansion plans and implemented screen rationalization plans to close under-performing theatres. During this period, the number of screens declined by approximately 1,800, the first screen decline since 1963. This screen count rationalization has benefited exhibitors as patrons of closed theatres have migrated to remaining theatres, thereby increasing industry-wide attendance per screen and operating efficiencies.

The recent industry expansion was primarily driven by major exhibitors upgrading their asset bases to an attractive megaplex format that typically included 10 or more screens per theatre and adding enhanced features such as stadium seating, improved projection quality and superior sound systems. From 1996 to 1999, the five largest motion picture exhibitors spent over $4.1 billion on capital expenditures to expand and upgrade their theatre circuits. As a result of the extensive capital investment over the last several years, we believe future capital expenditures needed to maintain these modern theatres will be modest.

We believe that another evolution of theatre formats beyond the current megaplex is unlikely to occur in the foreseeable future. We believe theatres larger than the current 10 to 18 screen megaplex are not able to generate attractive returns in most locations because of the substantial market suitability requirements to generate a level of profitability similar to the current megaplex format. In addition, for the foreseeable future, we do not believe that additional major amenities will be required to meaningfully enhance the moviegoing experience. Consequently, we believe major exhibitors have reduced capital spending and the rate of new screen growth substantially.

INDUSTRY TRENDS

We believe that the U.S. motion picture exhibition industry will benefit from the following trends:

Increased Marketing of New Releases by Studios. Movie studios have increased marketing expenditures per new film at a compound annual growth rate of approximately 8% from 1995 to 2002. Because domestic movie theatres are the primary distribution channel for domestic film releases, the theatrical success of a film is often the most important factor in establishing its value in other film distribution channels, including home video, cable television, broadcast television and international releases. We believe that movie studios have placed an increased emphasis on theatrical success because these secondary distribution channels represent important and growing sources of additional revenues.

Affordable and Increasingly Attractive Form of Entertainment. We believe that patrons are attending movies more frequently because movie-going is convenient, affordable and attractively priced relative to other forms of out-of-home entertainment. The average price per patron continues to compare favorably to other out-of-home entertainment alternatives such as concerts and sporting events. Since 1992, average movie ticket prices have increased at a compound annual growth rate of only 3%, while ticket prices for professional sporting events and concerts have increased at approximately three times that rate. Over the same time period, per capita movie attendance has grown from 4.6 to 5.7 times per year.

Ongoing Screen Rationalization. In 2000 and 2001, substantially all of the major motion picture exhibitors reduced their expansion plans and implemented screen rationalization programs to close under-performing theatres. This screen count rationalization benefits exhibitors as patrons of closed theatres migrate to remaining theatres, thereby increasing industry-wide attendance per screen and operating efficiencies.

Model Facilities Lower Future Capital Requirements. We believe that the modern, 10 to 18 screen megaplex theatre is the appropriate facility for most markets. Over the last several years, major exhibitors have spent substantial capital upgrading their asset bases, including the development of the megaplex format and introducing enhanced amenities such as stadium seating and digital sound. Given the substantial capital spent on theatre circuit expansion and facilities upgrades, we believe that major exhibitors have reduced their capital spending for new theatre construction or further upgrades.

Increasing Appeal of a Diversity of Films. Box office revenues are increasingly diversified among a number of strong movies rather than concentrated on a few major "hits." Box office revenues from the top 10 grossing movies as a percentage of annual total box office revenues have declined from an average of 29% during 1990 through 1992 to an average of 26% during 2000 through 2002. This increased appeal in the breadth of films benefits exhibitors by expanding the demographic base of moviegoers and generating greater attendance at a wider variety of movies as opposed to attracting patrons to only a few major releases.

Extension of Movie Release Calendar Reduces Seasonality. Distributors have increasingly staggered new releases over more weekends as opposed to opening multiple movies on the same weekend or saving major releases for only a few holiday weekends. This trend has reduced the seasonality of box office revenues by spreading attendance over an extended period of time, which we believe benefits exhibitors by increasing admissions and concessions revenues.

THEATRE OPERATIONS

We operate the largest theatre circuit in the United States with 5,663 screens in 524 theatres in 36 states as of December 26, 2002. We operate theatres in 9 of the top 10 and 41 of the top 50 U.S. demographic market areas, which include locations in suburban growth areas. We target prime locations with excellent access to large, high patron-traffic areas. We operate our theatre circuit using our brands through our wholly owned subsidiaries, Regal Cinemas, Edwards, and United Artists.

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

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

The following table details the number of locations and theatre screens in our theatre circuit ranked by the number of screens in each state as of December 26, 2002:

State	Locations	Number of Screens	State	Locations	Number of Screens
California	89	952	Louisiana	11	83
Florida	49	665	Indiana	7	82
New York	35	370	Maryland	6	68
Texas	27	328	Illinois	4	67
Washington	36	326	Minnesota	6	64
Ohio	25	296	Idaho	7	63
Pennsylvania	26	286	New Mexico	8	58
Virginia	24	268	Alaska	5	43
Georgia	20	263	Michigan	4	41
Oregon	26	211	Arkansas	4	37
Tennessee	13	154	Delaware	2	33
New Jersey	12	148	Oklahoma	2	26
Colorado	14	118	Arizona	2	21
Alabama	9	118	Missouri	1	18
North Carolina	14	111	Kentucky	1	16
Nevada	9	110	Wisconsin	1	16
Mississippi	15	100	West Virginia	1	12
South Carolina	8	89	Connecticut	1	2

In connection with the combination of our three theatre circuits, we have implemented best management practices across all of our theatres, including daily, weekly and monthly management reports generated for each individual theatre, as well as maintaining active communication between the theatres, divisional management and corporate management. We use these management reports and communications to closely monitor admissions and concessions revenues as well as accounting, payroll and workforce information necessary to manage our theatre operations effectively and efficiently.

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

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

REGAL CINEMEDIA OPERATIONS

Regal CineMedia focuses on the expansion of ancillary businesses, such as advertising, and the creation of new complementary business lines that utilize our existing theatre operating personnel and leverage our existing asset and customer bases. We have committed resources and dedicated a management team with experience in these new business areas to focus exclusively on these opportunities and on emerging technologies such as digital advertising, business meetings, and alternative content distribution. We are investing in the equipment necessary to create the DCN, the largest digital network among U.S. theatre operators. While digital projection technologies required to display motion pictures in our theatres are not yet commercially viable, lower-cost digital video and communications technology is available to expand the revenue generating capabilities and opportunities. During 2002, 1,919 screens within 159 theatres in 15 markets were deployed as part of this digital network. In addition, the DCN is connected to 575 plasma screens that have been installed in the lobbies and other high-traffic locations within these theatres to provide additional advertising reach and exposure. We intend to expand the DCN to approximately 4,500 screens in 45 markets (approximately 80% of the total screens) in approximately 375 theatres by the end of 2003. The total investment in the DCN is expected to be approximately $67 million, of which we have invested approximately $28.5 million as of December 26, 2002. We believe that this digital network will enable us to more effectively capitalize on ancillary revenue opportunities.

In-Theatre Advertising. We believe that our theatres and DCN provide an attractive platform for advertisers by allowing them to target a large and desirable customer base and reduce the cost of in-theatre advertising. We believe on-screen and in-lobby advertising allows advertisers to achieve high impact appeal due to the captive nature of the movie audience and the sound and projection capabilities of our theatres. On April 12, 2002, in connection with the exchange transaction described in Note 1 to the accompanying financial statements, Regal CineMedia acquired the assets of Next Generation Network, Inc. ("NGN") to use in implementing Regal CineMedia's business plan. We have modified and upgraded the distribution software acquired from NGN to distribute digital advertising content throughout our theatres and to other sites. The addition of digital video and communications technologies will further improve the quality of our on-screen advertising business, marketing and promotions business by replacing our slide projectors and 35mm "rolling stock" advertising and making the delivery of advertising more time and cost efficient for advertisers and by allowing for more targeted marketing. Prior to the deployment of the DCN, our in-theatre advertising programs consisted of rolling stock commercials, intermission slides, intermission music, lobby monitor advertising and entertainment, coupon distribution and customer sampling. Within the DCN, the rolling stock commercials, intermission slides, and intermission music will be replaced by a "digital pre-show" which includes, in addition to high quality advertising, segments of entertaining and informative content provided by national media companies such as NBC, Turner Broadcasting, Universal Entertainment, and the "How Stuff Works" publishing firm (collectively the "Content Partners"). In addition to the long-term marketing and programming relationships created with the Content Partners, we have strong business relationships with many national advertisers, such as the Coca-Cola Company, and with a leading Internet ticket provider, Fandango. Advertising revenues generally generate high margins because they utilize our existing theatre assets and personnel. In January 2003, the new digital pre show that has been branded "The Twenty" was launched on approximately 2,000 screens in 15 markets.

Regal CineMeetings and Events. Previously known as United Artists' Satellite Theatre Network, Regal CineMeetings and Events rents theatres on an individual or networked basis for seminars, corporate training, business meetings, distance learning or business communication uses, product and customer research and other entertainment uses such as concerts and movie premieres. By utilizing the DCN and telephone networks, we can provide a video conferencing network and two-way audio broadcasting and teleconferencing services. Theatre rentals allow us to utilize our assets more effectively during non-peak periods, such as weekday mornings.

Other Ancillary Business Opportunities. We believe that we will generate additional revenues in the future as we continue to expand our ancillary business activities. These activities are currently focused on creating a new kind of national digital distribution network for the distribution of sports, music, entertainment, education and other forms of digital content to paying customers as well as for promotional purposes. As the new programming "Channels" are developed they will be included as one of the product offerings of the Regal CineMedia and Events business units. In addition, Regal CineMedia will work closely with our theatre operations group to leverage new technologies to create a more interactive relationship with patrons, to improve the marketing information we provide advertisers and thus improve the local marketing of motion pictures and provide a better overall movie-going experience for our customers.

Group Advance Ticket and Gift Certificate Sales. Regal CineMedia manages the sale of the Company's advance tickets sold to corporations and groups and the sale of gift certificates to individuals and groups. Cross-selling and bundling strategies across the advertising sales and other Regal CineMedia sales groups and across various of the Regal CineMedia product offerings provides many sales and operational cost benefits.

FILM DISTRIBUTION

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

The development of additional distribution channels has given motion picture producers the ability to generate a greater portion of a film's revenues through channels other than theatrical release. This increased revenue potential after a film's initial theatrical release has enabled major studios and some independent producers to increase the budgets for film production and advertising. The total cost of producing a film averaged approximately $58.8 million in 2002 compared with approximately $28.9 million in 1992, while the average cost to advertise and promote a film averaged approximately $30.6 million in 2002 compared with approximately $11.5 million in 1992.

FILM LICENSING

Evaluation of Film. We license films on a film-by-film and theatre-by-theatre basis by negotiating directly with film distributors. Prior to negotiating for a film license, we evaluate the prospects for upcoming films. Criteria we consider for each film include cast, director, plot, performance of similar films, estimated film rental costs and expected rating from the Motion Picture Association of America. Successful licensing depends greatly upon the exhibitor's knowledge of trends and historical film preferences of the residents in markets served by each theatre, as well as on the availability of commercially successful motion pictures.

Access to Film Product. Films are licensed from film distributors owned by major film production companies and from independent film distributors that generally distribute films for smaller production companies. Film distributors typically establish geographic film licensing zones and allocate each available film to one theatre within that zone. Film licensing zones generally encompass a radius of three to five miles in metropolitan and suburban markets, depending primarily upon population density.

In film licensing zones where we are the sole exhibitor, we obtain film licenses by selecting a film from among those films being offered and negotiating directly with the distributor. In zones where there is competition, a distributor will either allocate films among the exhibitors in the zone, or, on occasion, may require the exhibitors in the zone to bid for a film. When films are licensed under the allocation process, a distributor will select an exhibitor who then negotiates film rental terms directly with the distributor. We currently do not bid for films in any of our markets.

Film Rental Fees. Film licenses typically specify rental fees based on the higher of a gross receipts formula or a theatre admissions revenues formula. Under a gross receipts formula, the distributor receives a specified percentage of box office receipts, with the percentage declining over the term of the film's run. Under a theatre admissions revenues formula, the distributor receives a specified percentage of the excess of admissions revenues over a negotiated allowance for theatre expenses. Although not specifically contemplated by the provisions of film licenses, rental fees actually paid by us are in some circumstances adjusted subsequent to exhibition in relation to the commercial success of a film in a process known as "settlement."

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

Relationship with Distributors. Many distributors provide quality first-run movies to the motion picture exhibition industry. However, according to industry reports, ten distributors accounted for approximately 94% of admissions revenues and 49 of the top 50 grossing films during 2002. While one motion picture distributor can dominate any given weekend's business, no single distributor dominates the market for an annual period. We license films from each of the major distributors and believe that our relationships with these distributors are good. From year to year, the revenues attributable to individual distributors will vary widely depending upon the number and popularity of films that each one distributes.

CONCESSIONS

In addition to box office admissions revenues, we generated approximately 27.5% of our total revenues from concessions sales during 2002. We emphasize prominent and appealing concession stations designed for rapid and efficient service. We continually seek to increase concessions sales by optimizing product mix, introducing special promotions from time to time and training employees to cross-sell products. We have favorable concession supply contracts and have developed an efficient concession purchasing and distribution supply chain. Our management negotiates directly with manufacturers for many of our concession items to obtain competitive prices and to ensure adequate supplies.

COMPETITION

The motion picture industry is highly competitive. Motion picture exhibitors generally compete on the basis of the following competitive factors:

- ability to secure favorable licensing terms;
- seating capacity, location and reputation of their theatres;
- quality of projection and sound systems at their theatres; and
- ability and willingness to promote the films they are showing.

Our competitors vary substantially in size, from small independent exhibitors to large national chains. As a result, our theatres are subject to varying degrees of competition in the regions in which they operate. Our competitors, including newly established motion picture exhibitors, may build new theatres or screens in areas in which we operate, which may result in increased competition and excess capacity in those areas. If this occurs, it may have an adverse effect on our business and results of operations. As the largest motion picture exhibitor, however, we believe that we will be able to generate economies of scale and operating efficiencies that will give us a competitive advantage over many of our competitors.

We also compete with other motion picture distribution channels, including home video, cable television, broadcast television and satellite and pay-per-view services. Other new technologies (such as video on demand) could also have an adverse effect on our business and results of operations. In addition, we compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants. In an effort to offset the competitive effects of these alternative distribution channels and forms of entertainment on our primary business, we are continuing to develop our ancillary revenues through our digital advertising and corporate communications services, and through our other Regal CineMedia product offerings.

In addition to the motion picture industry, we also operate in other industries as a result of our ancillary business activities. These industries currently include advertising services and business communications services. Our advertising services compete with other forms of marketing media, including television, radio and billboards, as well as advertising in shopping centers, airports, stadiums, supermarkets and public transportation, including taxis, trains and buses. While we believe that in-theatre advertising and promotions are becoming increasingly common, advertisers may choose alternative methods of conveying their messages. If this occurs, it may have an adverse effect on our ancillary business activities and may affect our results of operations.

Our auditorium rental and business communications services compete with other forms of large-scale venues, including hotel conference centers, concert halls, other public meeting venues and in-house communications equipment. We believe that our combination of size, geographic distribution and advanced technology offer customers a unique and effective venue for events such as employee meetings and product demonstrations.

We believe that we have enhanced our operational flexibility and created competitive advantages over other major theatre operators who have not entered or completed a bankruptcy reorganization process.

MARKETING AND ADVERTISING

Currently, film distributors organize and finance multimedia advertising campaigns for major film releases. To market our theatres, we utilize advertisements, including radio advertising, and movie schedules published in newspapers and over the Internet informing our patrons of film selections and show times. Newspaper advertisements are typically displayed in a single grouping for all of our theatres located in a newspaper's circulation area. In some of our markets we employ special marketing programs for specific films and concessions items.

In addition, we seek to develop patron loyalty through a number of marketing programs such as free summer children's film series, a frequent moviegoer promotional programs, named the Regal Crown Club, cross-promotional ticket redemptions and promotions within local communities. We currently offer these programs only in selected markets. We plan to use these programs in markets where we believe patron loyalty can be further enhanced, and we will continue to evaluate our markets on a case-by-case basis to determine the suitability of these programs in individual regions.

MANAGEMENT INFORMATION SYSTEMS

We make extensive use of information technology in all areas of our business. We provide many ways for our customers to purchase tickets, ranging from the point of sale terminals in each theatre box office, to the self-service kiosks to Internet-based ticketing. We use our information technology systems to manage all aspects of our business. Our point of sale systems enable us to monitor cash transactions and detect fraud and inventory shrinkage, while capturing information about sales and attendance needed for film booking and settlement. Our scheduling systems support the coordination needed to properly allocate our auditoriums between film showings and Regal CineMeetings events while also ensuring that each movie audience views the intended set of advertisements and newspaper advertisements provide the correct show starting times. Our continuing investment in information technology has enabled our management team to operate our theatres efficiently.

SEASONALITY

Our revenues are usually seasonal, coinciding with the timing of releases of motion pictures by the major distributors. Generally, studios release the most marketable motion pictures during the summer and the holiday season. The unexpected emergence of a hit film during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and the results of one quarter are not necessarily indicative of results for the next quarter or any other quarter. The seasonality of motion picture exhibition, however, has become less pronounced in recent years as studios have begun to release major motion pictures somewhat more evenly throughout the year.

EMPLOYEES

As of December 26, 2002, we employed approximately 22,797 persons. Some of our facilities employ union projectionists. The Company's expansion into new markets may increase the number of employees represented by unions. The Company considers its employee relations to be good.

REGULATION

The distribution of motion pictures is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases. Consent decrees effectively require major film distributors to offer and license films to exhibitors, including us, on a film-by-film and theatre-by-theatre basis. Consequently, exhibitors cannot assure themselves of a supply of films by entering into long-term arrangements with major distributors, but must negotiate for licenses on a film-by-film and theatre-by-theatre basis.

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

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.

PART II

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements of Regal and United Artists and the notes thereto included elsewhere in this report on Form 10-K.

Overview

We are the largest domestic motion picture exhibitor with 5,663 screens in 524 theatres in 36 states as of December 26, 2002. We conduct our operations primarily through our wholly owned subsidiaries, Regal Cinemas, United Artists, Edwards and Regal CineMedia.

Regal was created through a series of transactions during 2001 and 2002. Anschutz acquired controlling equity interests in United Artists and Edwards upon the emergence from bankruptcy reorganization on March 2, 2001 of the United Artists Bankrupt Entities (as defined in Note 1 to the accompanying financial statements) and on September 29, 2001 of the Edwards Bankrupt Entities (as defined in Note 1 to the accompanying financial statements). On January 29, 2002, Anschutz acquired a controlling equity interest in Regal Cinemas, Inc. when the Regal Cinemas, Inc. Bankrupt Entities described in Note 1 to the accompanying financial statements emerged from bankruptcy reorganization. Anschutz exchanged its controlling equity interest in Regal Cinemas, Inc. for a controlling equity interest in Regal Cinemas immediately thereafter. Regal Cinemas, Inc. is a wholly owned subsidiary of Regal Cinemas. In addition, Regal CineMedia was formed in February 2002 to focus on the development of ancillary revenues and became our wholly owned subsidiary on April 12, 2002. On April 17, 2002, Regal

Cinemas, Inc. acquired all of the outstanding capital stock of Edwards and, as a result, Edwards became a wholly owned subsidiary of Regal Cinemas, Inc.

The Company's financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas. These controlling equity interests have been recorded in the Company's financial statements at Anschutz's combined historical cost basis. Accordingly, the Company's financial statements for the fiscal period ended January 3, 2002 (the "Fiscal 2001 Period") reflect only the results of operations of United Artists from March 1, 2001 (approximately 10 months) and Edwards from September 30, 2001 to December 27, 2001 (approximately 3 months). The Company's financial statements for the fiscal year ended December 26, 2002 (the "Fiscal 2002 Period") include the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Edwards from December 28, 2001 (a full fiscal year), and Regal Cinemas from January 24, 2002 (approximately 11 months).

As a result of the screen closures in 2000 and 2001 and due to our belief that the major exhibitors have reduced capital spending and the rate of new screen growth, the impact of overcapacity of screens in the industry has been mitigated. The existing overcapacity in the industry screen count is not expected to have a material impact on our results of operations.

Critical Accounting Policies

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in Item 8 of this Form 10-K. Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet as well as the reported amounts of revenues and expenses during the reporting period. We routinely make estimates and judgments about the carrying value of our assets and liabilities that are not readily apparent from other sources. The Company evaluates and modifies such estimates and assumptions on an ongoing basis, including but not limited to those related to film costs, property and equipment, goodwill, income taxes and reorganization and purchase accounting. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities. Actual results, under conditions and circumstances different from those assumed, may differ from estimates. The impact and any associated risks related to estimates, assumptions, and accounting policies are discussed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as in the Notes to the Consolidated Financial Statements, if applicable, where such estimates, assumptions, and accounting policies affect the Company's reported and expected results.

The Company believes the following accounting policies are critical to its business operations and the understanding of its results of operations and affect the more significant judgments and estimates used in the preparation of its consolidated financial statements:

The Company estimates its film cost expense and related film cost payable based on management's best estimate of the ultimate settlement of the film costs with the distributors. Film costs and the related film costs payable are adjusted to the final film settlement in the period that the Company settles with the distributors. Actual film costs and film costs payable could differ from those estimates.

We depreciate and amortize the components of our property and equipment on a straight-line basis over the estimated useful lives of the assets. The estimates of the assets' useful lives require our judgment and our knowledge of the assets being depreciated and amortized. When necessary, the assets' useful lives are revised and the impact on depreciation and amortization is recognized on a prospective basis. Actual economic lives may differ materially from these estimates. In addition, the Company reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets might not be recoverable. When the future undiscounted cash flows of the operations to which the assets relate do not exceed the carrying value of the asset, such assets are written down to fair value.

The Company adopted SFAS 142, "Goodwill and Other Intangible Assets" in 2002. SFAS 142 specifies that goodwill and indefinite-lived intangible assets will no longer be amortized but instead will be subject to an annual impairment test. Based on an impairment test conducted during the fourth quarter of 2002, the Company was not required to record a charge for goodwill impairment. The Company will perform a fourth-quarter goodwill impairment test on an annual basis. In assessing the recoverability of the goodwill, the Company must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges for these assets in future periods.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. In addition, income tax rules and regulations are subject to interpretation and require judgment by the Company and may be challenged by the tax authorities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company records a valuation allowance if it is deemed more likely than not that its deferred income tax assets will not be realized. The Company expects that certain deferred income tax assets are not more likely than not to be recovered and, therefore, has established a valuation allowance. The Company reassesses the need for such allowance on an ongoing basis. Should the Company ultimately realize certain tax assets with a valuation allowance that relate to pre-acquisition periods, goodwill would be reduced. The Company believes that its provision for income taxes is adequate pertaining to any assessments from the tax authorities.

We applied the principles of purchase and reorganization accounting when recording the acquisitions of controlling equity interests by Anschutz and the exchange of stock for minority interests and the emergence from bankruptcy of the theatre companies. These accounting principles require that we estimate the fair value of the individual assets and liabilities, including estimates of bankruptcy-related claims. The estimation of the fair value of the assets and liabilities involves a number of judgments and estimates that could differ materially from the actual amounts.

Basis of Presentation

The Company generates revenues primarily from admissions and concession sales. Additional revenues are generated by vendor marketing programs and on-screen advertisements and rental of theatres for business meetings and other events by Regal CineMedia and electronic video games located adjacent to the lobbies of certain of the Company's theatres. Film rental costs depend on the popularity of a film and the length of time since the film's release and generally decline as a percentage of admission revenues the longer a film is in exhibition. Because the Company purchases certain concession items, such as fountain drinks and popcorn, in bulk and not pre-packaged for individual servings, the Company is able to improve its margins by negotiating volume discounts. Other theatre operating expenses consist primarily of theatre labor and occupancy costs.

Results of Operations for Regal for the Fiscal 2002 Period and the Fiscal 2001 Period

The following table sets forth the percentage of revenues represented by certain items included in the Company's consolidated statements of operations for the Fiscal 2002 Period and the Fiscal 2001 Period (dollars and attendance in millions):

	Fiscal 2002 Period		Fiscal 2001 Period	
	$	**% of Revenues**	**$**	**% of Revenues**
Revenues:				
Admissions	$ 1,453.7	67.9%	382.5	68.7%
Concessions	588.3	27.5	153.3	27.5
Other operating revenues	98.2	4.6	21.1	3.8
Total revenues	2,140.2	100.0	556.9	100.0
Operating expenses:				
Film rental and advertising costs(1)	790.3	54.4	212.9	55.7
Cost of concessions(2)	84.4	14.3	18.1	11.8
Other theatre operating expenses(3)	757.1	35.4	227.5	40.8
General and administrative expenses(3)	65.1	3.1	21.4	3.8
Depreciation and amortization(3)	134.4	6.3	42.6	7.6
	18.9	0.9		

	Fiscal 2002 Period		Fiscal 2001 Period	
Merger and restructuring expenses and amortization of deferred stock compensation(3)				
Loss on disposal and impairment of operating assets(3)	6.4	0.3	0.3	0.1
Total operating expenses(3)	1,856.6	86.8	522.8	93.9
Operating income(3)	283.6	13.2	34.1	6.1
Net income(3)	$ 117.2	5.5%	$ 4.9	0.9%
Attendance	241.4		63.9	
Average ticket price	$ 6.02		$ 5.99	
Average commission per patron	$ 2.44		$ 2.40	

(1) Percentage of revenues calculated as a percentage of admissions revenues.

(2) Percentage of revenues calculated as a percentage of concessions revenues.

(3) Percentage of revenues calculated as a percentage of total revenues.

The Company believes its historical results are not indicative of its current operations, and, as a result, has provided only the following summary analysis of such results. An in-depth comparison of the year ended December 26, 2002 results versus those for the period ended January 3, 2002 has not been presented because (i) its historical results do not reflect the results of operations for Regal Cinemas for the period ended January 3, 2002 and these results are significant to the Company, (ii) its historical results do not include a full year of operating results for Regal Cinemas or United Artists for the year ended December 26, 2002, and (iii) the Company's capital structure has changed significantly subsequent to the period ended January 3, 2002.

Total Revenues

Total revenues for the Fiscal 2002 Period increased $1,583.3 million, or 284.3%, from the Fiscal 2001 Period. The increase in total revenues in the Fiscal 2002 Period was primarily attributable to the inclusion of the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Regal Cinemas from January 24, 2002 (approximately 11 months) and Edwards from December 28, 2001 (a full fiscal year) as compared to the Fiscal 2001 Period, which included only the results of operations of United Artists from March 2, 2001 (approximately 10 months) and Edwards from September 30, 2001 (approximately 3 months). To a lesser extent, increases in average ticket prices of 0.5% and average concessions per patron of 1.7% contributed to the increase in total revenues for the Fiscal 2002 Period.

Operating Expenses

Total operating expenses for the Fiscal 2002 Period increased $1,333.8 million, or 255.1%, from the Fiscal 2001 Period. The increase in operating expenses in the Fiscal 2002 Period was principally related to the inclusion of the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Regal Cinemas from January 24, 2002 (approximately 11 months) and Edwards from December 28, 2001 (a full fiscal year) as compared to the Fiscal 2001 Period, which included only the results of operations of United Artists from March 2, 2001 (approximately 10 months) and Edwards from September 30, 2001 (approximately 3 months). Total operating expenses as a percentage of total revenues decreased slightly to 86.8% in the Fiscal 2002 Period from 93.9% in the Fiscal 2001 Period, which is primarily attributable to the growth in total revenues and the realization of operating efficiencies associated with the 2002 integration of Regal Cinemas, United Artists and Edwards.

Operating Income

Operating income for the Fiscal 2002 Period increased $249.5 million from the Fiscal 2001 Period. The increase in operating income during the Fiscal 2002 Period is primarily attributable to the growth in total revenues as a result of the inclusion of the results of operations of United Artists from January 4, 2002 (a full fiscal year less one week), Regal Cinemas from January 24, 2002 (approximately 11 months) and Edwards from December 28, 2001 (a full fiscal year) as compared to the Fiscal 2001 Period, which included only the results of operations of United Artists from March 2, 2001 (approximately 10 months) and Edwards from September 30, 2001 (approximately 3 months). Such increase was coupled with the realized benefits associated with the 2002 integration of Regal Cinemas, United Artists and Edwards.

Net Income

Net income for the Fiscal 2002 Period increased $112.3 million from the Fiscal 2001 Period. The increase in net income during the Fiscal 2002 Period is primarily attributable to the factors described in previous sections, partially offset by increases in interest expense associated with long-term obligations of Regal Cinemas and an increase in the Fiscal 2002 Period provision of income taxes over the Fiscal 2001 Period.

Changes in Cash Flows

Cash flows generated from operating activities were approximately $373.2 million for the year ended December 26, 2002 compared to approximately $61.6 million for the period ended January 3, 2002. The increase was attributable to the inclusion of Edwards, Regal Cinemas and fifty-one weeks of United Artists in 2002 and to increases in net income and non cash items and changes in working capital items. Capital expenditures were $108.2 million for the year ended December 26, 2002 compared to $20.8 million for the period ended January 3, 2002. The increase is primarily due to the inclusion of Edwards, Regal Cinemas and fifty-one weeks of United Artists in 2002. In addition, Regal Cinemas, Inc. had approximately $166.7 million of cash on the date Anschutz acquired its controlling equity interest.

Liquidity and Capital Resources

The Company conducts its operations through its subsidiaries: Regal Cinemas, United Artists, Edwards and Regal CineMedia. The Company was formed in the first quarter of 2002 and expects its primary uses of cash to be for operating expenses and general corporate purposes related to corporate operations. The Company's principal sources of liquidity are from its operating subsidiaries. In the Company's operating subsidiaries, principal uses of cash will be for operating expenses, capital expenditures, and debt service. The principal sources of liquidity for the Company's subsidiaries are cash generated from their operations, cash on hand and the revolving credit facilities provided for under the Regal Cinemas senior credit facilities.

The Company's revenues are generally collected in cash through admissions and concessions revenues. The Company's operating expenses are primarily related to film and advertising costs, rent and occupancy, and payroll. Film costs are ordinarily paid to distributors within 30 days following receipt of admissions revenues and the cost of the Company's concessions are generally paid to vendors approximately 30 days from purchase. The Company's current liabilities generally include items that will become due within twelve months and, as a result, at any given time, the Company's balance sheet is likely to reflect a working capital deficit.

The Company funds the cost of its operating subsidiaries' capital expenditures through internally generated cash flow, cash on hand and financing activities. The Company's capital requirements have historically arisen principally in connection with acquisitions of theatres, new theatre openings, adding new screens to existing theatres, upgrading the Company's theatre facilities and replacing equipment. The Company intends to continue to grow its theatre circuit through selective expansion and acquisition opportunities. The Company currently expects capital expenditures for theatre development, replacement, expansion, upgrading and maintenance to be in the range of $90 million to $100 million in 2003. In addition to capital expenditures associated with its theatre operations, the Company expects to incur capital expenditures of approximately $43 million in connection with Regal CineMedia during 2003. The Company anticipates a significant portion of the Regal CineMedia capital expenditures to be made in connection with the development and deployment of the DCN to provide advertising and promotional services and to distribute various forms of digital programming. During the year ended December 26, 2002, the Company invested an aggregate of approximately $108.2 million in capital expenditures.

As of December 26, 2002, Regal Cinemas had $145 million committed under its undrawn senior revolving credit facility, $219.4 million outstanding under its senior secured term loan and $350 million principal amount of $9^3/_8$% senior subordinated notes due 2012. Regal Cinemas also maintains a letter of credit of $15 million as of December 26, 2002, which reduces the availability under its senior revolving credit facility to $130 million.

In May 2002, the Company issued 18.0 million shares of its Class A common stock in an initial public offering. The initial public offering was effected through two Form S-1 Registration Statements (File Nos. 333-84096 and 333-87870) that were declared effective by the Securities and Exchange Commission on May 8, 2002. All 18.0 million shares were sold at an initial public offering price of $19.00 per share, for an aggregate offering price of $342 million, through a syndicate of underwriters managed by Credit Suisse First Boston Corporation, Lehman Brothers Inc., Bear, Stearns & Co. Inc. and Salomon Smith Barney Inc.

The Company paid to the underwriters underwriting discounts and commissions totaling approximately $23.1 million in connection with the offering. In addition, the Company incurred additional expenses of approximately $4.1 million in connection with the offering. The net offering proceeds, after deducting underwriting discounts, commissions and other offering expenses, were approximately $314.8 million.

The Company used a portion of its net proceeds from its initial public offering to repay approximately $240.7 million of principal and accrued interest owed by United Artists under its term credit facility (see Note 6 "Long-Term Obligations" to the accompanying mandated consolidated financial statements) and approximately $15.0 million to fund operating costs and capital expenditures of Regal CineMedia. Since that time, the Company has used approximately an additional $34.0 million of the net proceeds to purchase the remaining outstanding shares of common stock of United Artists held by United Artists' minority shareholders and warrants to purchase shares of common stock of United Artists held by various institutional holders, $19.8 million to fund the Company's fourth quarter 2002 dividend payment, and the remaining $5.3 million for general corporate purposes.

On December 13, 2002, we paid our first cash dividend of $0.15 per share of Class A and Class B common stock, or $19.8 million in the aggregate, to our stockholders of record on November 26, 2002. On February 3, 2003, we declared our second cash dividend of $0.15 per share of Class A and Class B common stock, payable on March 14, 2003, to our stockholders of record on February 25, 2003. We, at the discretion of the board of directors and subject to applicable law, anticipate paying regular quarterly dividends on our Class A and Class B common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors.

On February 3, 2003, the Company entered into a definitive stock purchase agreement pursuant to which the Company agreed to acquire certain assets of Hoyts Cinemas for a combination of cash of approximately $100 million and stock (ranging from 4,308,390 to 4,761,905 shares based on the 14 trading days ending on the second trading day prior to closing of the transaction) and the assumption of certain capital leases. Under the stock purchase agreement, Regal expects to acquire 52 of the 97 Hoyts Cinemas theatres representing 554 screens located in 10 states in the Northeastern United States. Regal anticipates closing the transaction during the first half of 2003.

Contractual Obligations and Commitments

The Company primarily leases its theatres pursuant to long-term non-cancelable operating leases. As of December 26, 2002, the Company's estimated contractual cash obligations and commercial commitments over the next several years are as follows (in millions):

	Payments Due by Period				
	Total	**Current**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Contractual Cash Obligations					
Long-term debt	$ 569.4	$ 14.1	$ 22.5	$ 182.8	$ 350.0
Capital lease obligations	4.1	0.2	0.4	0.4	3.1
Lease financing arrangements	97.8	1.8	4.7	6.3	85.0
Bankruptcy claims and Liabilities	23.6	23.6			
Other long term obligations	7.1	0.9	2.0	3.3	0.9
Operating leases	3,367.9	221.4	432.4	423.7	2,290.4
Total contractual cash obligations	$ 4,069.9	$ 262.0	$ 462.0	$ 616.5	$ 2,729.4

	Amount of Commitment Expiration per Period				
	Total Amounts Committed	**Current**	**2 - 3 Years**	**4 - 5 Years**	**After 5 Years**
Other Commercial Commitments					
Lines of credit	$ 145.0				$ 145.0
Total commercial commitments	$ 145.0				$ 145.0

The Company believes that the amount of cash and cash equivalents on hand, cash flow expected from operations and availability under its revolving credit facilities will be adequate for the Company to execute its business strategy and meet anticipated requirements for lease obligations, capital expenditures, working capital and debt service for at least 12 months.

The following is a description of the Company's material indebtedness as of December 26, 2002:

Regal Cinemas Senior Credit Facility

Regal Cinemas entered into an amended and restated senior credit agreement with several financial institutions including Lehman Brothers, Inc., Credit Suisse First Boston Corporation, General Electric Capital Corporation and Lehman Commercial Paper, Inc., on August 12, 2002, amending its existing senior credit agreement to increase the amount available for borrowing under the senior secured revolving credit facility from $100 million to $145 million and to decrease the amount of the senior secured term loan from $270 million to $225 million. Under the amended and restated senior credit agreement, the lenders advanced Regal Cinemas $225.0 million through a senior secured term loan, which was used, together with cash on hand at Regal Cinemas, Inc., to repay in full its existing $270.0 million term loan. The amended and restated senior credit agreement also made available, subject to the satisfaction of conditions customary for extensions of credit of this type, an additional $145.0 million through a senior secured revolving credit facility. The $225.0 million term loan will amortize at a rate of 5% per annum until December 31, 2006, with the remaining 75% due in four installments ending on December 31, 2007. The senior secured revolving credit facility became available on August 12, 2002 and will be available until January 29, 2007. Regal Cinemas also maintains a letter of credit for $15.0 million related to its general unsecured claims, which reduces the availability under its senior secured revolving credit facility to $130.0 million. As of December 26, 2002, there were no amounts outstanding on the senior secured revolving credit facility.

Borrowings under the term credit facility bear interest, at Regal Cinemas' option, at either the base rate or Eurodollar rate plus, in each case, an applicable margin, subject to adjustment based upon the consolidated total leverage ratio of Regal Cinemas. The base rate is a fluctuating interest rate equal to the higher of (a) the British Banking Association's prime rate or (b) the Federal Funds Effective Rate plus 0.5%. At December 26, 2002, the interest rate on the senior credit facility was approximately 4.6%.

Regal Cinemas may prepay borrowings under the amended and restated senior credit agreement in whole or in part, in minimum amounts and subject to other conditions set forth in the amended and restated senior credit agreement. Regal Cinemas is required to make mandatory prepayments to the lenders from:

- the net cash proceeds from asset sales in particular circumstances specified in the amended and restated senior credit agreement; and
- the net cash proceeds from new debt issuances in particular circumstances specified in the amended and restated senior credit agreement.

The mandatory prepayment of the obligations under the amended and restated senior credit agreement is subject to specified exceptions. The lenders under the term credit facility may elect to decline any mandatory prepayment.

Regal Cinemas' obligations are secured by, among other things, the capital stock of most of its subsidiaries, mortgages on most of its properties and a security interest in substantially all of its assets.

The amended and restated senior credit agreement includes several financial covenants. Regal Cinemas cannot permit, at the end of each applicable fiscal quarter:

- its ratio of consolidated total debt to consolidated EBITDA for the trailing four quarters (as defined in the amended and restated senior credit agreement) to exceed the ratio of (a) 3.5 to 1 for the third fiscal quarter in 2002 through the fourth fiscal quarter in 2004 and (b) 3.25 to 1 for the first fiscal quarter in 2005 through the fourth fiscal quarter in 2007 and thereafter;
- its ratio of consolidated EBITDA plus consolidated rent expense to interest plus rent expense to be less than 1.50 to 1 for any period of four consecutive fiscal quarters;
- its ratio of consolidated senior debt to consolidated EBITDA for the trailing four quarters to exceed the ratio of (a) 2.50 to 1 for the third fiscal quarter in 2002 through the fourth fiscal quarter in 2003, (b) 2.25 to 1 for the first fiscal quarter 2004 through the fourth fiscal quarter in 2004, and (c) 2.00 to 1 from the first fiscal quarter in 2005 through the fourth fiscal quarter in 2007, and thereafter;
- its ratio of consolidated adjusted debt to consolidated EBITDA for the trailing four quarters plus consolidated rent expense for the trailing four quarters to exceed the ratio of (a) 5.50 to 1 for the third fiscal quarter in 2002 through the fourth fiscal

quarter in 2004, and (b) 5.25 to 1 for the first fiscal quarter in 2005 through the fourth fiscal quarter in 2007 and thereafter; or

its capital expenditures as a percentage of the prior year's EBITDA to exceed 25% for fiscal 2002 and up to 35% for each year thereafter.

The amended and restated senior credit agreement also contains customary covenants, including limitations on Regal Cinemas' ability to incur debt, and events of default, including a change of control, as defined in the amended and restated senior credit agreement. The amended and restated senior credit agreement also limits Regal Cinemas' ability to pay dividends, to make advances to the Company or its other subsidiaries and otherwise to engage in intercompany transactions. These limitations will restrict its ability to fund operations outside of Regal Cinemas with funds generated at Regal Cinemas.

Regal Cinemas Senior Subordinated Notes

On January 29, 2002, Regal Cinemas issued $200.0 million aggregate principal amount of $9^3/_8$% senior subordinated notes due 2012. Subsequently, on April 17, 2002, Regal Cinemas issued an additional $150.0 million aggregate principal amount of $9^3/_8$% senior subordinated notes due 2012 with identical terms. The January notes were initially purchased by Credit Suisse First Boston Corporation and Lehman Brothers Inc., and the April notes were initially purchased by Credit Suisse First Boston Corporation. In each instance, the notes were resold to various qualified institutional buyers and non-U.S. persons pursuant to Rule 144A and Rule 903 or Rule 904, respectively, under the Securities Act of 1933. Interest on the notes is payable semi-annually on February 1 and August 1 of each year, and the notes mature on February 1, 2012. The notes are guaranteed by most of Regal Cinemas' existing subsidiaries, and, under the circumstances specified in the indenture, future subsidiaries will also be required to guarantee the notes. The notes are unsecured and rank behind Regal Cinemas' obligations under its senior credit facility and any future senior indebtedness.

Regal Cinemas has the option to redeem the notes, in whole or in part, at any time on or after February 1, 2007 at redemption prices declining from 104.688% of their principal amount on February 1, 2007 to 100% of their principal amount on or after February 1, 2010, plus accrued interest. At any time on or prior to February 1, 2005, Regal Cinemas may also redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 109.375% of their principal amount, plus accrued interest, within 90 days of an underwritten public offering of common stock of Regal Cinemas or of a future underwritten public offering of the Company's common stock, the proceeds of which are used as a contribution to the equity of Regal Cinemas. Upon a change of control, as defined in the indenture pursuant to which the notes were issued, Regal Cinemas is required to offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus accrued interest. In addition, the indenture limits Regal Cinemas' and its subsidiaries' ability to, among other things, incur additional indebtedness and pay dividends on or repurchase capital stock.

In May 2002, Regal Cinemas filed a registration statement (Registration No. 333-87930) under the Securities Act of 1933 pursuant to a registration rights agreement entered into in connection with the $9^3/_8$% senior subordinated notes offerings. The registration statement was declared effective by the Securities and Exchange Commission on July 10, 2002, enabling the eligible holders of the notes to exchange their notes for notes registered under the Securities Act of 1933. The transaction described in the registration statement, pursuant to which all of the note holders exchanged their notes for registered notes, closed on August 14, 2002. Regal Cinemas did not receive any proceeds from the transaction.

Regal Cinemas, Inc. Leveraged Sale and Leaseback

During 2000, Regal Cinemas, Inc. entered into a sale and leaseback transaction with an unaffiliated third party involving 15 of its owned theatres. Under the terms of this transaction, Regal Cinemas, Inc. sold the land and related improvements of the theatres for $45.2 million and leased them back for an initial lease term of 20 years, with an option to extend it for up to 20 additional years. Regal Cinemas accounts for these leases as operating leases.

Regal Cinemas Lease Financing Arrangements

For some of the Company's new theatre sites built in fiscal years 1999, 2000 and 2001, the Company was considered the owner (for accounting purposes) of the theatre during the construction period. In accordance with Emerging Issues Task Force No. 97-10, the Company was required to record the balance sheet obligations ($97.8 million at December 26, 2002) when the construction of the theatre was completed resulting in payments being recorded as interest expense and principal reduction rather than rent expense. These leases typically run for a period of 20 years.

United Artists Leveraged Sale and Leaseback

In December 1995, United Artists Theatre Circuit, Inc. ("UATC"), one of our subsidiaries, entered into a sale and leaseback transaction whereby the land and buildings underlying 27 of its operating theatres and four theatres and a screen addition under development were sold to and leased back from an unaffiliated third party. The transaction requires UATC to lease the underlying theatres for a period of 21 years and one month, with the option to extend for up to an additional 10 years. In conjunction with the transaction, the buyer of the properties issued publicly traded pass-through certificates. Several of its properties included in the sale and leaseback transaction have been determined by UATC to be economically obsolete for theatre use. As of December 26, 2002, 27 theatres were subject to the sale leaseback transaction. UATC amended the lease on March 7, 2001 to allow UATC to terminate the master lease with respect to the obsolete properties, to allow the owner trustee to sell those properties and pay down the underlying debt (at a discount to par through September 2002 and par thereafter) and to reduce the amount of rent paid by UATC on the lease. Included in the 2001 amendment is a $35.0 million cap on the ability to sell properties. Through December 26, 2002 approximately $12.1 million of this cap has been utilized through theatre sales. Five additional properties are no longer operational and are being marketed for sale. An evaluation of the remaining theatres is performed on an ongoing basis. Approximately $87.5 million in principal amount of pass-through certificates were outstanding as of December 26, 2002.

In connection with the 1995 sale and leaseback transaction, UATC entered into a participation agreement that requires UATC to comply with various covenants, including limitations on indebtedness, restricted payments, transactions with affiliates, guarantees, issuances of preferred stock of subsidiaries and subsidiary distributions, transfer of assets and payment of dividends.

On November 8, 1996, UATC entered into a sale and leaseback transaction, pursuant to which UATC sold three of its operating theatres and two theatres under development to an unaffiliated third party for approximately $21.5 million and leased back those theatres pursuant to a lease that terminates in 2017. The lease provides UATC with an option to extend the term of the lease for an additional 10 years. Two of the theatres have been determined by UATC to be economically obsolete and are no longer in operation.

In December 1997, UATC entered into a sale and leaseback transaction, pursuant to which it sold two theatres under development and leased them back from an unaffiliated third party for approximately $18.1 million. Approximately $9.2 million of the sales proceeds were paid to UATC during 1999 for reimbursement of some construction costs associated with the two theatres. The lease has a term of 22 years with options to extend the term of the lease for an additional 10 years.

During 1999, UATC entered into a sale and leaseback transaction on one existing theatre. Proceeds were received in the amount of $5.4 million by UATC during 1999. The lease has a term of 20 years, with an option to extend the term of the lease for up to 20 additional years.

Edwards Leveraged Sale and Leaseback

During 1999, Edwards entered into four sale and leaseback transactions whereby Edwards sold four theatres and leased them back from an unaffiliated third party. The related leases are being accounted for as operating leases.

During 2000, Edwards entered into two sale leaseback transactions whereby Edwards sold two of its properties and leased them back from an unaffiliated third party. As part of these transactions, an additional location was sold with a portion of the building being leased back for corporate use. The related leases are being accounted for as operating leases.

Bankruptcy Claims

Regal Cinemas, Inc. and Edwards have bankruptcy claims that remain unsettled and are subject to ongoing negotiation and possible litigation. At December 26, 2002, Regal Cinemas had accrued approximately $23.6 million for the estimated costs to resolve such bankruptcy claims. In the opinion of management, based on its examination of these matters, its experience to date and discussions with legal counsel, the outcome of these legal matters, after taking into consideration the amounts already accrued, is not expected to have a material effect on the Company's liquidity or results of operations. To the extent these claims are allowed, they will be funded with cash on hand, cash flow from operations or borrowings under Regal Cinemas' revolving credit facility. In addition to these sources of funding, with respect to allowed Edwards claims, they may also be funded from restricted cash that has been set aside, and, if the allowed Edwards claims exceed $55 million, from contributions by The Anschutz Corporation and its subsidiaries ("Anschutz") and OCM Principal Opportunities Fund II, L.P. and its subsidiaries ("Oaktree's Principal Activities Group"). The timing of payment on these claims will depend upon the resolution of these claims. See also Note 3 "Chapter 11 Proceedings" and Note 11 "Related Party Transactions" to the accompanying unaudited condensed consolidated financial statements.

Quarterly Results

Regal was created through a series of transactions during 2001 and 2002. Anschutz acquired controlling equity interests in United Artists and Edwards upon the emergence from bankruptcy reorganization on March 2, 2001 of the United Artists Bankrupt Entities (as defined in Note 1 to the accompanying financial statements) and on September 29, 2001 of the Edwards Bankrupt Entities (as defined in Note 1 to the accompanying financial statements). On January 29, 2002, Anschutz acquired a controlling equity interest in Regal Cinemas, Inc. when the Regal Cinemas, Inc. Bankrupt Entities (as defined in Note 1 to the accompanying financial statements) emerged from bankruptcy reorganization. Anschutz exchanged its controlling equity interest in Regal Cinemas, Inc. for a controlling equity interest in Regal Cinemas immediately thereafter. Regal Cinemas, Inc. is a wholly owned subsidiary of Regal Cinemas. In addition, Regal CineMedia was formed in February 2002 to focus on the development of ancillary revenues and became our wholly owned subsidiary on April 12, 2002. On April 17, 2002, Regal Cinemas, Inc. acquired all of the outstanding capital stock of Edwards and, as a result, Edwards became a wholly owned subsidiary of Regal Cinemas, Inc.

The Company's financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas. These controlling equity interests have been recorded in the Company's financial statements at Anschutz's combined historical cost basis. Accordingly, the Company's financial statements for the year ended January 3, 2002 reflect only the results of operations of United Artists from March 1, 2001 and Edwards from September 30, 2001 to December 27, 2001. We had no independent operations before March 1, 2001. The Company's financial statements for the year ended December 26, 2002 include the results of operations of United Artists (from January 4, 2002), Edwards (from December 28, 2001), and Regal Cinemas (from January 24, 2002). The comparability of our results between quarters is impacted by the inclusion from such dates of the results of operations of each of such entities.

The following tables set forth selected unaudited quarterly results for the eight quarters ending December 26, 2002. The quarterly financial data as of each period presented below have been derived from Regal's unaudited consolidated financial statements for those periods. Results for these periods are not necessarily indicative of results for the full year. The quarterly financial data should be read in conjunction with the consolidated financial statements of Regal and notes thereto included in Item 8 to this Form 10-K Financial Statements and Supplemental Data.

	Dec. 26, 2002	Sept. 26, 2002	June 27, 2002	Mar. 28, 2002	Jan. 3, 2002	Sept. 27, 2001	June 28, 2001	Mar. 29, 2001
	In millions (except per share data)							
Total revenues	$ 547.3	$ 571.5	$ 607.3	$ 414.1	$ 240.3	$ 158.7	$ 128.5	$ 29.4
Operating income (loss)	66.5	77.3	94.5	45.3	19.1	13.0	5.8	(3.7)
Net income (loss)	31.7	36.1	38.7	10.5	6.8	6.1	(1.2)	(6.8)
Diluted earnings (loss) per share	0.23	0.27	0.09	0.19	0.27	0.32	(0.07)	(1.27)
Dividends per common share	$ 0.15	$	$	$	$	$	$	$

Inflation

The Company does not believe that inflation has had a material impact on its financial position or results of operations.

Seasonality

The Company's revenues are usually seasonal, coinciding with the timing of releases of motion pictures by the major distributors. Generally, studios release the most marketable motion pictures during the summer and the holiday seasons. The unexpected emergence of a "hit" film during other periods can alter the traditional pattern. The timing of movie releases can have a significant effect on the Company's results of operations, and the results of one quarter are not necessarily indicative of the results for the next or any other quarter. The seasonality of motion picture exhibition, however, has become less pronounced in recent years as studios have begun to release major motion pictures somewhat more evenly throughout the year.

Results of Operations for Fiscal 2001 and 2000 United Artists

The following results of operations of United Artists, our predecessor company for accounting purposes, are being provided pursuant to applicable SEC rules. These results of operations of United Artists are not indicative of the combined results of operations of Regal because they do not include the results of Edwards and Regal Cinemas, and they do not purport to be indicative of future results of operations of Regal. Because of United Artists' adoption of fresh start reporting on March 2, 2001, United Artists' historical financial statements do not necessarily reflect its ongoing operations. In order to provide a meaningful basis of comparing United Artists' year over year operating results for purposes of the following tables and discussion, the operating results of United Artists for the forty-four weeks ended January 3, 2002 (Reorganized) have been combined with the operating results of United Artists for the nine weeks ended March 1, 2001 (Historical). The combined periods are herein referred to as combined United Artists fiscal 2001. The combined United Artists fiscal 2001 results are compared to the fiscal year ended December 28, 2000. Depreciation, amortization and other line items included in the operating results of United Artists are not comparable between periods as the nine weeks ended March 1, 2001 and the fiscal year ended December 28, 2000 do not include the effect of fresh-start reporting adjustments, which are discussed above under the caption "Selected Financial Data Selected Historical Financial and Other Data for United Artists." The combining of reorganized and historical periods is not acceptable under accounting principles generally accepted in the United States of America. This combined financial data should not be viewed as a substitute for United Artists' results of operations determined in accordance with generally accepted accounting principles. Therefore, you should read the following results of operations of United Artists in conjunction with United Artists' consolidated financial statements and accompanying notes found elsewhere in this Form 10-K.

The following table sets forth for the fiscal periods indicated the percentage of total revenues represented by the specified items included in United Artists' statements of operations:

	Combined United Artists	
	Fiscal Year Ended January 3, 2002	**Fiscal Year Ended December 28, 2000**
Revenues:		
Admissions	68.6%	67.7%
Concessions	27.5	28.1
Other operating revenues	3.9	4.2
Total revenues	100.0	100.0
Operating expenses:		
Film rental and advertising costs	37.8	37.2
Cost of concessions	3.1	3.3
Theatre operating expenses	41.1	44.4
General and administrative	3.5	3.9
Depreciation and amortization	7.5	8.1
Asset impairments, lease exit and restructure costs	0.7	10.0
Gain on disposition of assets, net	(1.2)	(2.6)
Total operating expenses	92.5	104.3
Operating income (loss)	7.5%	(4.3)%

Fiscal Years Ended January 3, 2002 and December 28, 2000

Total Revenues

The following table summarizes revenues and revenue-related data for United Artists' fiscal 2001 and 2000 (in millions, except averages):

	Combined United Artists	
	Fiscal Year Ended January 3, 2002	**Fiscal Year Ended December 28, 2000**
Admissions	$ 391.3	$ 372.4
Concessions	157.0	154.6
Other operating revenues	22.4	23.3
Total revenues	$ 570.7	$ 550.3

	Combined United Artists	
Attendance	66.7	66.7
Average ticket price	$ 5.87	$ 5.58
Average concessions per patron	2.35	2.32

Admissions. Total admissions revenues increased $18.9 million, or 5.1%, to $391.3 million, for the year ended January 3, 2002 from $372.4 million for the year ended December 28, 2000. The increase in admissions revenues in 2001 was primarily attributable to a 5.0% increase in average ticket prices.

Concessions. Total concessions revenues increased $2.4 million, or 1.6%, to $157.0 million in 2002, from $154.6 million for 2000. The increase in concessions revenues in 2001 was primarily due to an increase in average concessions per patron.

Other Operating Revenues. Total other operating revenues decreased $0.9 million, or 3.9%, to $22.4 million in 2001, from $23.3 million for 2000. The decreases in other operating revenues in 2001 were primarily due to the closure of under-performing theatres, the general downturn in the advertising market during 2001 and customers' reluctance to book The Satellite Theatre Network® events during United Artists' bankruptcy proceedings.

Operating Expenses

Film Rental and Advertising Costs. Film rental and advertising costs increased $10.6 million, or 5.2%, to $215.5 million in 2001, from $204.9 million for 2000. During 2001, a slight increase from 2000 in film rental costs as a percentage of admissions revenue was nearly offset by a decrease in advertising costs as a percentage of admissions revenue, thus resulting in film rental and advertising costs as a percentage of admission revenue increasing by 0.1%.

Cost of Concessions. Cost of concessions decreased $0.1 million, or 0.6%, to $17.9 million in 2001, from $18.0 million for 2000. Cost of concessions as a percentage of concessions revenues decreased to 11.4% in 2001 as compared to 11.7% in 2000. The decreases in concession costs as a percentage of concessions revenue are primarily due to purchasing cost reductions, reduced concession promotional costs and increased rebates from certain concession vendors.

Other Theatre Operating Expenses. Other theatre operating expenses decreased $9.6 million, or 3.9%, to $234.8 million in 2001 from $244.4 million for 2000. Other theatre operating expenses as a percentage of total revenues decreased to 41.1% in 2001 from 44.4% during 2000. The decreases in other theatre operating expenses are primarily due to the sale, closure or rejection of under-performing theatres and a reduction in other controllable costs.

General and Administrative Expenses General and administrative expenses of United Artists decreased $1.3 million, or 6.1%, to $20.0 million in 2001, from $21.3 million for 2000. As a percentage of total revenues, general and administrative expenses decreased to 3.5% in 2001 from 3.9% in 2000. The decrease in general and administrative expenses during 2001 is primarily due to the elimination of four district offices, a reduction in the number of corporate personnel, and other expense efficiency measures.

Operating Income (Loss)

Operating income of United Artists increased by $66.6 million to $42.8 million in 2001, from a loss of $23.8 million for 2000 largely because of substantial asset impairments in 2000 compared to 2001. Operating income as a percentage of total revenues was 7.5% in 2001. Operating loss as a percentage of total revenues was 4.3% in 2000.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 supersedes Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations," and primarily addresses the accounting for the cost of an acquired business (i.e., the purchase price allocation), including any subsequent adjustment to its cost. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting) and supersedes APB 17, "Intangible Assets." The most significant changes made by SFAS No. 141 involve the requirement to use the purchase method of accounting for all business combinations, thereby eliminating use of the pooling-of-interests method along with the establishment of new criteria for determining whether the Company should recognize intangible assets acquired in a business combination separately from goodwill. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. The adoption of SFAS No. 141 did not have a material impact on the Company's financial position or results of operations.

Pursuant to SFAS No. 142, the Company no longer amortizes goodwill, reorganizational value in excess of amounts allocated to identifiable assets or indefinite lived intangible assets, and will test for impairment at least annually at the reporting unit level. Other long-lived assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," issued in August 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 for all goodwill and other intangible assets, including excess reorganization value, recognized in an entity's statement of financial position at that date, regardless of when those assets were initially recognized. As required by SFAS No. 142, the standard has not been retroactively applied to the results for the period prior to adoption. Amortization relating to goodwill and excess reorganization value was $9.6 million for the period ended January 3, 2002. The Company's initial and annual goodwill impairment tests for fiscal 2002 indicated that the fair value of its reporting units exceeded their carrying value and therefore, at this time, goodwill was not deemed to be impaired.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for recognition and measurement of the fair value of obligations associated with the retirement of long-lived assets when there is a legal obligation to incur such costs. Under SFAS No. 143, the costs of retiring an asset will be recorded as a liability when the retirement obligation arises and will be amortized to expense over the life of the asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. The Company is evaluating the impact of the adoption of this standard and has not yet determined the effect of adoption on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which provides clarifications of certain implementation issues with SFAS No. 121 along with additional guidance on the accounting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121 and applies to all long-lived assets (including discontinued operations) and consequently amends APB 30, "Reporting the Effects of Disposal of a Segment of a Business." SFAS No. 144 develops one accounting model (based on the model in SFAS No. 121) for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues. SFAS No. 144 requires that entities measure long-lived assets that are to be disposed of by sale at the lower of book value or fair value less cost to sell. That requirement eliminates APB 30's requirement that discontinued operations be measured at net realizable value or that entities include under "discontinued operations" in the financial statements amounts for operating losses that have not yet occurred. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) the entity can distinguish from the rest of the entity and (2) the entity will eliminate from the ongoing operations of the entity in a disposal transaction. The Company adopted SFAS No. 144 in the first quarter of 2002. The adoption of SFAS No. 144 did not have a material impact on the Company's financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 updates, clarifies and simplifies existing accounting pronouncements including the rescission of Statement 4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in APB Opinion No. 30 will now be used to classify those gains and losses. The provisions of SFAS No. 145 related to the rescission of Statement 4 is effective for fiscal years beginning after May 15, 2002.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses significant issues relating to the recognition, measurement, and reporting of costs associated with exit and disposal activities, including restructuring activities, and nullifies the guidance in Emerging Issues Task Force (EITF) Issue No. 94-3 (EITF 94-3), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring.)" The provisions of SFAS No. 146 are effective for exit or disposal activities initiated after December 31, 2002. Retroactive application of SFAS No. 146 is prohibited and, accordingly, liabilities recognized prior to the initial application of SFAS No. 146 should continue to be accounted for in accordance with EITF 94-3 or other applicable preexisting guidance.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation will significantly change current practice in the accounting for, and disclosure of, guarantees. Guarantees meeting the characteristics described in the interpretation are required to be initially recorded at fair value, which is different from general current practice of recognition of a liability only when loss is probable and reasonably estimable, as prescribed in SFAS No. 5, "Accounting for Contingencies." The interpretation also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor's having to make payments under the guarantee is remote. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, irrespective of the guarantor's fiscal year-end. The adoption of this interpretation is not expected to have a material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities an Interpretation of ARB No. 51." This interpretation addresses consolidation by business enterprises of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns. The consolidation requirements of this interpretation apply immediately to variable interest entities created after January 31, 2003 and apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. The Company is evaluating the impact of adopting this interpretation.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS No.148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to SFAS No. 123's fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No.123 and APB Opinion No. 28, "Interim Financial Reporting," to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions are applicable to all companies with stock-based employee compensation, regardless of whether they account for such compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB No. 25, *Accounting for Stock Issued to Employees,* and related interpretations. The disclosure requirements are effective for fiscal years ending after December 15, 2002. The Company has elected to continue the intrinsic value method of accounting for its employee stock options in accordance with APB Opinion No. 25 and as a result, the adoption of SFAS No. 148 did not have a material impact on the Company's financial position and results of operations.

Risk Factors

Investing in our securities involves a significant degree of risk. In addition to the other information contained in this annual report, you should consider the following factors before investing in our securities.

Our operating companies lack a combined operating history and have in the past operated at a loss

Regal Cinemas, United Artists and Edwards operated as separate motion picture exhibitors until we acquired them, and the theatre circuits operated by them operated at a loss prior to their emergence from bankruptcy reorganization. As a result, we have limited historical financial and operating data upon which you can evaluate our business. There can be no assurance that we can successfully conduct their combined operations on an economically feasible basis and we may therefore incur losses in the future.

The bankruptcy reorganizations of our theatre circuit operators could harm our business, financial condition and results of operations

During the past 24 months, each of Regal Cinemas, Inc., United Artists and Edwards emerged from bankruptcy reorganization under Chapter 11 of the United States Bankruptcy Code. Regal Cinemas, Inc. and Edwards have claims from these bankruptcy reorganizations that remain unsettled and are subject to ongoing negotiation and possible litigation. The final amounts paid in connection with the claims could materially exceed the approximate $23.6 million amount accrued by Regal for such claims at December 26, 2002, which could reduce our profitability or cause us to incur losses that would affect the trading price of our common stock. In addition, the past inability of our theatre circuit operators to meet their obligations that resulted in their filing for bankruptcy protection, or the perception that we may not be able to meet our obligations in the future, could adversely affect our ability to obtain adequate financing, or our relationships with our customers and suppliers, as well as our ability to retain or attract high-quality employees.

The oversupply of screens in the motion picture exhibition industry and other factors caused several major movie theatre circuits to reorganize under the United States Bankruptcy Code, which may make it difficult for us to borrow or access the capital markets in the future

Since 1999, several major motion picture exhibition companies, including United Artists, Edwards and Regal Cinemas, Inc. have filed for bankruptcy. One significant cause of those bankruptcies was the emphasis by theatre circuits on the development of large megaplexes in recent years. The strategy of aggressively building megaplexes was adopted throughout the industry and generated significant competition and resulted in an oversupply of screens in the North American motion picture exhibition industry. The oversupply of screens, increased construction, rent and occupancy costs and other factors, including a downturn in attendance in 2000, caused significant liquidity pressures throughout the motion picture exhibition industry. We and other theatre circuits experienced impairment write-offs, losses on theatre dispositions and downward adjustment of credit ratings and defaults under loan agreements. These factors may make it difficult for us to borrow money or access the capital markets and, as a result, the market price of our securities, including our common stock, may be adversely affected.

We have a substantial investment in developing ancillary revenue opportunities that we may be unable to achieve

We have invested approximately $29.1 million in capital expenditures related to ancillary revenue opportunities during 2002 and we expect to make approximately $43 million of additional capital expenditures relating to these opportunities during 2003. These investments are aimed at generating revenues through a digital network that is not complete and through exploiting other ancillary business uses of our theatres. For example, we will invest in changing the network software and distribution network and develop a new sales force to implement the use of the

NGN assets acquired by Regal CineMedia. We may be unable to attract significant interest in the products and services of Regal CineMedia. If we are unable to generate sufficient revenue from the sale of advertising in our theatres or from alternative products and services, we may not achieve or maintain the level of profitability we hope to achieve, and our results of operations may be adversely affected.

We operate in a competitive environment

The motion picture exhibition industry is fragmented and highly competitive, particularly with respect to film licensing, attracting patrons and developing new theatre sites. Theatres operated by national and regional circuits and by small independent exhibitors compete with our theatres. In recent years, motion picture exhibitors have emphasized the development of large megaplexes, some of which have as many as 30 screens in a single theatre. The industry-wide strategy of aggressively building megaplexes generated significant competition and rendered many older multiplex theatres obsolete more rapidly than expected. Many of these theatres are under long-term lease commitments that make them financially burdensome to close and some companies have elected to continue operating them notwithstanding their lack of profitability. In other instances, because theatres are typically limited use design facilities, or for other reasons, landlords have been willing to make rent concessions to keep them open. As a result, there is an oversupply of screens in the North American motion picture exhibition industry. This has affected, and may continue to affect, the performance of some of our theatres.

There are no significant barriers to entry in the motion picture exhibition industry. Although we expect a decline in the number of screens industry-wide, our competitors, including new motion picture exhibitors, may from time to time build new theatres or screens in areas in which we operate, which may require us to compete for popular films or result in excess capacity in those areas and hurt attendance at our theatres. Moviegoers are generally not brand conscious and usually choose a theatre based on its location, the films showing there and its amenities. A change in consumer preferences or technology may cause increased competition, require us to make large capital expenditures and adversely affect our operations.

The distribution of motion pictures is in large part regulated by federal and state antitrust laws and has been the subject of numerous antitrust cases. Consent decrees resulting from those cases effectively require major motion picture distributors to offer and license films to exhibitors, including us, on a film-by-film and theatre-by-theatre basis. Consequently, we cannot assure ourselves of a supply of motion pictures by entering into long-term arrangements with major distributors, but must compete for our licenses on a film-by-film and theatre-by-theatre basis.

Regal CineMedia's in-theatre advertising operations must compete with a number of other advertising mediums including, most notably, television advertising. There can be no guarantee that in-theatre advertising will continue to gain acceptance among major advertisers or that Regal CineMedia's in-theatre advertising format will be favorably received by the theatre-going public. If Regal CineMedia is unable to generate expected sales of advertising, it may not achieve or maintain the level of profitability we hope to achieve, and our results of operations may be adversely affected.

An increase in the use of alternative film delivery methods may drive down movie theatre attendance and limit ticket prices

We also compete with other movie delivery vehicles, including cable television, downloads via the Internet, video disks and cassettes, satellite and pay-per-view services. Further, new technologies for movie delivery (such as video on demand) could have a material adverse effect on our business and results of operations. We also compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants.

Development of digital technology will increase our capital expenses

The industry is in the early stages of conversion from film-based media to electronic based media. There are a variety of constituencies associated with this anticipated change, which may significantly impact industry participants, including content providers, distributors, equipment providers and exhibitors. Should the conversion process rapidly accelerate and the major studios not finance the conversion as expected, we may have to raise additional capital to finance the conversion costs associated with this potential change. The additional capital necessary may not, however, be available to us on attractive terms. Furthermore, it is impossible to accurately predict how the roles and allocation of costs between various industry participants will change if the industry changes from physical media to electronic media.

We depend on motion picture production and performance

Our ability to operate successfully depends upon the availability, diversity and appeal of motion pictures, our ability to license motion pictures and the performance of such motion pictures in our markets. We mostly license first-run motion pictures, the success of which have increasingly depended on the marketing efforts of the major studios. Poor performance of, or any disruption in the production of (including by reason of a strike), these motion pictures, or a reduction in the marketing efforts of the major studios, could hurt our business and results of operations. In addition, a change in the type and breadth of movies offered by studios may adversely affect the demographic base of moviegoers.

We may not benefit from our acquisition strategy

We may have difficulty identifying suitable acquisition candidates. Even if we do identify such candidates, we anticipate significant competition from other motion picture exhibitors and financial buyers when trying to acquire these candidates, and there can be no assurances that we will be able to acquire such candidates at reasonable prices or on favorable terms. Moreover, some of these possible buyers may be stronger financially than we are. As a result of this competition for limited assets, we may not succeed in acquiring suitable candidates or may have to pay more than we would prefer to make an acquisition. If we cannot identify or successfully acquire suitable acquisition candidates, we may not be able to successfully expand our operations and our stock price could be adversely affected.

In any acquisition, including our proposed acquisition of Hoyts Cinemas described under "Business Recent Developments," we expect to benefit from cost savings through, for example, the reduction of overhead and theatre level costs and certain favorable tax attributes, and from revenue enhancements resulting from the acquisition. There can be no assurance, however, that we will be able to generate sufficient cash flow from these acquisitions to service any indebtedness incurred to finance such acquisitions or realize any other anticipated benefits. Nor can there be any assurance that our profitability will be improved by any one or more acquisitions. If we cannot generate sufficient cash flow to service debt incurred to finance an acquisition, our results of operations and profitability would be adversely affected. Any acquisition may involve operating risks, such as:

- the difficulty of assimilating the acquired operations and personnel and integrating them into our current business;
- the potential disruption of our ongoing business;
- the diversion of management's attention and other resources;
- the possible inability of management to maintain uniform standards, controls, procedures and policies;
- the risks of entering markets in which we have little or no experience;
- the potential impairment of relationships with employees;
- the possibility that any liabilities we may incur or assume may prove to be more burdensome than anticipated; and
- the possibility that any acquired theatres or theatre circuit operators do not perform as expected.

We depend on our relationships with film distributors

The film distribution business is highly concentrated, with nine major film distributors reportedly accounting for 94% of admissions revenues and 49 of the 50 top grossing films during 2002. Our business depends on maintaining good relations with these distributors. In addition, we are dependent on our ability to negotiate commercially favorable licensing terms for first-run films. A deterioration in our relationship with any of the nine major film distributors could affect our ability to negotiate film licenses on favorable terms or our ability to obtain commercially successful films and, therefore, could hurt our business and results of operations.

We must comply with the ADA

Our theatres must comply with 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. Noncompliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants or additional capital expenditures to remedy such noncompliance. Any such imposition of injunctive relief, fines, damage awards or capital expenditures could adversely affect our business and results of operations.

We depend on our senior management

Our success depends upon the retention of our senior management, including Michael Campbell and Kurt Hall, our Co-Chairmen and Co-Chief Executive Officers. We cannot assure you that we would be able to find qualified replacements for the individuals who make up our senior management if their services were no longer available. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations. We do not currently maintain key-man life insurance for any of our employees. The loss of any member of senior management could adversely affect our ability to effectively pursue our business strategy.

A prolonged economic downturn could materially affect our business by reducing consumer spending on attending movies

We depend on consumers voluntarily spending discretionary funds on leisure activities. Motion picture theatre attendance may be affected by prolonged, negative trends in the general economy that adversely affect consumer spending, including such trends resulting from terrorist attacks on or wars or threatened wars involving the United States. Any reduction in consumer confidence or disposable income in general may affect the demand for motion pictures or severely impact the motion picture production industry, which, in turn, could adversely affect our operations.

There can be no assurance that we will acquire Hoyts Cinemas

Although we have entered into a definitive stock purchase agreement to acquire Hoyts Cinemas, there can be no assurance that we will be able to complete this transaction. The acquisition is subject to regulatory approvals under applicable antitrust laws and other conditions. There can be no assurance that the required conditions will be satisfied. If we do not complete the purchase, we will not be able to realize the benefits we expect from the acquisition or to expand our operations into the areas served by Hoyts Cinemas. If we are unable to complete the purchase, it could affect the trading price of our common stock.

We may be unable to successfully integrate Hoyts Cinemas into our business or realize the cost savings that we anticipate

Our ability to integrate Hoyts Cinemas into our business and realize the cost savings and synergies that we anticipate are subject to a number of uncertainties, including those referred to above under " Risks Relating to Our Business and Industry We may not benefit from our acquisition strategy." Many of these uncertainties are related to conditions beyond our control, such as general negative economic trends and competition. We may be unable to achieve the anticipated cost savings and synergies from the acquisition.

The interests of our controlling stockholders may conflict with your interests

Anschutz and Oaktree's Principal Activities Group own all of our outstanding Class B common stock. Our Class A common stock has one vote per share while our Class B common stock has ten votes per share on all matters to be voted on by stockholders. As a result, at December 26, 2002, Anschutz and Oaktree's Principal Activities Group controlled approximately 94.8% of the combined voting power of all of our outstanding common stock. For as long as Anschutz and Oaktree's Principal Activities Group continue to own shares of common stock representing more than 50% of the combined voting power of our common stock, they will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. Anschutz and Oaktree's Principal Activities Group will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Anschutz and Oaktree's Principal Activities Group but not to other stockholders. In addition, Anschutz and Oaktree's Principal Activities Group and their affiliates have controlling interest in companies in related and unrelated industries, including interests in the sports, motion picture production and entertainment industries. In the future, they may combine our company with one or more of their other holdings.

Our substantial lease and debt obligations could impair our financial condition

We have substantial lease and debt obligations. For fiscal 2002, our total rent expense and interest expense were approximately $231.0 million and $61.7 million, respectively. As of December 26, 2002, we had total long-term obligations of $678.4 million. As of December 26, 2002, we had current contractual cash obligations of approximately $245.1 million. For a detailed discussion of our contractual cash obligations and other commercial commitments over the next several years, please refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commitments" provided below.

If we are unable to meet our lease and debt service obligations, we could be forced to restructure or refinance our obligations and seek additional equity financing or sell assets. We may be unable to restructure or refinance our obligations and obtain additional equity financing or sell assets on satisfactory terms or at all. As a result, inability to meet our lease and debt service obligations could cause us to default on those obligations. Many of our lease agreements and the agreements governing the terms of our debt obligations contain restrictive covenants that limit our ability to take specific actions or require us not to allow specific events to occur and prescribe minimum financial maintenance requirements that we must meet. If we violate those restrictive covenants or fail to meet the minimum financial requirements contained in a lease or debt instrument, we would be in default under that instrument, which could, in turn, result in defaults under other leases and debt instruments. Any such defaults could materially impair our financial condition.

We are a holding company with no operations of our own

We are a holding company with no operations of our own. Consequently, our ability to service our subsidiaries' debt and pay dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. The distribution of those earnings, or advances or other distributions of funds by these subsidiaries to us, all of which are subject to statutory or contractual restrictions, are contingent upon the subsidiaries' earnings and are subject to various business considerations.

Our certificate of incorporation and bylaws contain anti-takeover protections, which may discourage or prevent a takeover of our company, even if an acquisition would be beneficial to our stockholders

Provisions contained in our certificate of incorporation and bylaws, as well as provisions of the Delaware General Corporation Law, could delay or make it more difficult to remove incumbent directors or for a third party to acquire us, even if a takeover would benefit our stockholders.

Our issuance of shares of preferred stock could delay or prevent a change of control of our company

Our board of directors has the authority to cause us to issue, without any further vote or action by the stockholders, up to 50,000,000 shares of preferred stock, par value $0.001 per share, in one or more series, to designate the number of shares constituting any series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, voting rights, rights and terms of redemption, redemption price or prices and liquidation preferences of such series. The issuance of shares of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company without further action by the stockholders, even where stockholders are offered a premium for their shares.

Our issuance of preferred stock could dilute the voting power of the common stockholders

The issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of our other classes of voting stock either by diluting the voting power of our other classes of voting stock if they vote together as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote even if the action were approved by the holders of our other classes of voting stock.

Our issuance of preferred stock could adversely affect the market value of our common stock

The issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. For example, investors in the common stock may not wish to purchase common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase common stock at the lower conversion price causing economic dilution to the holders of common stock.

Our stock price may be volatile and decline substantially

The stock market in general has experienced extreme price and volume fluctuations in recent years. These broad market fluctuations may adversely affect the market price of our Class A common stock, regardless of our actual operating performance. You may be unable to resell your shares at or above the purchased market price because of a number of factors, including actual or anticipated quarterly fluctuations in our operating results; changes in expectations of future financial performance or changes in estimates of securities analysts; changes in the market valuations of other companies; announcements relating to strategic relationships, acquisitions or industry consolidation; and general economic, market and political conditions not related to our business.

Our results of operations fluctuate on a seasonal basis and may be unpredictable, which could increase the volatility of our stock price

Our revenues are usually seasonal because of the way the major film distributors release films. Generally, the most marketable movies are released during the summer and the holiday season. Poor performance of these films, or a disruption in the release of films during these periods, could hurt our results for the entire fiscal year. An unexpected "hit" film during other periods can alter the traditional trend. The timing of movie releases can have a significant effect on our results of operations, and our results of operations for one quarter are not necessarily indicative of our results of operations for any other quarter. These variations in results could cause increased volatility in our stock price.

The substantial number of shares that will be eligible for sale in the near future could cause the market price for our Class A common stock to decline

We cannot predict the effect, if any, that market sales of shares of Class A common stock or the availability of shares of Class A common stock for sale will have on the market price of our common stock prevailing from time to time. Sales of substantial amounts of shares of our Class A common stock in the public market, or the perception that those sales will occur, could cause the market price of our Class A common stock to decline.

As of December 26, 2002, we had outstanding 27,493,575 unregistered shares of Class A common stock and 85,287,957 shares of Class B common stock that may convert into Class A common stock on a one-for-one basis. All of such 112,781,532 shares of unregistered common stock constitute "restricted securities" under the Securities Act of 1933. Provided the holders comply with the applicable holding periods, volume limits and other conditions prescribed in Rule 144 under the Securities Act, these unregistered shares of common stock become freely tradable at various times on or after April 12, 2003.

Anschutz, Oaktree's Principal Activities Group and certain other significant stockholders are able to sell their shares pursuant to the registration rights that we have granted as described in "Description of Capital Stock Registration Rights" in our prospectus dated May 8, 2002. We cannot predict whether substantial amounts of our Class A common stock will be sold in the open market in anticipation of, or following, any divestiture by Anschutz, Oaktree's Principal Activities Group or our directors or executive officers of their shares of our common stock.

If we complete the acquisition of Hoyts Cinemas, we have agreed to issue up to 4,761,904 shares of our Class A common stock as part of the purchase price. The Class A common stock issued will constitute "restricted securities" under the Securities Act and, in addition, will be subject to contractual restrictions prohibiting their sale or transfer, subject to limited exceptions, for a period of twelve months after the closing date of our acquisition of Hoyts Cinemas for all of the shares issued to Hoyts Cinemas and an additional six months after that for one half of those shares. Following the expiration of the contractual prohibition, and assuming compliance by the holder with the holding periods, volume limits and other conditions prescribed in Rule 144 under the Securities Act, these unregistered shares of common stock will become freely tradable at various times on or after the first anniversary of the issuance of such shares.

Additionally, as of December 26, 2002, approximately 9,225,157 shares of our Class A common stock will be issuable upon exercise of stock options that vest and are exercisable at various dates through January 29, 2007. Of such options, as of December 26, 2002, 157,163 were exercisable. All of such shares subject to vested options are registered and will be freely tradable when the option is exercised unless such shares are acquired by an affiliate of Regal, in which case the affiliate may only sell the shares subject to the volume limitations imposed by Rule 144 of the Securities Act of 1933.

The sale of a substantial number of shares may make it difficult for us to sell equity securities in the future

Sales of substantial amounts of shares of our Class A common stock in the public market, or the perception that those sales will occur, might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. If we are unable to sell equity securities at times and prices that we deem appropriate, our ability to fund growth could be adversely affected.

Forward-looking statements

Some of the information in this Form 10-K includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Form 10-K, including, without limitation, certain statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" may constitute forward-looking statements. In some cases you can identify these "forward-looking statements" by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of those words and other comparable words. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those indicated in these statements as a result of certain risk factors as more fully discussed under "Risk Factors" above.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Regal Entertainment Group:

We have audited the accompanying consolidated balance sheet of Regal Entertainment Group and subsidiaries as of December 26, 2002 and the combined balance sheet of Regal Entertainment Group (a combination of certain theatre interests of Anschutz, see note 1) as of January 3, 2002, and the related statements of operations, stockholders' equity and parent's investment, and cash flows for the year ended December 26, 2002 and the period under common control (March 1, 2001 to January 3, 2002). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated and combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regal Entertainment Group and subsidiaries as of December 26, 2002 and Regal Entertainment Group (a combination of certain theatre interests of Anschutz, see note 1) as of January 3, 2002, and the results of their operations and their cash flows for the year ended December 26, 2002 and the period ended January 3, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets during the year ended December 26, 2002.

/s/ KPMG LLP

Nashville, Tennessee
January 24, 2003

REGAL ENTERTAINMENT GROUP (NOTE 1)

CONSOLIDATED AND COMBINED BALANCE SHEETS

	December 26, 2002	January 3, 2002
	(in millions, except share data)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 276.0	$ 68.0
Restricted cash	22.5	28.1
Trade and other receivables, net	30.5	9.6
Inventories	6.7	4.2
Prepaid expenses and other current assets	39.7	20.0
Assets held for sale	9.7	2.8
Deferred income tax asset	4.7	
TOTAL CURRENT ASSETS	389.8	132.7
PROPERTY AND EQUIPMENT:		