REGAL ENTERTAINMENT GROUP
Form 10-K
February 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 28, 2006

Commission file number: 001-31315

Regal Entertainment Group

(Exact name of Registrant as Specified in its Charter)

Delaware	**02-0556934**
(State or Other Jurisdiction of Incorporation or Organization)	(Internal Revenue Service Employer Identification Number)
7132 Regal Lane Knoxville, TN	**37918**
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and larger accelerated filer in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 29, 2006, computed by reference to the closing price for the registrant s Class A common stock on the New York Stock Exchange on such date was $1,368,988,512 (66,455,753 shares at a closing price per share of $20.60).

Shares of Class A common stock outstanding 126,999,053 shares at February 21, 2007

Shares of Class B common stock outstanding 23,908,639 shares at February 21, 2007

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant s definitive proxy statement to be used in connection with its 2007 Annual Meeting of Stockholders and to be filed within 120 days of December 28, 2006 are incorporated by reference into Part III, Items 10-14, of this report on Form 10-K.

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REGAL ENTERTAINMENT GROUP

PART I

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

Item 1. BUSINESS

THE COMPANY

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

We acquired Regal Cinemas, United Artists, Edwards and Regal CineMedia through a series of transactions on April 12, 2002. For a discussion of the transactions resulting in our acquisition of these subsidiaries, see Note 1 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K. 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 our acquisition of such entities. For a discussion of these bankruptcy proceedings, see Note 1 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

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

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

DESCRIPTION OF BUSINESS

Overview

We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 6,403 screens in 539 theatres in 39 states and the District of Columbia as of December 28, 2006, with over 247 million annual attendees for the fiscal year ended December 28, 2006. Our geographically diverse circuit includes theatres in all of the top 25 and 43 of the top 50 U.S. designated market areas. We primarily operate multi-screen theatres and have an average of 11.9 screens per location, which is well above the North American motion picture exhibition industry 2005 average of 6.2 screens per location. We develop, acquire and operate multi-screen theatres primarily in mid-sized metropolitan markets and suburban growth areas of larger metropolitan markets throughout the U.S.

On March 29, 2005, Regal and AMC Entertainment Inc. (AMC) announced the combination of RCM and AMC s subsidiary, National Cinema Network, Inc., into a joint venture company known as

National CineMedia, LLC (National CineMedia). On July 15, 2005, Cinemark, Inc. (Cinemark), through a wholly owned subsidiary, joined the National CineMedia joint venture. Since its inception, National CineMedia has primarily concentrated its efforts on in-theatre advertising, business meetings and non-feature film content distribution. See National CineMedia Joint Venture under Part I, Item I of this Form 10-K for further discussion of National CineMedia. On February 13, 2007, NCM Inc., a newly formed entity that serves as the sole manager of National CineMedia, completed the initial public offering, or IPO, of its common stock. NCM Inc. sold 38 million shares of its common stock for $21 per share in the IPO, less underwriting discounts and expenses. Because NCM Inc. s Certificate of Incorporation requires that NCM Inc. at all times maintain a one-to-one ratio between the number of common units of National CineMedia owned by NCM Inc. and the number of outstanding shares of common stock of NCM Inc., NCM Inc. used a portion of the net proceeds from the IPO to acquire newly issued common units from National CineMedia. In addition, National CineMedia paid the net proceeds to each of Regal, AMC and Cinemark in exchange for modifying payment obligations for access to their respective theatres, for which Regal received a payment of $281 million. Upon the closing of the IPO, National CineMedia entered into a $725 million term loan facility, the net proceeds of which were used to redeem preferred units issued to each of Regal, AMC and Cinemark on a pro rata basis pursuant to a recapitalization of National CineMedia prior to completion of the IPO. As discussed in Note 14 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, we received $315.1 million as a result of the preferred unit redemption. At the closing of the IPO, the underwriters exercised their over-allotment option to purchase an additional 4 million shares of common stock of NCM Inc. at the initial offering price of $21 per share, less underwriting discounts and commissions. In connection with this over-allotment option exercise, Regal, AMC and Cinemark each sold to NCM Inc. common units of National CineMedia on a pro rata basis at the initial offering price of $21 per share, less underwriting discounts and expenses. Regal sold 1,637,826 common units to NCM Inc. for proceeds of $32.2 million, and upon completion of this sale of common units, Regal held 21,230,712 common units of National CineMedia, or a 22.6% interest. After the payment of current taxes, we estimate net proceeds from these transactions to total approximately $445 million. We are currently exploring alternatives for using these proceeds, and may use some or all of the proceeds for strategic acquisitions or to return value to stockholders through an extraordinary dividend, stock repurchases or other corporate uses.

For the fiscal year ended December 28, 2006, we reported total revenues, income from operations and net income of $2,598.1 million, $308.5 million and $86.3 million, respectively. In addition, we generated $304.4 million of cash flows from operations during the fiscal year ended December 28, 2006. EBITDA (earnings before interest, taxes, depreciation and amortization) was approximately $466.3 million, or 17.9% of total revenues, for the year ended December 28, 2006. As a result of our focus on enhancing revenues, operating efficiently, strictly controlling theatre-level costs and successfully integrating accretive acquisitions we achieved what management believes are among the highest EBITDA margins in the domestic motion picture exhibition industry. We believe EBITDA provides a useful measure of liquidity and financial performance for our investors because EBITDA is an industry comparative measure of liquidity and financial performance prior to the payment of interest and taxes and because it is a primary financial measure used by management to assess our performance and liquidity. EBITDA is not a measurement of financial performance or liquidity under accounting principles generally accepted in the United States of America and should not be considered in isolation or construed as a substitute for net income or other operations data or cash flow data prepared in accordance with accounting principles generally accepted in the United States of America for purposes of analyzing our profitability or liquidity. In addition, not all funds depicted by EBITDA are available for management s discretionary use. For example, a substantial portion of such funds are subject to contractual restrictions and functional requirements to pay debt service, fund necessary capital expenditures and meet other commitments from time to time as described in more detail below. EBITDA, as calculated, may not be comparable to similarly titled measures reported by other companies. See Part II, Item 7, of this Form 10-K, under the caption

Results of Operations EBITDA for a tabular reconciliation of net income to EBITDA and net cash provided by operating activities.

Business Strategy

Our business strategy is to continue to enhance our position in the motion picture exhibition industry by capitalizing on prudent industry consolidation opportunities, realizing selective growth opportunities through new theatre construction and expanding and upgrading of our existing asset base. This strategy should enable us to continue to produce the free cash flow and financial flexibility necessary to provide meaningful value to our stockholders. Key elements of our strategy include:

Maximizing Stockholder Value. We believe that our cash dividends are an efficient means of distributing value to our stockholders. Since our initial public offering in May 2002 through December 28, 2006, we have returned over $2.0 billion to our stockholders in the form of cash dividends.

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

Pursuing Selective Growth Opportunities. We intend to selectively pursue expansion opportunities through new theatre construction that meets our strategic and financial return criteria. We also intend to enhance our theatre operations by selectively expanding and upgrading existing properties in prime locations.

Competitive Strengths

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

Industry Leader. We are the largest domestic motion picture exhibitor operating 6,403 screens in 539 theatres in 39 states and the District of Columbia. We believe that the quality and size of our theatre circuit is a significant competitive advantage for negotiating attractive national contracts and generating economies of scale. We believe that our market leadership positions us to capitalize on favorable attendance trends and attractive consolidation opportunities.

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

Proven Acquisition and Integration Expertise. We have significant experience identifying, completing and integrating acquisitions of theatre circuits. We have demonstrated our ability to enhance revenues and realize operating efficiencies through the successful acquisition and integration of 17 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.

Quality Theatre Portfolio. We believe that we operate one of the most modern theatre circuits among major motion picture exhibitors. As of December 28, 2006, approximately 73% of our screens were located in theatres featuring stadium seating. As of December 28, 2006, approximately 83% of our screens were located in theatres with 10 or more screens. Our theatres have an average of 11.9 screens per location, which is well above the North American motion picture exhibition industry 2005 average of 6.2 screens per

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location. We believe that our modern theatre portfolio coupled with our operating margins should allow us to generate significant cash flows from operations.

Investment in National CineMedia. National CineMedia operates the largest digital in-theatre network in North America representing approximately 13,000 U.S. and Canadian theatres screens (of which 11,000 are digitally equipped) and reaching over 500 million movie guests annually. National CineMedia utilizes its in-theatre network to distribute advertising, facilitate meetings and corporate events and distribute live and pre-recorded concerts, sporting events and other entertainment programming content. We believe our investment in National CineMedia will generate incremental value for our stockholders.

Dividend Policy

We believe that paying dividends on our shares of common stock is important to our stockholders. To that end, during fiscal 2006, we paid to our stockholders four quarterly cash dividends of $0.30 per share, on each outstanding share of our Class A and Class B common stock, or approximately $179.6 million in the aggregate. On February 8, 2007, we declared a cash dividend of $0.30 per share on each outstanding share of Class A and Class B common stock. The dividend is payable on March 19, 2007 to our stockholders of record on March 9, 2007. 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. Dividends are considered quarterly and may be paid only when approved by our board of directors.

INDUSTRY OVERVIEW AND TRENDS

The domestic motion picture exhibition industry is a mature business which has historically maintained steady long-term growth in revenues and attendance. Since 1965, total box office revenues have grown at a compound annual growth rate of approximately 6% with annual attendance of approximately 1.4 billion attendees in 2005. Against this background of steady long-term growth in revenues and attendance, the exhibition industry has experienced periodic short-term increases and decreases in attendance and, consequently, box office revenues. We expect the cyclical nature of the domestic motion picture exhibition industry to continue for the foreseeable future.

Over the past decade, the domestic motion picture exhibition industry experienced a period of extraordinary new theatre construction. 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. This industry expansion was primarily driven by major exhibitors upgrading their asset bases to an attractive megaplex format, which typically includes 10 or more screens per theatre and features such as stadium seating, improved projection quality and superior sound systems. Generally, a modern megaplex is preferred by patrons over a sloped-floor multiplex theatre, the predominant theatre-type built prior to 1996. We believe theatres larger than the current 10 to 18 screen megaplex are not able to generate attractive returns in most locations because of the substantial market suitability requirements to generate a level of profitability similar to the current megaplex format. We also believe that another evolution of theatre formats beyond the current megaplex is unlikely to occur in the foreseeable future.

More recently, the domestic motion picture exhibition industry has experienced increased competition from other methods of delivering films to consumers, including cable television, in-home video and DVD, satellite and pay-per-view services and downloads via the Internet. Traditionally, when motion picture distributors licensed their films to the domestic exhibition industry, they refrained from licensing their products to other delivery channels for a period of time, commonly called the theatrical release window. Over the past several years, the average period between a film s theatrical release and its in-home video or DVD release has shortened. We believe that the contraction in the average theatrical release window reflects the shorter period of time in which the average motion picture is able to generate meaningful revenue in its theatrical exhibition license period. As a consequence, we believe that the shrinking of the theatrical release window over the past five to six years has not represented a material change in the studio/exhibition distribution model. Fundamentally, we believe that movie-going is a convenient, affordable and attractively priced form of out-of-home entertainment, which, on an average price per patron basis, continues to compare favorably to other out-of-home entertainment alternatives, such as concerts and sporting events.

We believe that a material contraction of the theatrical release window could significantly dilute the consumer appeal of the out-of-home motion picture offering. As a result, we continue to monitor the status of the theatrical release window during our film exhibition decisions. Our discussions with several film studios lead us to believe that these studios continue to realize the value of maintaining meaningful theatrical release windows for both distribution and exhibition companies. Consequently, we believe a further material contraction in the theatrical release window is unlikely, but should such a contraction occur we believe that it could significantly impact our business, financial condition and results of operations.

The domestic motion picture industry is in the early stages of conversion from film-based media to electronic based media, including the distribution of feature films in a digital format rather than a 35 mm format. 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. To that end, we, along with AMC and Cinemark, have entered into a joint venture company known as Digital Cinema Implementation Partners LLC, a Delaware limited liability company (DCIP), to explore the possibility of implementing digital cinema in our theatres and to create a financing model and establish agreements with major motion picture studios for the implementation of digital cinema. Travis Reid, former president and chief executive officer of Loews Theatres, is the chief executive officer of DCIP and DCIP has engaged J.P. Morgan Securities Inc. to assist with the review of a business plan for digital cinema and with identifying and evaluating potential financing and capital structure alternatives. In addition, DCIP has entered into a digital cinema services agreement with National CineMedia for purposes of assisting DCIP in the development of digital cinema systems. Future digital cinema developments will be managed by DCIP, subject to the approval of us, AMC and Cinemark.

THEATRE OPERATIONS

We operate the largest theatre circuit in the United States with 6,403 screens in 539 theatres in 39 states and the District of Columbia as of December 28, 2006. We operate theatres in all of the top 25 and 43 of the top 50 U.S. designated market areas, which include locations in suburban growth areas. We target prime locations with excellent access to large, high patron-traffic areas. We operate our theatre circuit using our Regal Cinemas, United Artists and Edwards brands through our wholly owned subsidiaries.

We 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. We also actively monitor ticket sales in order to quickly recognize demand surges, which enables us to add seating capacity quickly and efficiently. In addition, we believe that operating a theatre circuit consisting primarily of modern theatres enhances our ability to attract patrons.

The following table details the number of locations and theatre screens in our theatre circuit ranked by the number of screens in each state and the District of Columbia as of December 28, 2006:

State	**Locations**	**Number of Screens**
California	99	1,154
Florida	51	712
New York	49	525
Washington	32	325
Virginia	26	292
Pennsylvania	23	287
Ohio	22	281
Oregon	22	217
Texas	21	287
Georgia	15	221
North Carolina	15	165
Massachusetts	12	129
Tennessee	12	156
New Jersey	12	155
Maryland	13	166
South Carolina	12	151
Colorado	12	124
Nevada	9	118
New Mexico	7	58
Mississippi	7	56
Indiana	6	82
Louisiana	6	60
New Hampshire	6	51
Idaho	5	72
Alabama	5	64
Connecticut	5	57
Alaska	5	43
Illinois	4	67
Hawaii	4	47
Maine	4	38
Minnesota	3	43
Missouri	2	36
Delaware	2	33
Michigan	2	22

West Virginia	2	22
Arizona	2	21
Arkansas	2	20
Kentucky	1	16
Wisconsin	1	16
District of Columbia	1	14
Total	**539**	**6,403**

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 Entertainment University, which is held at our corporate office. The program is designed to encompass all phases of theatre operations, including our operating philosophy, policies, procedures and standards. In addition, we have an incentive compensation program for theatre-level management that rewards theatre managers for controlling operating expenses while complying with our operating standards.

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

NATIONAL CINEMEDIA JOINT VENTURE

On March 29, 2005, Regal and AMC announced the combination of the operations of RCM and AMC s subsidiary, NCN, into a joint venture company known as National CineMedia. On July 15, 2005, Cinemark, through a wholly owned subsidiary, joined the National CineMedia joint venture. Since its inception, National CineMedia has primarily concentrated its efforts on in-theatre advertising, business meetings and non-feature film content distribution.

As discussed in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, AMC and Regal, through their subsidiaries, retained all advertising contracts signed on or before the close of business on March 31, 2005, and Cinemark retained all advertising contracts signed on or before the close of business on July 15, 2005, subject to an administrative fee (32% during fiscal 2006 and 35% during fiscal 2005) payable to National CineMedia to service such contracts. Revenues and expenses attributable to these advertising contracts are recorded as a component of other operating revenues and other operating expenses in the Company s financial statements. For contracts signed by National CineMedia after the close of business on March 31, 2005, AMC and Regal, and with respect to advertising contracts signed after the close of business on July 15, 2005, Cinemark, through their respective theatre exhibition subsidiaries, receive revenue from National CineMedia with respect to advertising and event services at their respective theatres through an agreed upon formula as well as equity in income/loss of National CineMedia. Such formula is based on the weighted average number of screens owned by, and the number of theatre patrons of, the applicable exhibitor s theatres for any measurement period.

On February 13, 2007, NCM Inc., a newly formed entity that serves as the sole manager of National CineMedia, completed the initial public offering, or IPO, of its common stock. NCM Inc. sold 38 million shares of its common stock for $21 per share in the IPO, less underwriting discounts and expenses. Because NCM Inc. s Certificate of Incorporation requires that NCM Inc. at all times maintain a one-to-one ratio between the number of common units of National CineMedia owned by NCM Inc. and the number of outstanding shares of common stock of NCM Inc., NCM Inc. used a portion of the net proceeds from the IPO to acquire newly issued common units from National CineMedia. In addition, National CineMedia paid the net proceeds to each of Regal, AMC and Cinemark in exchange for modifying payment obligations for access to their respective theatres, for which Regal received a payment of $281 million. Upon the closing of the IPO, National CineMedia entered into a $725 million term loan facility, the net proceeds of which were used to redeem preferred units issued to each of Regal, AMC and Cinemark on a pro rata basis pursuant to a recapitalization of National CineMedia prior to completion of the IPO. As discussed in Note 14 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, we received $315.1 million as a result of the preferred unit redemption. At the closing of the IPO, the underwriters exercised their over-allotment option to purchase an additional 4 million shares of common stock of NCM Inc. at the initial offering price of $21 per share, less underwriting discounts and commissions. In connection with this over-allotment option exercise, Regal, AMC and Cinemark each sold to NCM Inc. common units of National CineMedia on a pro rata basis at the initial offering price of $21 per share, less underwriting discounts and expenses. Regal sold 1,637,826 common units to NCM Inc. for proceeds of $32.2 million, and upon completion of this sale of common units, Regal held 21,230,712 common units of National CineMedia, or a 22.6% interest. After the payment of current taxes, we estimate net proceeds from these transactions to total approximately $445 million. We are currently exploring alternatives for using these proceeds, and may use some or all of the proceeds for strategic acquisitions or to return value to stockholders through an extraordinary dividend, stock repurchases or other corporate uses.

In connection with the completion of the IPO, Regal amended and restated its existing services agreement with National CineMedia, whereby in exchange for its pro rata share of the IPO proceeds, Regal agreed to a modification of National CineMedia s payment obligation under the existing services agreement. The modification extends the term of the services agreement to 30 years, provides National CineMedia with a five year right of first refusal beginning one year prior to the end of the term and changes the basis upon which Regal is paid by National CineMedia from a percentage of revenues associated with advertising contracts entered into by National CineMedia to a monthly theatre access fee. The theatre access fee is composed of a fixed payment per patron and a fixed payment per digital screen, which will increase by 8% every five years starting at the end of fiscal 2011 for payments per patron and by 5% annually starting at the end of fiscal 2007 for payments per digital screen. Also, with respect to any on-screen advertising time provided to our beverage concessionaire, Regal is required to purchase such time from National CineMedia at a negotiated rate. In addition, after completion of the IPO, Regal expects to receive mandatory quarterly distributions of excess cash from National CineMedia.

FILM DISTRIBUTION

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

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

FILM EXHIBITION

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

Access to Film Product. Films are licensed from film distributors owned by major film production companies and from independent film distributors that 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.

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 allocate films among the exhibitors in the zone. When films are licensed under the allocation process, a distributor will select an exhibitor who then negotiates film rental terms directly with the distributor.

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

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. During fiscal 2006, ten major film distributors accounted for 92% of the Company s admissions revenues. Four of the ten major film distributors each accounted for more than 10% of fiscal 2006 admission revenues. No single film distributor accounted for more than 20% of fiscal 2006 admissions revenues. We license films from each of the major distributors and believe that our relationships with these distributors are excellent. 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 26.8% of our total revenues from concessions sales during fiscal 2006. 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 offering employee training and incentive programs to up-sell and 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 films with favorable licensing terms;
- seating capacity, availability of stadium seating, 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.

We have several hundred competitors nationwide, which vary substantially in size, from small independent exhibitors to large national chains such as AMC and Cinemark. 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 and DVD, cable television, broadcast television and satellite and pay-per-view services. Other technologies such as video on demand could also have an adverse effect on our business and results of operations. Traditionally, when motion picture distributors licensed their products to the domestic exhibition industry, they refrained from licensing their motion pictures to these other distribution channels for a period of time, commonly called the theatrical release window. We believe that the shortening of the theatrical release window over the past five to six years does not represent a material change in the studio/exhibition distribution model. However, we believe that a material contraction of the theatrical release window could significantly dilute the consumer appeal of the out-of-home motion picture offering. As a result, we continue to monitor the status of the theatrical release window during our film exhibition decisions. 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.

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.

We have a frequent moviegoer loyalty program, named the Regal Crown Club, in all of our markets. Regal Crown Club members are eligible for specified awards, such as concession items, based on purchases made at our participating theatres. In addition, we seek to develop patron loyalty through a number of other marketing programs such as free summer children s film series and 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 (IT) for the management of our business, our theatres, and other revenue generating operations. The revenue streams generated by attendance and concession sales are fully supported by information systems to monitor cash flow and to detect fraud and inventory shrinkage. We have recently implemented new software and hardware solutions, which provide for enhanced capabilities and efficiency within our theatre operations. These solutions have enabled us to sell gift cards at most major retailers, grocery stores and mass discounters and to redeem those gift cards at our theatre box offices and concession stands. We continue to expand our ability to sell tickets remotely by using our Internet ticketing partner, fandango.com, and by deploying self-service customer activated terminals (CATs) in appropriate theatres. The CATs can sell tickets for current and future shows and provide the capability to retrieve tickets purchased through our Internet partners. We continue to investigate and invest in IT technologies to improve services to our patrons and provide information to our management, allowing them to operate the theatres efficiently.

Our scheduling systems support the coordination needed to properly allocate our auditoriums between film showings and meetings and events of National CineMedia, while also ensuring that movie audiences view the intended advertising and that revenue is allocated to the appropriate business function. The scheduling systems also provide information electronically and automatically to the newspapers, which allows them to publish correct show starting times with approved advertising graphics. The sales and attendance information developed by the theatre systems is used directly for film booking and settlement as well as being the primary source of data for our financial systems.

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 as studios are releasing motion pictures somewhat more evenly throughout the year.

EMPLOYEES

As of February 19, 2007, we employed approximately 24,049 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 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.

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 in Note 8 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, 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.

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 Business and Management s Discussion and Analysis of Financial Condition and Results of Operations 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 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 below.

Item 1A. 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 substantial lease and debt obligations could impair our financial condition.

We have substantial lease and debt obligations. For fiscal 2006, our total rent expense and net interest expense were approximately $323.2 million and $125.2 million, respectively. As of December 28, 2006, we had total debt obligations of $1,987.9 million. As of December 28, 2006, we had total contractual cash obligations of approximately $6,469.9 million. For a detailed discussion of our contractual cash obligations and other commercial commitments over the next several years, refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Cash Obligations and Commitments provided in Part II, Item 7 of this Form 10-K 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 and liquidity.

Our theatres operate in a competitive environment.

The motion picture exhibition industry is fragmented and highly competitive with no significant barriers to entry. Theatres operated by national and regional circuits and by small independent exhibitors compete with our theatres, particularly with respect to film licensing, attracting patrons and developing new theatre sites. Moviegoers are generally not brand conscious and usually choose a theatre based on its location, the films showing there and its amenities.

Over the past decade, motion picture exhibitors have been upgrading their asset bases to an attractive megaplex format which features stadium seating, improved projection quality and superior sound systems. Generally, stadium seating found in modern megaplex theatres is preferred by patrons over slope-floored multiplex theatres, which were the predominant theatre-type built prior to 1996. Although, as of December 28, 2006, approximately 73% of our screens were located in theatres featuring stadium seating, we still serve many markets with sloped-floored multiplex theatres. These theatres may be more vulnerable to competition than our modern megaplex theatres, and should other theatre operators choose to build and operate modern megaplex theatres in these markets, the performance of our theatres in these markets may be significantly and negatively impacted. In addition, should other theatre operators return to the aggressive building strategies undertaken in the late 1990 s, our attendance, revenue and income from operations per screen could decline substantially.

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, in-home video and DVD, satellite and pay-per-view services. Traditionally, when motion picture distributors licensed their products to the domestic exhibition industry, they refrained from licensing their motion pictures to these other delivery vehicles for a period of time, commonly called the theatrical release window. We believe that a material contraction of the current theatrical release window could significantly dilute the consumers appeal of the in-theatre motion picture offering, which 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.

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 depend on our relationships with film distributors.

The film distribution business is highly concentrated, with ten major film distributors accounting for 92% of our admissions revenues during fiscal 2006. 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 ten 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.

No assurance of a supply of motion pictures.

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.

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 the market price of our securities could be adversely affected.

In any acquisition, we expect to benefit from cost savings through, for example, the reduction of overhead and theatre level costs, 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.

Development of digital technology may 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, if at all. Furthermore, it is impossible to accurately predict how the roles and allocation of costs (including operating costs) between various industry participants will change if the industry changes from physical media to electronic media.

We depend on our senior management.

Our success depends upon the retention of our senior management, including Michael Campbell, our Chairman and Chief Executive Officer. 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.

The interests of our controlling stockholder may conflict with your interests.

Anschutz Company owns substantially 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, as of December 28, 2006, Anschutz Company controlled approximately 79% of the voting power of all of our outstanding common stock. For as long as Anschutz Company continues to own shares of common stock representing more than 50% of the voting power of our common stock, it 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 Company will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Anschutz Company but not to other stockholders. In addition, Anschutz Company and its affiliates have controlling interests in companies in related and unrelated industries, including interests in the sports, motion picture production and music entertainment industries. In the future, it may combine our company with one or more of its other holdings.

A prolonged economic downturn could materially affect our business by reducing consumer spending on movie attendance.

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.

Substantial sales of our Class A common stock 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 our Class A common stock or the availability of shares of our Class A common stock for sale will have on the market price of our Class A 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 February 21, 2007, we had outstanding 23,908,639 shares of Class B common stock that may convert into Class A common stock on a one-for-one basis, all of which shares of common stock constitute restricted securities under the Securities Act. Provided the holders comply with the applicable volume limits and other conditions prescribed in Rule 144 under the Securities Act, all of these restricted securities are currently freely tradable.

Additionally, as of February 21, 2007, approximately 2,706,834 shares of our Class A common stock are issuable upon exercise of stock options that vest and are exercisable at various dates through June 23, 2014, with exercise prices ranging from $2.6901 to $17.83. Of such options, as of February 21, 2007, 2,414,595 were exercisable. Finally, as of February 21, 2007 our officers, directors and key employees hold, or in the case of performance shares are eligible to receive, approximately 1,056,598 restricted shares of our Class A common stock, for which the restrictions lapse or the performance criteria and vesting may be satisfied, at various dates through January 10, 2011. All shares underlying outstanding options and all shares of restricted stock are registered and will be freely tradable when the option is exercised, in the case of restricted stock when the restrictions lapse, or, in the case of performance shares when the performance criteria and vesting are satisfied, 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.

Anschutz Company is able to sell their shares pursuant to the registration rights that we have granted. 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 Company or our directors or executive officers of their shares of our common stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws, as amended, 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 amended and restated certificate of incorporation and amended and restated bylaws, as amended, 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 investment in and revenues from National CineMedia may be negatively impacted by the competitive environment in which National CineMedia operates.

We own approximately 23% of National CineMedia. In addition, we receive theatre access fees and mandatory distributions of excess cash from National CineMedia. National CineMedia s in-theatre advertising operations compete with other cinema advertising companies and other advertising mediums including, most notably, television, newspaper, radio and the Internet. There can be no guarantee that in-theatre advertising will continue to attract major advertisers or that National CineMedia s in-theatre advertising format will be able to generate expected sales of advertising. Should National CineMedia fail to maintain the level of profitability it hopes to achieve, its results of operations may be adversely affected and our investment in and revenues from National CineMedia may be adversely impacted.

We are a holding company dependent on our subsidiaries for our ability to service our debt and pay our dividends.

We are a holding company with no operations of our own. Consequently, our ability to service our and our subsidiaries debt and pay dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any distribution of earnings to us from our subsidiaries, 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 right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of the 3¾% Convertible Senior Notes due May 15, 2008 (the Convertible Senior Notes) and our common stock to participate in those assets, will be structurally subordinated to the claims of that subsidiary s creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

Hedging transactions and other transactions.

We have entered into convertible note hedge and warrant transactions with respect to our common stock, the exposure for which was held by Credit Suisse First Boston International LLC at the time the Convertible Senior Notes were issued. The convertible note hedge and warrant transactions are expected to reduce the potential dilution from conversion of the Convertible Senior Notes. In connection with these hedging arrangements, Credit Suisse First Boston International LLC has taken positions in our Class A common stock in secondary market transactions and/or entered into various derivative transactions after the pricing of the Convertible Senior Notes. Such hedging arrangements could increase the price of our Class A common stock. Credit Suisse First Boston International LLC is likely to modify its hedge positions from time to time prior to conversion, redemption or maturity of the Convertible Senior Notes by purchasing and selling shares of our Class A common stock, other securities of Regal or other instruments we may wish to use in connection with such hedging. We cannot assure you that such activity will not affect the market price of our Class A common stock. For further description of the convertible note hedge and warrant transactions, see Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Item 1B. UNRESOLVED STAFF COMMENTS

As of December 28, 2006, there are no unresolved comments from the Securities and Exchange Commission staff regarding any of our periodic or current reports filed under the Exchange Act.

Item 2. PROPERTIES

As of December 28, 2006, we operated 466 of our theatres pursuant to lease agreements and owned the land and buildings for 73 theatres. For a December 28, 2006 list of the states in which we operated theatres and the number of theatres and screens operated in each such state, please see the chart under Part I, Item 1 of this Form 10-K under the caption Business Theatre Operations , which is incorporated herein by reference.

The majority of our leased theatres are subject to lease agreements with original terms of 20 years or more and, in most cases, renewal options for up to an additional 10 years. These leases provide for minimum annual rentals and the renewal options generally provide for rent increases. Some leases require, under specified conditions, further rental payments based on a percentage of revenues above specified amounts. A significant majority of the leases are net leases, which require us to pay the cost of insurance, taxes and a portion of the lessor s operating costs. Our corporate office is located in Knoxville, Tennessee. We believe that these facilities are adequate for our operations.

Item 3. LEGAL PROCEEDINGS

Pursuant to General Instruction G(2) to Form 10-K and Rule 12b-23 under the Securities Exchange Act of 1934, as amended, the information required to be furnished by us under this Part I, Item 3 (Legal Proceedings) is incorporated by reference to the information contained in Note 8 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter ended December 28, 2006.

EXECUTIVE OFFICERS OF THE REGISTRANT

Shown below are the names, ages as of December 28, 2006, and current positions of our executive officers. There are no family relationships between any of the persons listed below, or between any of such persons and any of the directors of the Company or any persons nominated or chosen by the Company to become a director or executive officer of the Company.

Name	Age	Position
Michael L. Campbell	53	Chairman of the Board of Directors and Chief Executive Officer
Gregory W. Dunn	47	President and Chief Operating Officer
Amy E. Miles	40	Executive Vice President, Chief Financial Officer and Treasurer
Peter B. Brandow	46	Executive Vice President, General Counsel and Secretary

Michael L. Campbell is our Chairman and Chief Executive Officer. Mr. Campbell has served as a director since March 2002 and is a member of our Executive Committee. Mr. Campbell served as our Co-Chairman of the Board and Co-Chief Executive Officer since March 2002. Mr. Campbell became our Chief Executive Officer and Chairman of the Board in May 2005. Mr. Campbell founded Regal Cinemas, Inc. in November 1989, and has served as Chief Executive Officer of Regal Cinemas, Inc. since its inception. Prior thereto, Mr. Campbell was the Chief Executive Officer of Premiere Cinemas Corporation, which he co-founded in 1982, and served in such capacity until Premiere was sold in October 1989. Mr. Campbell is a director of NCM Inc., National CineMedia, Fandango, Inc. and the National Association of Theatre Owners (NATO) and serves on its executive committee of the board of directors.

Gregory W. Dunn is our President and Chief Operating Officer. Mr. Dunn has served as an Executive Vice President and Chief Operating Officer of Regal since March 2002 and became President of Regal in May 2005. Mr. Dunn served as Executive Vice President and Chief Operating Officer of Regal Cinemas, Inc. from 1995 to March 2002. Prior thereto, Mr. Dunn served as Vice President of Marketing and Concessions of Regal Cinemas, Inc. from 1991 to 1995.

Amy E. Miles is our Executive Vice President, Chief Financial Officer and Treasurer and has served as such since March 2002. Ms. Miles has served as the Executive Vice President, Chief Financial Officer and Treasurer of Regal Cinemas, Inc. since January 2000. Prior thereto, Ms. Miles served as Senior Vice President of Finance from April 1999, when she joined Regal Cinemas, Inc. Ms. Miles was a Senior Manager with Deloitte & Touche from 1998 to 1999. From 1989 to 1998, she was with PricewaterhouseCoopers, LLC.

Peter B. Brandow is our Executive Vice President, General Counsel and Secretary and has served as such since March 2002. Mr. Brandow has served as the Executive Vice President, General Counsel and Secretary of Regal Cinemas, Inc. since July 2001, and prior to that time he served as Senior Vice President, General Counsel and Secretary of Regal Cinemas, Inc. since February 2000. Prior thereto, Mr. Brandow served as Vice President, General Counsel and Secretary from February 1999 when he joined Regal Cinemas, Inc. From September 1989 to January 1999, Mr. Brandow was an associate with the law firm Simpson Thatcher & Bartlett.

PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common equity consists of Class A and Class B common stock. Our Class A common stock has traded on the New York Stock Exchange since May 9, 2002 under the symbol RGC. There is no established public trading market for our Class B common stock.

The following table sets forth the historical high and low sales prices per share of our Class A common stock as reported by the New York Stock Exchange for the fiscal periods indicated.

	Fiscal 2006	
	High	**Low**
First Quarter (December 30, 2005 March 30, 2006)	$ 19.45	$ 17.90
Second Quarter (March 31, 2006 June 29, 2006)	21.29	18.50
Third Quarter (June 30, 2006 September 28, 2006)	20.97	18.63
Fourth Quarter (September 29, 2006 December 28, 2006)	21.85	19.39

	Fiscal 2005	
	High	**Low**
First Quarter (December 31, 2004 March 31, 2005)	$ 21.03	$ 18.96
Second Quarter (April 1, 2005 June 30, 2005)	21.50	18.24
Third Quarter (July 1, 2005 September 29, 2005)	20.39	17.95
Fourth Quarter (September 30, 2005 December 29, 2005)	20.43	18.11

On February 21, 2007, there were 269 stockholders of record of our Class A common stock and two stockholders of record of our Class B common stock.

Dividend Policy

During fiscal 2006, we paid to our stockholders four quarterly cash dividends of $0.30 per share, on each outstanding share of our Class A and Class B common stock, or approximately $179.6 million in the aggregate. During fiscal 2005, we paid to our stockholders four quarterly cash dividends of $0.30 per share, on each outstanding share of our Class A and Class B common stock, or approximately $175.9 million in the aggregate. On February 8, 2007, we declared a cash dividend of $0.30 per share on each outstanding share of Class A and Class B common stock. The dividend is payable on March 19, 2007 to our stockholders of record on March 9, 2007. 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. For a description of the loan agreement restrictions on the payment of dividends, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources included in Part II, Item 7 of this Form 10-K and Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

During fiscal 2004, the Company s board of directors authorized a share repurchase program, which provided for the authorization to repurchase up to $50.0 million of the Company s outstanding Class A common stock within a twelve month period. During the second fiscal quarter of 2005, the Company repurchased 520,386 shares of its outstanding Class A common stock at an aggregate cost of approximately $10.0 million. The Company s board of directors extended the share repurchase program during fiscal 2005 and fiscal 2006 for additional twelve month periods. Accordingly, the Company can repurchase up to an additional $40.0 million under the share repurchase program through September 2007. The Company made no repurchases of its outstanding Class A common stock during fiscal 2004 or fiscal 2006. Repurchases can be made from time to time as market conditions warrant, through open market purchases, negotiated transactions, or in such a manner deemed appropriate by the Company. Treasury shares are retired upon repurchase.

Item 6. SELECTED FINANCIAL DATA

Regal was created through a series of transactions during 2001 and 2002. The Anschutz Corporation and its subsidiaries (Anschutz) acquired controlling equity interests in United Artists, Edwards and Regal Cinemas, Inc. upon United Artists emergence from bankruptcy reorganization on March 2, 2001, Edwards emergence from bankruptcy reorganization on September 29, 2001 and Regal Cinemas, Inc. s emergence from bankruptcy reorganization on January 29, 2002. Regal s consolidated financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas, Inc. These controlling equity interests have been recorded in Regal s consolidated financial statements at Anschutz s combined historical cost basis.

We present below selected historical consolidated financial data for Regal based on historical data, (i) for the fiscal year ended December 26, 2002, considering the results of operations of United Artists (from January 4, 2002), Edwards (from December 28, 2001), and Regal Cinemas (from January 24, 2002, the date upon which Anschutz is deemed to have acquired its controlling equity interest in Regal Cinemas, Inc.), (ii) for the fiscal year ended January 1, 2004, considering the results of operations of United Artists, Regal Cinemas, and Edwards from December 27, 2002 and Hoyts from March 28, 2003, (iii) for the fiscal year ended December 30, 2004, considering the results of operations of United Artists, Regal Cinemas, Edwards and Hoyts from January 2, 2004, the results of operations of seven theatres acquired during the quarter ended July 1, 2004 and the 28 theatres acquired from Signature Theatres on September 30, 2004 (the fiscal 2004 acquisitions) for periods subsequent to the respective acquisition dates, (iv) for the fiscal year ended December 29, 2005, considering the results of operations of United Artists, Regal Cinemas, Edwards, Hoyts and the fiscal 2004 acquisitions from December 31, 2004, the results of operations of seven theatres acquired from R/C Theatres on April 28, 2005 and 21 theatres acquired from Eastern Federal Corporation on July 21, 2005 (the fiscal 2005 acquisitions) for periods subsequent to the respective acquisition dates, and (v) the fiscal year ended December 28, 2006, considering the results of United Artists, Regal Cinemas, Edwards, Hoyts, the fiscal 2004 acquisitions and the fiscal 2005 acquisitions from December 30, 2005 and the results of operations of four theatres acquired from AMC on September 15, 2006 for the period subsequent to the acquisition date. The fiscal year ended January 1, 2004 consisted of 53 weeks of operations. The selected historical consolidated financial data as of and for the fiscal years ended December 28, 2006, December 29, 2005, December 30, 2004, January 1, 2004 and December 26, 2002 were derived from the audited consolidated financial statements of Regal and the notes thereto. The selected historical financial data do not necessarily indicate the operating results or financial position that would have resulted from our operation on a combined basis during the periods presented, nor is the historical data necessarily indicative of any future operating results or financial position of Regal. In addition to the below selected financial data, you should also refer to the more complete financial information included elsewhere in this Form 10-K.

	Fiscal year Ended December 28, 2006 (in millions, except per share data)		Fiscal year Ended December 29, 2005		Fiscal year Ended December 30, 2004		Fiscal year Ended January 1, 2004(1)		Fiscal Year Ended December 26, 2002
Statement of Operations Data:									
Total revenues	$ 2,598.1		$ 2,516.7		$ 2,468.0		$ 2,489.9		$ 2,140.2
Income from operations	308.5		269.6		321.1		379.1		283.6
Net income	86.3		91.8		82.5		185.4		117.2
Earnings per diluted share	0.56		0.59		0.55		1.30		0.79
Dividends per common share	$ 1.20		$ 1.20		$ 5.86	(2)	$ 5.65	(3)	$ 0.15

	As of or for the fiscal year ended December 28 2006 (in millions, except operating data)	As of or for the fiscal year ended December 29, 2005	As of or for the fiscal year ended December 30, 2004	As of or for the fiscal year ended January 1, 2004(1)	As of or for the fiscal year ended December 26, 2002
Other financial data:					
Net cash provided by operating activities	$ 304.4	$ 386.4	$ 387.4	$ 476.1	$ 373.2
Net cash used in investing activities	(151.7)	(243.0)	(306.2)	(181.9)	(115.0)
Net cash used in financing activities(2),(3)	(186.8)	(191.0)	(126.1)	(281.4)	(50.2)
Balance sheet data at period end:					
Cash and cash equivalents	$ 162.2	$ 196.3	$ 243.9	$ 288.8	$ 276.0
Total assets	2,468.8	2,532.8	2,542.4	2,449.8	2,310.2
Total debt obligations	1,987.9	1,984.5	2,005.8	1,227.2	678.4
Stockholders equity (deficit)	(22.2)	29.9	69.0	794.9	1,270.8
Operating data:					
Theatre locations	539	555	558	550	524
Screens	6,403	6,463	6,273	6,045	5,663
Average screens per location	11.9	11.6	11.2	11.0	10.8
Attendance (in millions)	247.4	244.3	253.8	265.6	241.4
Average ticket price	$ 6.98	$ 6.80	$ 6.53	$ 6.36	$ 6.02
Average concessions per patron	$ 2.82	$ 2.70	$ 2.51	$ 2.43	$ 2.44

(1) Fiscal year ended January 1, 2004 was comprised of 53 weeks.

(2) Includes the July 1, 2003 payment of the $5.05 extraordinary cash dividend paid on each share of Class A and Class B common stock.

(3) Includes the June 2, 2004 payment of the $5.00 extraordinary cash dividend paid on each share of Class A and Class B common stock.

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

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Regal Entertainment Group for the fiscal years ended December 28, 2006, December 29, 2005 and December 30, 2004. The following discussion and analysis should be read in

conjunction with the consolidated financial statements of Regal and the notes thereto included elsewhere in this Form 10-K.

Overview and Basis of Presentation

We conduct our operations primarily through our wholly owned subsidiaries. We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 6,403 screens in 539 theatres in 39 states and the District of Columbia as of December 28, 2006. We believe the size, reach and quality of our theatre circuit provide an exceptional platform to realize economies of scale from our theatre operations. The Company manages its business under one reportable segment: theatre exhibition operations.

We also maintain an investment in National CineMedia, which has primarily concentrated its efforts on in-theatre advertising, business meetings and non-feature film content distribution.

We generate revenues primarily from admissions and concession sales. Additional revenues are generated by our vendor marketing programs and electronic video games located adjacent to the lobbies of certain of our theatres. In addition, National CineMedia provides us with revenues from its sale of on-screen advertising, rental of theatres for business meetings and concerts and other events. Film rental costs depend on a variety of factors including the prospects of a film and the popularity of a film and such film rental costs generally increase as the admissions revenues generated by a film increase. Because we purchase certain concession items, such as fountain drinks and popcorn, in bulk and not pre-packaged for individual servings, we are able to improve our margins by negotiating volume discounts. Other operating expenses consist primarily of theatre labor and occupancy costs.

Regal was created through a series of transactions during 2001 and 2002. Anschutz acquired controlling equity interests in United Artists (our predecessor for accounting purposes) upon the emergence from bankruptcy reorganization on March 2, 2001 of the United Artists Bankrupt Entities (as defined in Note 1 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K). In the same manner, on September 29, 2001, Anschutz acquired controlling equity interests in the Edwards Bankrupt Entities (as defined in Note 1 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K). On January 29, 2002, Anschutz acquired a controlling equity interest in Regal Cinemas, Inc. (RCI) when the Regal Cinemas, Inc. Bankrupt Entities (as defined in Note 1 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K) emerged from bankruptcy reorganization. Anschutz exchanged its controlling equity interest in RCI for a controlling equity interest in Regal Cinemas immediately thereafter. Regal acquired the controlling equity interests of United Artists, Edwards, Regal Cinemas and Regal CineMedia through a series of transactions described in further detail in Note 1 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

The Company s consolidated financial statements reflect the results of operations from the dates Anschutz acquired its controlling equity interests in United Artists, Edwards and Regal Cinemas and includes subsequent acquisitions (see Note 3 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K) which have been included in the Company s consolidated financial statements for periods subsequent to the respective acquisition dates.

On March 29, 2005, Regal and AMC announced the combination of the operations of RCM and AMC s subsidiary, NCN, into a new joint venture company, National CineMedia. On July 15, 2005, Cinemark, through a wholly owned subsidiary, acquired a 20.7% interest in National CineMedia. As a result, as of December 28, 2006, Regal CineMedia Holdings, LLC (RCH), a wholly owned subsidiary of RCM, owned 45.4% of the Class A Units of National CineMedia, AMC, as successor in interest to NCN, owned 26.3% of the Class A Units of National CineMedia and Cinemark owned 28.3% of the Class A Units of National CineMedia. Pursuant to the joint venture transaction, AMC and Regal, through their subsidiaries, retained all advertising contracts signed on or before the close of business on March 31, 2005, and Cinemark retained all advertising contracts signed on or before the close of business on July 15, 2005, subject to an administrative fee payable to National CineMedia to service such contracts. For contracts signed by National CineMedia after the close of business on March 31, 2005, AMC and Regal, and with respect to advertising contracts signed after the close of business on July 15, 2005, Cinemark, through their respective theatre exhibition subsidiaries, receive revenue from National CineMedia with respect to advertising and event services at the theatres of National CineMedia partners and other third party exhibition companies, through an agreed upon formula based generally on screen count and attendance.

On February 13, 2007, NCM Inc., a newly formed entity that serves as the sole manager of National CineMedia, completed the initial public offering, or IPO, of its common stock. NCM Inc. sold 38 million shares of its common stock for $21 per share in the IPO, less underwriting discounts and expenses. Because NCM Inc. s Certificate of Incorporation requires that NCM Inc. at all times maintain a one-to-one ratio between the number of common units of National CineMedia owned by NCM Inc. and the number of outstanding shares of common stock of NCM Inc., NCM Inc. used a portion of the net proceeds from the IPO to acquire newly issued common units from National CineMedia. In addition, National CineMedia paid the net proceeds to each of Regal, AMC and Cinemark in exchange for modifying payment obligations for access to their respective theatres, for which Regal received a payment of $281 million. Upon the closing of the IPO, National CineMedia entered into a $725 million term loan facility, the net proceeds of which were used to redeem preferred units issued to each of Regal, AMC and Cinemark on a pro rata basis pursuant to a recapitalization of National CineMedia prior to completion of the IPO. As discussed in Note 14 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, we received $315.1 million as a result of the preferred unit redemption. At the closing of the IPO, the underwriters exercised their over-allotment option to purchase an additional 4 million shares of common stock of NCM Inc. at the initial offering price of $21 per share, less underwriting discounts and commissions. In connection with this over-allotment option exercise, Regal, AMC and Cinemark each sold to NCM Inc. common units of National CineMedia on a pro rata basis at the initial offering price of $21 per share, less underwriting discounts and expenses. Regal sold 1,637,826 common units to NCM Inc. for proceeds of $32.2 million, and upon completion of this sale of common units, Regal held 21,230,712 common units of National CineMedia, or a 22.6% interest. After the payment of current taxes, we estimate net proceeds from these transactions to total approximately $445 million. We are currently exploring alternatives for using these proceeds, and may use some or all of the proceeds for strategic acquisitions or to return value to stockholders through an extraordinary dividend, stock repurchases or other corporate uses. See Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K for further discussion of this joint venture arrangement.

For a summary of other industry trends as well as other risks and uncertainties relevant to the Company, see Business Industry Overview and Trends and Risk Factors.

Results of Operations

The 2006 fiscal year was a solid year for the industry and the Company. Based on our review of industry sources, national box office revenues were estimated to have increased by approximately 4.0% during fiscal year 2006 in comparison to fiscal year 2005. The industry achieved these results with strong attendance from the breadth of the fiscal 2006 film slate, coupled with ticket price increases.

Our total revenue for the year ended December 28, 2006 (Fiscal 2006 Period) was $2,598.1 million, consisting of $1,727.1 million of admissions revenues, $696.7 million from concessions revenues and $174.3 million of other operating revenues, and represented a 3.2% increase over total revenues of $2,516.7 million for the year ended December 29, 2005 (Fiscal 2005 Period).

Our Fiscal 2006 Period admissions revenues were favorably impacted by a 1.3% increase in attendance, coupled with a 2.6% increase in average ticket prices. The increase in the Fiscal 2006 Period attendance was primarily attributable to a strong box office led by the overall breadth of the Fiscal 2006 Period film slate. Our Fiscal 2006 Period attendance also benefited by approximately 109 new screens added since the end of the Fiscal 2005 Period and the 58 screens acquired from AMC during the Fiscal 2006 Period, partially offset by the closure of approximately 227 underperforming screens subsequent to the end of the Fiscal 2005 period. In addition, the Fiscal 2006 Period attendance was favorably impacted by a full twelve months of results of operations from the 306 screens acquired from R/C Theatres and Eastern Federal Corporation during the Fiscal 2005 Period. The increase in the Fiscal 2006 Period average ticket price was primarily attributable to periodic pricing reviews conducted by the Company, which includes analysis of various factors, including general inflationary trends and local market conditions. Based on our review of certain industry sources, the increase in our admissions revenues was in line with the industry s results for the Fiscal 2006 Period as compared to the Fiscal 2005 Period.

In addition, during the Fiscal 2006 Period, we experienced growth in average concession revenues per patron and a slight decline in other operating revenues. The growth in average concession revenues per patron was primarily attributable to the success of certain family-oriented and concession-friendly films such as *Pirates of the Caribbean: Dead Man s Chest, X-Men 3 and Cars* exhibited during the Fiscal 2006 Period and periodic pricing reviews. The decrease in other operating revenues in the Fiscal 2006 Period was primarily attributable to the revenues generated from National CineMedia being less than generated in the Fiscal 2005 Period due to the payment arrangement described in further detail under Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K. Such decreases were partially offset by increased revenues related to our vendor marketing programs and incremental other theatre revenues.

Income from operations increased 14.4% to $308.5 million for the Fiscal 2006 Period compared to $269.6 million in the Fiscal 2005 Period. The net increase in income from operations during the Fiscal 2006 Period was primarily attributable to incremental admissions and concessions revenues described above, partially offset by lower other operating revenues and increases in certain operating expense items described in further detail below. Net income decreased to $86.3 million in the Fiscal 2006 Period compared to net income of $91.8 million in the Fiscal 2005 Period. Earnings per diluted share also decreased to $0.56 for the Fiscal 2006 Period compared to $0.59 during the Fiscal 2005 Period. EBITDA (earnings before interest, taxes, depreciation and amortization) was $466.3 million for the Fiscal 2006 Period, a decrease of 0.6% from $469.1 million in the Fiscal 2005 Period and represented an EBITDA margin of 17.9%. The decrease in net income, earnings per diluted share and EBITDA are primarily due to the loss on debt extinguishment recorded in the Fiscal 2006 Period in connection with conversions of a portion of the Company s Convertible Senior Notes (see Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K for further discussion) coupled with decreases in other operating revenues and increases in certain expense items described in further detail below, partially offset by incremental admissions and concessions revenues due to the growth in attendance and increases in average ticket prices and average concessions per patron.

A tabular reconciliation of net income to EBITDA and net cash provided by operating activities is provided below under Results of Operations EBITDA.

During the Fiscal 2006 Period, we continued to make progress with respect to the following strategic initiatives:

- We demonstrated our commitment to providing incremental value to our stockholders. Total cash dividends distributed to our stockholders during the Fiscal 2006 Period totaled approximately $179.6 million.

- During September 2006, the Company acquired four theatres with a total of 58 screens from AMC. Regal purchased two of these AMC theatres representing 26 screens for approximately $34.1 million in cash, subject to post closing adjustments, and acquired the other two AMC theatres representing 32 screens in exchange for two Regal theatres consisting of 32 screens.

- In addition to the theatres acquired from AMC, we opened 8 new theatres with 109 screens and closed 28 theatres with 227 screens (including the two theatres exchanged with AMC), ending the Fiscal 2006 Period with 539 theaters and 6,403 screens.

- On February 13, 2007, NCM Inc., a newly formed entity that serves as the sole manager of National CineMedia, completed the initial public offering, or IPO, of its common stock. NCM Inc. sold 38 million shares of its common stock for $21 per share in the IPO, less underwriting discounts and expenses. Because NCM Inc. s Certificate of Incorporation requires that NCM Inc. at all times maintain a one-to-one ratio between the number of common units of National CineMedia owned by NCM Inc. and the number of outstanding shares of common stock of NCM Inc., NCM Inc. used a portion of the net proceeds from the IPO to acquire newly issued common units from National CineMedia. In addition, National CineMedia paid the net proceeds to each of Regal, AMC and Cinemark in exchange for modifying payment obligations for access to their respective theatres, for which Regal received a payment of $281 million. Upon the closing of the IPO, National CineMedia entered into a $725 million term loan facility, the net proceeds of which were used to redeem preferred units issued to each of Regal, AMC and Cinemark on a pro rata basis pursuant to a recapitalization of National CineMedia prior to completion of the IPO. As discussed in Note 14 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, we received $315.1 million as a result of the preferred unit redemption. At the closing of the IPO, the underwriters exercised their over-allotment option to purchase an additional 4 million shares of common stock of NCM Inc. at the initial offering price of $21 per share, less underwriting discounts and commissions. In connection with this over-allotment option exercise, Regal, AMC and Cinemark each sold to NCM Inc. common units of National CineMedia on a pro rata basis at the initial offering price of $21 per share, less underwriting discounts and expenses. Regal sold 1,637,826 common units to NCM Inc. for proceeds of $32.2 million, and upon completion of this sale of common units, Regal held 21,230,712 common units of National CineMedia, or a 22.6% interest. After the payment of current taxes, we estimate net proceeds from these transactions to total approximately $445 million. We are currently exploring alternatives for using these proceeds, and may use some or all of the proceeds for strategic acquisitions or to return value to stockholders through an extraordinary dividend, stock repurchases or other corporate uses. See Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K for further discussion of this joint venture arrangement.

We are optimistic regarding the 2007 film slate and share the view of a number of film studio executives and analysts who believe the industry is poised to benefit from a year of solid box office performance. Evidenced by the film studios continued efforts to promote and market upcoming film releases, 2007 appears to be another year of high-profile releases such as *Spider-Man 3, Shrek the Third, Pirates of the Caribbean: At World s End, Ocean s Thirteen, Ratatouille, Harry Potter and the Order of the Phoenix, The Bourne Ultimatum and Rush Hour 3.*

We intend to grow our theatre circuit through selective expansion and through accretive acquisitions. With respect to capital expenditures, due in part to the timing of certain construction projects, we expect capital expenditures to be in the range of $120 million to $140 million for fiscal 2007, consisting of new theatre development, expansion of existing theatre facilities, upgrades and replacements.

Overall for the fiscal 2007 year, we are forecasting a modest increase in attendance as a result of the upcoming high-profile film releases described above and modest increases in ticket prices and average concessions per patron. In addition, we expect fiscal 2007 admission and concessions revenues to be supported by our continued focus on efficient theatre operations. We will continue to maintain a business strategy focused on the evaluation of accretive acquisition opportunities, selective upgrades and providing incremental returns to our stockholders. For an understanding of the significant factors that influenced our performance during the past three fiscal years, the preceding and following discussion should be read in conjunction with the consolidated financial statements and the notes thereto presented in this Form 10-K.

The following table sets forth the percentage of total revenues represented by certain items included in our consolidated statements of income for the Fiscal 2006 Period, the Fiscal 2005 Period and the year ended December 30, 2004 (Fiscal 2004 Period) (dollars and attendance in millions, except average ticket prices and average concession per patron):

	Fiscal 2006 Period		**Fiscal 2005 Period**		**Fiscal 2004 Period**	
	$	**% of Revenue**	**$**	**% of Revenue**	**$**	**% of Revenue**
Revenues:						
Admissions	$ 1,727.1	66.5 %	$ 1,662.2	66.0 %	$ 1,657.9	67.2 %
Concessions	696.7	26.8	659.8	26.2	636.4	25.8
Other operating revenue	174.3	6.7	194.7	7.8	173.7	7.0
Total revenue	2.598.1	100.0	2,516.7	100.0	2,468.0	