REGAL ENTERTAINMENT GROUP
Form 10-Q
November 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 25, 2014

Commission file number: 001-31315

Regal Entertainment Group (Exact name of Registrant as Specified in Its Charter)	
Delaware (State or Other Jurisdiction of Incorporation or Organization)	02-0556934 (I.R.S. Employer Identification No.)
7132 Regal Lane Knoxville, TN (Address of Principal Executive Offices)	37918 (Zip Code)

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

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

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

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

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

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

Class A Common Stock—132,465,104 shares outstanding at October 31, 2014

Class B Common Stock—23,708,639 shares outstanding at October 31, 2014

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PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
REGAL ENTERTAINMENT GROUP
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	September 25, 2014	December 26, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$244.0	$280.9
Trade and other receivables	37.9	122.8
Income tax receivable	20.4	6.6
Inventories	16.6	19.0
Prepaid expenses and other current assets	27.1	19.3
Deferred income tax asset	17.2	16.5
TOTAL CURRENT ASSETS	363.2	465.1
PROPERTY AND EQUIPMENT:		
Land	138.7	139.0
Buildings and leasehold improvements	2,089.7	2,074.1
Equipment	984.1	948.5
Construction in progress	17.2	6.7
Total property and equipment	3,229.7	3,168.3
Accumulated depreciation and amortization	(1,793.4)	(1,658.7)
TOTAL PROPERTY AND EQUIPMENT, NET	1,436.3	1,509.6
GOODWILL	320.4	320.4
INTANGIBLE ASSETS, NET	54.8	57.7
DEFERRED INCOME TAX ASSET	39.3	32.6
OTHER NON-CURRENT ASSETS	339.5	319.3
TOTAL ASSETS	$2,553.5	$2,704.7
LIABILITIES AND DEFICIT		
CURRENT LIABILITIES:		
Current portion of debt obligations	$29.4	$29.8
Accounts payable	108.2	170.2
Accrued expenses	64.2	86.6
Deferred revenue	142.3	181.8
Interest payable	12.6	38.0
TOTAL CURRENT LIABILITIES	356.7	506.4
LONG-TERM DEBT, LESS CURRENT PORTION	2,242.7	2,187.7
LEASE FINANCING ARRANGEMENTS, LESS CURRENT PORTION	72.2	80.2
CAPITAL LEASE OBLIGATIONS, LESS CURRENT PORTION	11.5	13.0
NON-CURRENT DEFERRED REVENUE	421.7	424.8
OTHER NON-CURRENT LIABILITIES	203.8	207.9
TOTAL LIABILITIES	3,308.6	3,420.0
COMMITMENTS AND CONTINGENCIES		
DEFICIT:		
Class A common stock, $0.001 par value; 500,000,000 shares authorized, 132,465,104 and 132,120,854 shares issued and outstanding at September 25, 2014 and December 26, 2013, respectively	0.1	0.1
	—	—

Class B common stock, $0.001 par value; 200,000,000 shares authorized, 23,708,639 shares issued and outstanding at September 25, 2014 and December 26, 2013		
Preferred stock, $0.001 par value; 50,000,000 shares authorized; none issued and outstanding	—	—
Additional paid-in capital (deficit)	(783.8)	(782.9)
Retained earnings	32.1	71.8
Accumulated other comprehensive loss, net	(1.1)	(2.4)
TOTAL STOCKHOLDERS' DEFICIT OF REGAL ENTERTAINMENT GROUP	(752.7)	(713.4)
Noncontrolling interest	(2.4)	(1.9)
TOTAL DEFICIT	(755.1)	(715.3)
TOTAL LIABILITIES AND DEFICIT	$2,553.5	$2,704.7

See accompanying notes to unaudited condensed consolidated financial statements.

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REGAL ENTERTAINMENT GROUP
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in millions, except share and per share data)

	Quarter Ended September 25, 2014	Quarter Ended September 26, 2013	Three Quarters Ended September 25, 2014	Three Quarters Ended September 26, 2013
REVENUES:				
Admissions	$461.1	$548.4	$1,467.7	$1,556.0
Concessions	194.5	224.1	607.5	623.6
Other operating revenues	38.2	40.6	115.8	118.6
TOTAL REVENUES	693.8	813.1	2,191.0	2,298.2
OPERATING EXPENSES:				
Film rental and advertising costs	244.7	286.6	773.2	812.4
Cost of concessions	25.7	30.5	80.3	85.9
Rent expense	104.5	105.7	315.4	309.9
Other operating expenses	188.2	208.7	592.4	597.7
General and administrative expenses (including share-based compensation of $2.2 for the quarters ended September 25, 2014 and September 26, 2013, and $6.4 and $7.0 for the three quarters ended September 25, 2014 and September 26, 2013, respectively)	17.3	16.9	54.2	54.5
Depreciation and amortization	51.9	50.8	154.3	149.0
Net loss on disposal and impairment of operating assets	2.9	4.1	6.5	4.7
TOTAL OPERATING EXPENSES	635.2	703.3	1,976.3	2,014.1
INCOME FROM OPERATIONS	58.6	109.8	214.7	284.1
OTHER EXPENSE (INCOME):				
Interest expense, net	29.3	35.0	94.0	106.5
Loss on extinguishment of debt	—	—	62.4	30.7
Earnings recognized from NCM	(6.5)	(10.4)	(23.3)	(24.6)
Gain on sale of NCM, Inc. common stock	—	(30.9)	—	(30.9)
Other, net	(8.6)	(9.2)	(19.6)	(23.4)
TOTAL OTHER EXPENSE (INCOME), NET	14.2	(15.5)	113.5	58.3
INCOME BEFORE INCOME TAXES	44.4	125.3	101.2	225.8
PROVISION FOR INCOME TAXES	18.0	50.2	42.3	92.2
NET INCOME	26.4	75.1	58.9	133.6
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST, NET OF TAX	0.3	—	0.4	0.1
NET INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	$26.7	$75.1	$59.3	$133.7
AVERAGE SHARES OUTSTANDING (in thousands):				
Basic	155,288	154,892	155,287	154,858
Diluted	156,362	155,793	156,252	155,710
EARNINGS PER SHARE OF CLASS A AND CLASS B COMMON STOCK (NOTE 9):				

Basic	$0.17	$0.48	$0.38	$0.86
Diluted	$0.17	$0.48	$0.38	$0.86
DIVIDENDS DECLARED PER COMMON SHARE	$0.22	$0.21	$0.66	$0.63

See accompanying notes to unaudited condensed consolidated financial statements.

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REGAL ENTERTAINMENT GROUP
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Quarter Ended September 25, 2014	Quarter Ended September 26, 2013	Three Quarters Ended September 25, 2014	Three Quarters Ended September 26, 2013
NET INCOME	$26.4	$75.1	$58.9	$133.6
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Change in fair value of interest rate swap transactions	1.1	(0.3)	1.4	1.7
Change in fair value of available for sale securities	(0.6)	(3.2)	0.6	(1.2)
Reclassification adjustment for gain on sale of available for sale securities recognized in net income	—	—	(0.6)	(1.2)
Change in fair value of equity method investee interest rate swap transactions	0.5	(0.4)	(0.2)	1.1
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	1.0	(3.9)	1.2	0.4
TOTAL COMPREHENSIVE INCOME, NET OF TAX	27.4	71.2	60.1	134.0
Comprehensive loss attributable to noncontrolling interest, net of tax	0.3	—	0.4	0.1
COMPREHENSIVE INCOME ATTRIBUTABLE TO CONTROLLING INTEREST	$27.7	$71.2	$60.5	$134.1

See accompanying notes to unaudited condensed consolidated financial statements.

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REGAL ENTERTAINMENT GROUP
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Three Quarters Ended September 25, 2014	Three Quarters Ended September 26, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$58.9	$133.6
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	154.3	149.0
Amortization of debt discount and premium, net	—	(0.2)
Amortization of debt acquisition costs	3.6	3.3
Share-based compensation expense	6.4	7.0
Deferred income tax (benefit) provision	(7.7)	6.3
Net loss on disposal and impairment of operating assets	6.5	4.7
Equity in income of non-consolidated entities	(21.5)	(25.2)
Gain on sale of NCM, Inc. common stock	—	(30.9)
Loss on extinguishment of debt	62.4	30.7
Gain on sale of available for sale securities	(2.0)	(2.6)
Non-cash rent expense	(2.1)	5.0
Excess cash distribution on NCM shares	10.7	6.2
Landlord contributions	2.9	—
Changes in operating assets and liabilities, net of effects of acquisition:		
Trade and other receivables	71.1	74.1
Inventories	2.5	1.4
Prepaid expenses and other assets	(7.3)	(8.8)
Accounts payable	(53.9)	(49.5)
Income taxes payable	(0.1)	19.1
Deferred revenue	(48.4)	(54.0)
Accrued expenses and other liabilities	(51.3)	(13.6)
NET CASH PROVIDED BY OPERATING ACTIVITIES	185.0	255.6
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(96.8)	(70.1)
Proceeds from disposition of assets	1.7	6.7
Proceeds from sale of NCM, Inc. common stock	—	40.9
Investment in non-consolidated entities	(3.4)	(5.2)
Distributions to partnership	(0.1)	(0.1)
Cash used for acquisition, net of cash acquired	—	(194.4)
Change in other long-term assets	2.7	—
Proceeds from sale of available for sale securities	6.0	5.9
NET CASH USED IN INVESTING ACTIVITIES	(89.9)	(216.3)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash used to pay dividends	(104.2)	(99.5)
Payments on long-term obligations	(19.9)	(18.2)
Proceeds from stock option exercises	0.1	1.3
Cash paid for tax withholdings and other	(3.8)	(4.4)
Proceeds from issuance of Regal $5^{3}/_{4}$% Senior Notes Due 2022	775.0	—
Cash used to repurchase Regal $9^{1}/_{8}$% Senior Notes	(336.3)	(244.3)

Cash used to repurchase Regal $8^{5}/_{8}$% Senior Notes	(428.0)	—
Proceeds from issuance of Regal $5^{3}/_{4}$% Senior Notes Due 2025	—	250.0
Proceeds from issuance of Regal $5^{3}/_{4}$% Senior Notes Due 2023	—	250.0
Payment of debt acquisition costs	(14.9)	(13.5)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(132.0)	121.4
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(36.9)	160.7
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	280.9	109.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$244.0	$270.2
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for income taxes	$63.4	$65.3
Cash paid for interest	$117.6	$121.2
SUPPLEMENTAL NON-CASH INVESTING ACTIVITIES:		
Investment in NCM	$5.9	$33.8

See accompanying notes to unaudited condensed consolidated financial statements.

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REGAL ENTERTAINMENT GROUP
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 25, 2014 AND SEPTEMBER 26, 2013

1. THE COMPANY AND BASIS OF PRESENTATION

Regal Entertainment Group (the "Company," "Regal," "we" or "us") is the parent company of Regal Entertainment Holdings, Inc. ("REH"), which is the parent company of Regal Cinemas Corporation ("Regal Cinemas") and its subsidiaries. Regal Cinemas’ subsidiaries include Regal Cinemas, Inc. ("RCI") and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards") and United Artists Theatre Company ("United Artists"). The terms Regal or the Company, REH, Regal Cinemas, RCI, Edwards and United Artists shall be deemed to include the respective subsidiaries of such entities when used in discussions included herein regarding the current operations or assets of such entities. Majority-owned subsidiaries that the Company controls are consolidated, while those affiliates of which the Company owns between 20% and 50% and does not control are accounted for under the equity method. Those affiliates of which the Company owns less than 20% are generally accounted for under the cost method, unless the Company is deemed to have the ability to exercise significant influence over the affiliate, in which case the Company would account for its investment under the equity method. The results of these subsidiaries and affiliates are included in the unaudited condensed consolidated financial statements effective with their formation or from their dates of acquisition. Intercompany balances and transactions are eliminated in consolidation.

Regal operates the largest theatre circuit in the United States, consisting of 7,347 screens in 573 theatres in 42 states along with Guam, Saipan, American Samoa and the District of Columbia as of September 25, 2014. The Company formally operates on a 52-week fiscal year with each quarter generally consisting of 13 weeks, unless otherwise noted. The Company’s fiscal year ends on the first Thursday after December 25, which in certain years (such as fiscal 2014) results in a 53-week fiscal year. The quarters and three quarters ended September 25, 2014 and September 26, 2013 were comprised of 13 and 39-week periods, respectively. On August 27, 2014, the Company's Board of Directors approved a change in the Company’s fiscal year from a 52-53 week fiscal year ending on the first Thursday after December 25 of each year to a fiscal year ending on December 31 of each year, effective with the fiscal year commencing January 2, 2015. The Company’s current fiscal year will end on January 1, 2015, with subsequent fiscal years ending on December 31 of each year. Beginning January 2, 2015, the Company’s quarterly results will be for three month periods ending March 31, June 30, September 30 and December 31 of each year.

For a discussion of significant transactions that have occurred through December 26, 2013, please refer to the notes to the consolidated financial statements included in Part II, Item 8 of our annual report on Form 10-K filed on February 24, 2014 with the Securities and Exchange Commission (the "Commission") (File No. 1-31315) for the fiscal year ended December 26, 2013 (the "2013 Audited Consolidated Financial Statements"). For a summary of our significant accounting policies, please refer to Note 2 to the 2013 Audited Consolidated Financial Statements.

The Company has prepared the unaudited condensed consolidated balance sheet as of September 25, 2014, the unaudited condensed consolidated statements of income and comprehensive income for the quarters and three quarters ended September 25, 2014 and September 26, 2013, and the unaudited condensed consolidated statements of cash flows for the three quarters ended September 25, 2014 and September 26, 2013 in accordance with U.S. generally accepted accounting principles for interim financial information and the rules and regulations of the Commission. Accordingly, certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly in all material respects the financial position, results of operations and cash flows for all periods presented have been made. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from these estimates. The December 26, 2013 unaudited condensed consolidated balance sheet information is derived from the 2013 Audited Consolidated Financial Statements. These unaudited condensed consolidated financial statements should be read in conjunction with the 2013 Audited Consolidated Financial Statements and notes thereto. The results of operations for the quarter and three quarters ended September 25, 2014 are not necessarily indicative of the operating results that may be achieved for the full 2014 fiscal year.

Certain reclassifications have been made to the 2013 unaudited condensed consolidated financial statements to conform to the 2014 presentation.

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2. INVESTMENTS

Investment in National CineMedia, LLC

We maintain an investment in National CineMedia, LLC ("National CineMedia" or "NCM"). National CineMedia concentrates on in-theatre advertising for its theatrical exhibition partners, which include us, AMC Entertainment, Inc. ("AMC") and Cinemark, Inc. ("Cinemark"). The formation of National CineMedia, related IPO of National CineMedia, Inc. ("NCM, Inc.") and other related transactions are further described in Note 4 to the 2013 Audited Consolidated Financial Statements.

We account for our investment in National CineMedia following the equity method of accounting and such investment is included as a component of "Other Non-Current Assets" in the accompanying unaudited condensed consolidated balance sheets. From time to time, the Company receives additional newly issued common units of National CineMedia ("Additional Investments Tranche") as a result of the adjustment provisions of the Common Unit Adjustment Agreement. The Company follows the guidance in Accounting Standards Codification ("ASC") 323-10-35-29 (formerly EITF 2-18, Accounting for Subsequent Investments in an Investee after Suspension of Equity Loss Recognition) by analogy, which also refers to AICPA Technical Practice Aid 2220.14, which indicates that if a subsequent investment is made in an equity method investee that has experienced significant losses, the investor must determine if the subsequent investment constitutes funding of prior losses. The Company concluded that the construction or acquisition of new theatres that has led to the common unit adjustments included in its Additional Investments Tranche equates to making additional investments in National CineMedia. The Company evaluated the receipt of the additional common units in National CineMedia and the assets exchanged for these additional units and has determined that the right to use its incremental new screens would not be considered funding of prior losses. As such, the Additional Investments Tranche is accounted for separately from the Company’s Initial Investment Tranche (as defined and described more fully in Note 4 to the 2013 Audited Consolidated Financial Statements) following the equity method with undistributed equity earnings included as a component of "Earnings recognized from NCM" in the accompanying unaudited condensed consolidated financial statements.

Below is a summary of activity with National CineMedia included in the Company’s unaudited condensed consolidated financial statements as of and for the three quarters ended September 25, 2014:

	As of the period ended			For the period ended	
	Investment in NCM	Deferred Revenue	Cash Received	Earnings recognized from NCM	Other NCM Revenues
Balance as of and for the period ended December 26, 2013	$158.5	$(432.2)	$—	$—	$—
Receipt of additional common units(1)	5.9	(5.9)	—	—	—
Receipt of excess cash distributions(2)	(7.2)	—	19.0	(11.8)	—
Receipt under tax receivable agreement(2)	(3.6)	—	11.2	(7.6)	—
Revenues earned under ESA(3)	—	—	10.6	—	(10.6)
Amortization of deferred revenue(4)	—	7.2	—	—	(7.2)
Equity income attributable to additional common units(5)	3.9	—	—	(3.9)	—
Balance as of and for the period ended September 25, 2014	$157.5	$(430.9)	$40.8	$(23.3)	$(17.8)

(1) On March 13, 2014, we received from National CineMedia approximately 0.4 million newly issued common units of National CineMedia in accordance with the annual adjustment provisions of the Common Unit Adjustment Agreement. The Company recorded the additional common units (Additional Investments Tranche) at fair value using the available closing stock price of NCM, Inc. as of the date on which the units were issued. With respect to the common units issued on March 13, 2014, the Company recorded an increase to its investment in National

CineMedia of $5.9 million with a corresponding increase to deferred revenue. The deferred revenue is being amortized to advertising revenue over the remaining term of the exhibitor services agreement, between RCI and National CineMedia ("ESA") following the units of revenue method as described in (4) below. This transaction caused a proportionate increase in the Company's Initial Investment Tranche and Additional Investments Tranche and increased our ownership share in National CineMedia to 25.8 million common units. As a result, on a fully diluted basis, we own a 20.1% interest in NCM, Inc. as of September 25, 2014.

(2) During the three quarters ended September 25, 2014 and September 26, 2013, the Company received $30.2 million and $26.3 million, respectively, in cash distributions from National CineMedia, exclusive of receipts for services performed under the ESA (including payments of $11.2 million and $4.6 million received under the tax receivable agreement described in Note 4 to the 2013 Audited Consolidated Financial Statements of the Company). Approximately $10.8 million and $6.3 million of these cash distributions received during the three quarters ended September 25, 2014 and September 26, 2013, respectively, were attributable to the Additional

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Investments Tranche and were recognized as a reduction in our investment in National CineMedia. The remaining amounts were recognized in equity earnings during each of these periods and have been included as components of "Earnings recognized from NCM" in the accompanying unaudited condensed consolidated financial statements.

(3) The Company recorded other revenues, excluding the amortization of deferred revenue, of approximately $10.6 million and $9.4 million for the three quarters ended September 25, 2014 and September 26, 2013, respectively, pertaining to our agreements with National CineMedia, including per patron and per digital screen theatre access fees (net of payments of $10.3 million and $11.8 million for the three quarters ended September 25, 2014 and September 26, 2013, for on-screen advertising time provided to our beverage concessionaire) and other NCM revenues. These advertising revenues are presented as a component of "Other operating revenues" in the Company's unaudited condensed consolidated financial statements.

(4) Amounts represent amortization of ESA modification fees received from NCM to advertising revenue utilizing the units of revenue amortization method. These advertising revenues are presented as a component of "Other operating revenues" in the Company's unaudited condensed consolidated financial statements.

(5) Amounts represent the Company's share in the net income of National CineMedia with respect to the Additional Investments Tranche. Such amounts have been included as a component of "Earnings recognized from NCM" in the unaudited condensed consolidated financial statements.

In addition, as of September 25, 2014, approximately $1.7 million and $0.7 million due from/to National CineMedia were included in "Trade and other receivables, net" and "Accounts payable," respectively. As of December 26, 2013, approximately $4.1 million and $2.0 million due from/to National CineMedia were included in "Trade and other receivables, net" and "Accounts payable," respectively.

As of the date of this quarterly report on Form 10-Q (this "Form 10-Q"), no summarized financial information for National CineMedia was available for the quarterly period ended September 25, 2014. Summarized unaudited consolidated statements of income information for National CineMedia for the quarters and two quarters ended June 26, 2014 and June 27, 2013 is as follows (in millions):

	Quarter Ended June 26, 2014	Quarter Ended June 27, 2013	Two Quarters Ended June 26, 2014	Two Quarters Ended June 27, 2013
Revenues	$99.9	$122.8	$170.1	$205.0
Income from operations	42.0	58.0	54.8	79.6
Net income	26.4	41.1	23.6	46.7

On May 5, 2014, NCM, Inc. announced that it had entered into an agreement to acquire Screenvision, LLC for $375 million, consisting of $225 million in cash and $150 million of NCM, Inc. common stock (9,900,990 shares at a fixed price of $15.15 per share). Consummation of the transaction is subject to antitrust clearance and other customary closing conditions as discussed further in Note 7—"Commitments and Contingencies."

Investment in Digital Cinema Implementation Partners

We maintain an investment in Digital Cinema Implementation Partners, LLC, a Delaware limited liability company ("DCIP"). DCIP is a joint venture company formed by Regal, AMC and Cinemark. Regal holds a 46.7% economic interest in DCIP as of September 25, 2014 and a one-third voting interest along with each of AMC and Cinemark. Since the Company does not have a controlling financial interest in DCIP or any of its subsidiaries, it accounts for its investment in DCIP under the equity method of accounting. The Company's investment in DCIP is included as a component of "Other Non-Current Assets" in the accompanying unaudited condensed consolidated balance sheets.

The change in the carrying amount of our investment in DCIP for the three quarters ended September 25, 2014 is as follows (in millions):

Balance as of December 26, 2013	$101.6
Equity contributions	3.0
Equity in earnings of DCIP(1)	19.8
Change in fair value of equity method investee interest rate swap transactions	(0.4)
Balance as of September 25, 2014	$124.0

(1) Represents the Company's share of the net income of DCIP. Such amount is presented as a component of "Other, net" in the accompanying unaudited condensed consolidated statement of income.

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DCIP funds the cost of conversion to digital projection principally through the collection of virtual print fees from motion picture studios and equipment lease payments from participating exhibitors, including us. In accordance with the master equipment lease agreement (the "Master Lease"), the digital projection systems are leased from Kasima, LLC under a twelve-year term with ten one-year fair value renewal options. The Master Lease also contains a fair value purchase option. On March 31, 2014, the junior capital raised by DCIP in the initial financing transactions was paid in full by DCIP. In connection with this repayment, the Master Lease was amended to eliminate the incremental minimum rent payment provision of $2,000 per digital projection system described more fully in Note 4 to the 2013 Audited Consolidated Financial Statements. DCIP incurred a loss on debt extinguishment of approximately $6.0 million as a result of the debt repayment and Regal recorded its pro rata share of such loss (approximately $2.8 million) during the quarter ended June 26, 2014 as a reduction of equity in earnings of DCIP. As a result of the amendment to the Master Lease, the Company's deferred rent balance associated with the incremental minimum rental payment of $2,000 per digital projection system is being amortized on a straight-line basis as a reduction of rent expense from the effective date of the amendment (March 31, 2014) through the end of the remaining lease term. As of September 25, 2014, under the Master Lease, the Company continues to pay annual minimum rent of $1,000 per digital projection system from the effective date of the original agreement through the end of the lease term. The Company considers the $1,000 minimum rental to be a minimum rental and accordingly records such rent on a straight-line basis in its consolidated financial statements. The Company is also subject to various types of other rent if such digital projection systems do not meet minimum performance requirements as outlined in the Master Lease. Certain of the other rent payments are subject to either a monthly or an annual maximum. The Company accounts for the Master Lease as an operating lease for accounting purposes. During the three quarters ended September 25, 2014 and September 26, 2013, the Company incurred total rent expense of approximately $6.4 million and $10.9 million, respectively, associated with the leased digital projection systems. Such rent expense is presented as a component of "other operating expenses" in the Company's unaudited consolidated statements of income.

Summarized unaudited consolidated statements of operations information for DCIP for the quarters and three quarters ended September 30, 2014 and 2013 is as follows (in millions):

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013	Three Quarters Ended September 30, 2014	Three Quarters Ended September 30, 2013
Net revenues	$41.7	$46.3	$127.7	$134.4
Income from operations	25.0	29.7	76.0	85.3
Net income	17.8	16.5	42.4	30.8

Investment in Open Road Films

We maintain an investment in Open Road Films, a film distribution company jointly owned by us and AMC. The Company's cumulative cash investment in Open Road Films totaled $20.0 million as of September 25, 2014 and the Company may invest an additional $10.0 million in this joint venture. As a result of cumulative losses recorded in Open Road Films, the Company's investment in Open Road Films was reduced to a minimum carrying value of $(10.0) million as of March 27, 2014. Consistent with the accounting model provided by ASC 323-10-35-22, as of March 27, 2014, the Company has not provided for any additional losses of Open Road Films since it has not guaranteed obligations of Open Road Films and otherwise has not committed to provide further financial support for Open Road Films above its initial $30.0 million commitment. Accordingly, the Company discontinued equity method accounting for its investment in Open Road Films as of March 27, 2014. The amount of excess losses incurred through September 25, 2014 continued to be in excess of the Company's initial $30.0 million commitment by approximately $1.8 million.

The Company’s investment in Open Road Films is included as a component of "Other Non-Current Liabilities" in the accompanying unaudited condensed consolidated balance sheets. The change in the carrying amount of our investment in Open Road Films for the three quarters ended September 25, 2014 is as follows (in millions):

Balance as of December 26, 2013	$(7.1)
Equity in loss attributable to Open Road Films(1)	(2.9)
Balance as of September 25, 2014	$(10.0)

(1) Represents the Company’s recorded share of the net loss of Open Road Films. Such amount is presented as a component of “Other, net” in the accompanying unaudited condensed consolidated statement of income.

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Summarized unaudited consolidated statements of operations information for Open Road Films for the quarters and three quarters ended September 30, 2014 and 2013 is as follows (in millions):

	Quarter Ended September 30, 2014	Quarter Ended September 30, 2013	Three Quarters Ended September 30, 2014	Three Quarters Ended September 30, 2013
Revenues	$36.9	$24.4	$128.4	$125.8
Income (loss) from operations	11.1	3.8	(7.3)	19.3
Net income (loss)	10.6	3.2	(8.9)	17.3

Investment in RealD, Inc.

The Company also maintains an investment in RealD, Inc., an entity specializing in the licensing of 3D technologies. The Company accounts for its investment in RealD, Inc. as a marketable security. The Company has determined that its RealD, Inc. shares are available for sale securities in accordance with ASC Topic 320-10-35-1, therefore unrealized holding gains and losses are reported as a component of accumulated other comprehensive income (loss) until realized. On March 11, 2014 and June 5, 2014, the Company sold a total of 500,000 shares of RealD, Inc. as described further in Note 11—"Fair Value of Financial Instruments." In connection with the sales, the Company received approximately $6.0 million in aggregate net proceeds (after deducting related fees and expenses) and recorded a gain on sale of approximately $2.0 million. Such gain is presented as a component of “Other, net” in the accompanying unaudited condensed consolidated statement of income for the three quarters ended September 25, 2014. The carrying value of the Company’s investment in RealD, Inc. as of September 25, 2014 was approximately $3.1 million. See Note 11—"Fair Value of Financial Instruments" for a discussion of fair value estimation methods and assumptions with respect to the Company’s investment in RealD, Inc. The Company has recorded this investment within "Other Non-Current Assets."

Investment in AC JV, LLC

On December 26, 2013, National CineMedia sold its Fathom Events business to AC JV, LLC (“AC JV”), a newly-formed Delaware limited liability company owned, directly and indirectly, 32% by each of RCI, AMC and Cinemark and 4% by National CineMedia. The Fathom Events business focuses on the marketing and distribution of live and pre-recorded entertainment programming to various theatre operators (including us, AMC and Cinemark) to provide additional programs to augment their feature film schedule and includes events such as live and pre-recorded concerts, opera and symphony, DVD product releases and marketing events, theatrical premieres, Broadway plays, live sporting events and other special events. In consideration for the sale, National CineMedia received a total of $25 million in promissory notes from RCI, Cinemark and AMC (one-third or approximately $8.3 million from each). The notes bear interest at 5.0% per annum. Interest and principal payments are due annually in six equal installments commencing on the first anniversary of the closing. National CineMedia recorded a gain of approximately $25.4 million in connection with the sale. The Company's proportionate share of such gain (approximately $1.9 million) was excluded from equity earnings in National CineMedia and recorded as a reduction in the Company's investment in AC JV. Since the Company does not have a controlling financial interest in AC JV, it accounts for its investment in AC JV under the equity method of accounting. The carrying value of the Company's investment in AC JV was approximately $7.6 million as of September 25, 2014.

3. ACQUISITIONS

Acquisition of Hollywood Theaters

On March 29, 2013, Regal completed the acquisition of Hollywood Theaters, whereby it acquired a total of 43 theatres with 513 screens for an aggregate net cash purchase price of $194.4 million. In addition, the Company assumed approximately $47.9 million of capital lease and lease financing obligations, and certain working capital. The cash portion of the purchase price included repayment of approximately $167.0 million of the sellers' debt. The acquisition of Hollywood Theaters enhanced the Company's presence in 16 states and 3 U.S. territories. The Company incurred approximately $3.0 million in transaction costs in connection with this transaction. The aggregate net cash purchase price was allocated to the identifiable assets acquired and liabilities assumed for each of the respective theatre locations based on their estimated fair values at the date of acquisition using the acquisition method of accounting. The allocation of the purchase price is based on management's judgment after evaluating several factors, including an independent third party valuation. The results of operations of the acquired theatres have been included in the Company's consolidated financial statements for periods subsequent to the acquisition date.

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The following is a summary of the final allocation of the aggregate net cash purchase price to the estimated fair values of the identifiable assets acquired and liabilities assumed that have been recognized by the Company in its consolidated balance sheet as of the date of acquisition (in millions):

Current assets	$8.7
Property and equipment	143.2
Favorable leases and other intangible assets	35.6
Goodwill	46.4
Deferred income tax asset	35.8
Other assets	0.2
Current liabilities	(14.2)
Lease financing obligations	(40.4)
Capital lease obligations	(7.5)
Unfavorable leases	(10.7)
Other liabilities	(2.7)
Total purchase price	$194.4

The transaction included the assumption of lease financing obligations associated with 14 acquired theatres and various capital lease obligations, which are presented in the Company's consolidated balance sheet as of September 25, 2014. Such obligations have a weighted average interest rate of approximately 10.7% and mature in various installments through December 2030. In addition, the transaction included the acquisition of favorable leases (approximately $34.4 million) and unfavorable leases (approximately $10.7 million), which are presented in the Company's consolidated balance sheet as a component of "Intangible Assets, net" and "Other Non-Current Liabilities," respectively. The weighted average amortization period for the favorable leases and the unfavorable leases are approximately 18 years and 15 years, respectively. Goodwill represents the excess purchase price over the amounts assigned to assets acquired, including intangible assets, and liabilities assumed and is not deductible for tax purposes.

4. DEBT OBLIGATIONS

Debt obligations at September 25, 2014 and December 26, 2013 consist of the following (in millions):

	September 25, 2014	December 26, 2013
Regal Cinemas Amended Senior Credit Facility	$970.8	$978.3
Regal $5^{3}/_{4}$% Senior Notes Due 2022	775.0	—
Regal $9^{1}/_{8}$% Senior Notes, including premium	—	315.4
Regal Cinemas $8^{5}/_{8}$% Senior Notes, net of debt discount	—	394.6
Regal $5^{3}/_{4}$% Senior Notes Due 2025	250.0	250.0
Regal $5^{3}/_{4}$% Senior Notes Due 2023	250.0	250.0
Lease financing arrangements, weighted average interest rate of 11.09% as of September 25, 2014, maturing in various installments through November 2028	83.1	91.0
Capital lease obligations, 8.5% to 10.7%, maturing in various installments through December 2030	13.7	16.0
Other	13.2	15.4
Total debt obligations	2,355.8	2,310.7
Less current portion	29.4	29.8
Total debt obligations, less current portion	$2,326.4	$2,280.9

Regal Cinemas Sixth Amended and Restated Credit Agreement— As described further in Note 5 to the 2013 Audited Consolidated Financial Statements and incorporated by reference herein, on May 19, 2010, Regal Cinemas entered into a sixth amended and restated credit agreement (the "Credit Agreement"), with Credit Suisse AG, Cayman Islands Branch, as Administrative Agent ("Credit Suisse"), and the lenders party thereto (the "Lenders"). The Credit Agreement provides, among other things, for senior secured credit facilities consisting of a term loan facility (the "Term Facility") with an original principal balance of $1,006.0 million and final maturity date in August 2017 and a revolving credit facility (the "Revolving Facility") of up to $85.0 million (the “Revolving Commitment”) with a final maturity date in May 2017.

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On April 19, 2013 (the "Second Amendment Date"), Regal Cinemas, Regal, REH and the other affiliates of Regal Cinemas party thereto, as guarantors, entered into an amendment (the "Second Amendment") to the Credit Agreement, with Credit Suisse and the lenders party thereto. The Second Amendment amends the Credit Agreement by reducing the interest rate on the Term Facility by 0.50%. Specifically, the Second Amendment provides that, depending on the consolidated leverage ratio of Regal Cinemas and its subsidiaries, the applicable margin under the Term Facility for base rate loans will be either 1.50% or 1.75% and the applicable margin under the Term Facility for LIBOR rate loans will be either 2.50% or 2.75%. Among other things, the Second Amendment also amends the Credit Agreement (i) by deleting the interest coverage ratio test and providing that the remaining financial covenants will only be tested if the outstanding amount of the revolving loans and letters of credit (including unreimbursed drawings) under the Revolving Facility equals or exceeds 25% of the Revolving Commitment, (ii) to permit the release of Regal from its guarantee of the obligations under the Credit Agreement in the event that it does not guarantee any other debt of Regal Cinemas or its subsidiaries, and (iii) by eliminating the mortgage requirement for fee-owned real properties that are acquired by Regal Cinemas or its subsidiaries after the Second Amendment Date. Except as amended by the Second Amendment, the remaining terms of the Credit Agreement remain in full force and effect. As a result of the Second Amendment, the Company recorded a loss on debt extinguishment of approximately $0.4 million.

In addition, on May 28, 2013, Regal Cinemas, Regal, REH and the other affiliates of Regal Cinemas party thereto, as guarantors, entered into a Loan Modification Agreement with Credit Suisse and the revolving lenders party thereto (the “Loan Modification Agreement”). The Loan Modification Agreement amends the Credit Agreement by reducing the interest rate on the Revolving Facility by 1.00%. Specifically, the Loan Modification Agreement provides that, depending on the consolidated leverage ratio of Regal Cinemas and its subsidiaries, the applicable margin under the Revolving Facility for base rate loans will be either 1.50% or 1.75% and the applicable margin under the Revolving Facility for LIBOR rate loans will be either 2.50% or 2.75%. The Loan Modification Agreement also amends the Credit Agreement to extend the maturity date of the Revolving Facility from May 19, 2015 to May 19, 2017.

As of September 25, 2014 and December 26, 2013, borrowings of $970.8 million and $978.3 million, respectively, were outstanding under the Term Facility at an effective interest rate of 3.22% (as of September 25, 2014) and 3.18% (as of December 26, 2013), after the impact of the interest rate swaps described below is taken into account.

Regal $5^3/_4$% Senior Notes Due 2022—On March 11, 2014, Regal issued $775.0 million aggregate principal amount of its $5^3/_4$% senior notes due 2022 (the “$5^3/_4$% Senior Notes Due 2022”) in a registered public offering. The net proceeds from the offering were approximately $760.6 million, after deducting underwriting discounts and offering expenses. Regal used a portion of the net proceeds from the offering to purchase approximately $222.3 million aggregate principal amount of its outstanding $9^1/_8$% Senior Notes for an aggregate purchase price of approximately $240.5 million pursuant to a cash tender offer for such notes as described below, and $355.8 million aggregate principal amount of Regal Cinemas' outstanding $8^5/_8$% Senior Notes for an aggregate purchase price of approximately $381.0 million pursuant to a cash tender offer for such notes as described further below. Also on March 11, 2014, the Company and Regal Cinemas each announced their intention to redeem all $9^1/_8$% Senior Notes and $8^5/_8$% Senior Notes that remained outstanding following the consummation of the tender offers at a price equal to 100% of the principal amount thereof plus a “make-whole” premium and accrued and unpaid interest payable thereon up to, but not including, the redemption date, in accordance with the terms of the indentures governing the $9^1/_8$% Senior Notes and $8^5/_8$% Senior Notes. As discussed further below, on April 10, 2014, the remaining $9^1/_8$% Senior Notes and $8^5/_8$% Senior Notes were fully redeemed by the Company and Regal Cinemas for an aggregate purchase price of $144.9 million (including accrued and unpaid interest) using the remaining net proceeds from the $5^3/_4$% Senior Notes Due 2022 and available cash on hand.

The $5^3/_4$% Senior Notes Due 2022 bear interest at a rate of 5.75% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning September 15, 2014. The $5^3/_4$% Senior Notes Due 2022 will mature on

March 15, 2022. The $5^3/_4$% Senior Notes Due 2022 are the Company's senior unsecured obligations and rank equal in right of payment with all of the Company's existing and future senior unsecured indebtedness and prior to all of the Company's future subordinated indebtedness. The $5^3/_4$% Senior Notes Due 2022 are effectively subordinated to all of the Company's future secured indebtedness to the extent of the value of the collateral securing that indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. None of the Company's subsidiaries guarantee any of the Company's obligations with respect to the $5^3/_4$% Senior Notes Due 2022.

Prior to March 15, 2017, the Company may redeem all or any part of the $5^3/_4$% Senior Notes Due 2022 at its option at 100% of the principal amount, plus accrued and unpaid interest to the redemption date and a make-whole premium. The Company may redeem the $5^3/_4$% Senior Notes Due 2022 in whole or in part at any time on or after March 15, 2017 at the redemption prices specified in the indenture. In addition, prior to March 15, 2017, the Company may redeem up to 35% of the

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original aggregate principal amount of the $5^3/_4$% Senior Notes Due 2022 from the net proceeds of certain equity offerings at the redemption price specified in the indenture. The Company has not separated the make-whole premium from the underlying debt instrument to account for it as a derivative instrument as the economic characteristics and risks of this embedded derivative are clearly and closely related to the economic characteristics and risks of the underlying debt.

If the Company undergoes a change of control (as defined in the indenture), holders may require the Company to repurchase all or a portion of their $5^3/_4$% Senior Notes Due 2022 at a price equal to 101% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any, to the date of purchase.

The indenture contains covenants that limit the Company's (and its restricted subsidiaries') ability to, among other things: (i) incur additional indebtedness; (ii) pay dividends on or make other distributions in respect of its capital stock, purchase or redeem capital stock, or purchase, redeem or otherwise acquire or retire certain subordinated obligations; (iii) enter into certain transactions with affiliates; (iv) permit, directly or indirectly, it to create, incur, or suffer to exist any lien, except in certain circumstances; (v) create or permit encumbrances or restrictions on the ability of its restricted subsidiaries to pay dividends or make distributions on their capital stock, make loans or advances to other subsidiaries or the Company, or transfer any properties or assets to other subsidiaries or the Company; and (vi) merge or consolidate with other companies or transfer all or substantially all of its assets. These covenants are, however, subject to a number of important limitations and exceptions. The indenture contains other customary terms, including, but not limited to, events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding notes to be due and payable immediately.

Regal $9^1/_8$% Senior Notes— As further described in Note 5 to the 2013 Audited Consolidated Financial Statements and incorporated by reference herein, during fiscal 2010 and 2011, Regal issued $525.0 million in aggregate principal amount of the Company’s $9^1/_8$% Senior Notes (the "$9^1/_8$% Senior Notes").

In connection with the issuance of the $5^3/_4$% Senior Notes Due 2023 described below, on May 29, 2013, the Company commenced a tender offer to purchase for cash its $9^1/_8$% Senior Notes. Total offer consideration for each $1,000 principal amount of $9^1/_8$% Senior Notes tendered was $1,143.75, including an early tender premium payment of $30.00 per $1,000 principal amount of $9^1/_8$% Senior Notes for those holders who properly tendered their $9^1/_8$% Senior Notes on or before June 11, 2013. Upon consummation of the tender offer, approximately $213.6 million aggregate principal amount of the $9^1/_8$% Senior Notes was purchased. Total additional consideration paid for the tender offer, including the early tender premium payment, was approximately $30.7 million. The tender offer was financed with $244.3 million of the net proceeds from the issuance of the $5^3/_4$% Senior Notes Due 2023. As a result of the tender offer, the Company recorded a $30.3 million loss on extinguishment of debt during the quarter ended June 27, 2013.

In connection with the issuance of the $5^3/_4$% Senior Notes Due 2022 described above, on February 25, 2014, the Company commenced a tender offer to purchase for cash its $9^1/_8$% Senior Notes. Total offer consideration for each $1,000 principal amount of $9^1/_8$% Senior Notes tendered was $1,081.97, including an early tender premium payment of $30.00 per $1,000 principal amount of $9^1/_8$% Senior Notes for those holders who properly tendered their $9^1/_8$% Senior Notes on or before March 10, 2014. Upon consummation of the tender offer, approximately $222.3 million aggregate principal amount of the $9^1/_8$% Senior Notes was purchased. Total additional consideration paid for the tender offer, including the early tender premium payment, was approximately $18.2 million. The tender offer was financed with a portion of the net proceeds from the issuance of the $5^3/_4$% Senior Notes Due 2022 described above. As a result of the tender offer, the Company recorded a $17.8 million loss on extinguishment of debt during the quarter ended March 27, 2014.

On April 10, 2014, the Company redeemed all of the $9^{1}/_{8}$% Senior Notes remaining issued and outstanding as of such date (approximately $89.1 million aggregate principal amount) at a price equal to $1,074.97 for each $1,000 principal amount of $9^{1}/_{8}$% Senior Notes, plus accrued and unpaid interest of $13.94 per $1,000 principal amount of $9^{1}/_{8}$% Senior Notes. The aggregate amount paid to the holders of the $9^{1}/_{8}$% Senior Notes (including accrued interest of approximately $1.2 million) totaled approximately $97.0 million. As a result of the redemption, the Company recorded a $6.6 million loss on extinguishment of debt during the quarter ended June 26, 2014.

Regal Cinemas $8^{5}/_{8}$% Senior Notes—As described in Note 5 to the 2013 Audited Consolidated Financial Statements and incorporated by reference herein, on July 15, 2009, Regal Cinemas issued $400.0 million in aggregate principal amount of its $8^{5}/_{8}$% Senior Notes due 2019 (the “$8^{5}/_{8}$% Senior Notes”).

In connection with the issuance of the $5^{3}/_{4}$% Senior Notes Due 2022 described above, on February 25, 2014, the Company commenced a tender offer to purchase for cash the $8^{5}/_{8}$% Senior Notes. Total offer consideration for each $1,000

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principal amount of $8^5/_8$% Senior Notes tendered was $1,070.73, including an early tender premium payment of $30.00 per $1,000 principal amount of $8^5/_8$% Senior Notes for those holders who properly tendered their $8^5/_8$% Senior Notes on or before March 10, 2014. Upon consummation of the tender offer, approximately $355.8 million aggregate principal amount of the $8^5/_8$% Senior Notes was purchased. Total additional consideration paid for the tender offer, including the early tender premium payment, was approximately $25.2 million. The tender offer was financed with a portion of the net proceeds from the issuance of the $5^3/_4$% Senior Notes Due 2022 described above. As a result of the tender offer, the Company recorded a $34.1 million loss on extinguishment of debt during the quarter ended March 27, 2014.

On April 10, 2014, Regal Cinemas redeemed all of the $8^5/_8$% Senior Notes remaining issued and outstanding as of such date (approximately $44.2 million aggregate principal amount) at a price equal to $1,064.12 for each $1,000 principal amount of $8^5/_8$% Senior Notes, plus accrued and unpaid interest of $20.36 per $1,000 principal amount of $8^5/_8$% Senior Notes. The aggregate amount paid to the holders of the $8^5/_8$% Senior Notes (including accrued interest of approximately $0.9 million) totaled approximately $47.9 million. As a result of the redemption, the Company recorded a $3.9 million loss on extinguishment of debt during the quarter ended June 26, 2014.

Regal $5^3/_4$% Senior Notes Due 2025—On January 17, 2013, Regal issued $250.0 million in aggregate principal amount of its $5^3/_4$% senior notes due 2025 (the "$5^3/_4$% Senior Notes Due 2025") in a registered public offering. The net proceeds from the offering were approximately $244.5 million, after deducting underwriting discounts and offering expenses. Regal used approximately $194.4 million of the net proceeds from the offering to fund the acquisition of Hollywood Theaters.

The $5^3/_4$% Senior Notes Due 2025 bear interest at a rate of 5.75% per year, payable semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2013. The $5^3/_4$% Senior Notes Due 2025 will mature on February 1, 2025. The $5^3/_4$% Senior Notes Due 2025 are the Company's senior unsecured obligations. They rank equal in right of payment with all of the Company's existing and future senior unsecured indebtedness and prior to all of the Company's future subordinated indebtedness. The $5^3/_4$% Senior Notes Due 2025 are effectively subordinated to all of the Company's future secured indebtedness to the extent of the value of the collateral securing that indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. None of the Company's subsidiaries guarantee any of the Company's obligations with respect to the $5^3/_4$% Senior Notes Due 2025.

Prior to February 1, 2018, the Company may redeem all or any part of the $5^3/_4$% Senior Notes Due 2025 at its option at 100% of the principal amount, plus accrued and unpaid interest to the redemption date and a make-whole premium. The Company may redeem the $5^3/_4$% Senior Notes Due 2025 in whole or in part at any time on or after February 1, 2018 at the redemption prices specified in the indenture governing the $5^3/_4$% Senior Notes Due 2025. In addition, prior to February 1, 2016, the Company may redeem up to 35% of the original aggregate principal amount of the $5^3/_4$% Senior Notes Due 2025 from the net proceeds from certain equity offerings at the redemption price specified in the indenture. The Company has not separated the make-whole premium from the underlying debt instrument to account for it as a derivative instrument as the economic characteristics and risks of this embedded derivative are clearly and closely related to the economic characteristics and risks of the underlying debt.

If the Company undergoes a change of control (as defined in the indenture), holders may require the Company to repurchase all or a portion of their notes at a price equal to 101% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any, to the date of purchase.

The indenture contains covenants that limit the Company's (and its restricted subsidiaries') ability to, among other things: (i) incur additional indebtedness; (ii) pay dividends on or make other distributions in respect of its capital stock, purchase or redeem capital stock, or purchase, redeem or otherwise acquire or retire certain subordinated obligations; (iii) enter into certain transactions with affiliates; (iv) permit, directly or indirectly, it to create, incur, or suffer to exist any lien, except in certain circumstances; (v) create or permit encumbrances or restrictions on the ability of its restricted subsidiaries to pay dividends or make distributions on their capital stock, make loans or advances to other subsidiaries or the Company, or transfer any properties or assets to other subsidiaries or the Company; and (vi) merge or consolidate with other companies or transfer all or substantially all of its assets. These covenants are, however, subject to a number of important limitations and exceptions. The indenture contains other customary terms, including, but not limited to, events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding notes to be due and payable immediately.

Regal $5^3/_4$% Senior Notes Due 2023—On June 13, 2013, Regal issued $250.0 million aggregate principal amount of its $5^3/_4$% senior notes due 2023 (the "$5^3/_4$% Senior Notes Due 2023") in a registered public offering. The net proceeds from the offering were approximately $244.4 million, after deducting underwriting discounts and offering expenses. Regal used the net

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proceeds from the offering to purchase approximately $213.6 million aggregate principal amount of its outstanding $9^1/_8$% Senior Notes for an aggregate purchase price of approximately $244.3 million pursuant to a cash tender offer for such notes as described further above.

The $5^3/_4$% Senior Notes Due 2023 bear interest at a rate of 5.75% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning December 15, 2013. The $5^3/_4$% Senior Notes Due 2023 will mature on June 15, 2023. The $5^3/_4$% Senior Notes Due 2023 are the Company's senior unsecured obligations. They rank equal in right of payment with all of the Company's existing and future senior unsecured indebtedness and prior to all of the Company's future subordinated indebtedness. The $5^3/_4$% Senior Notes Due 2023 are effectively subordinated to all of the Company's future secured indebtedness to the extent of the value of the collateral securing that indebtedness and structurally subordinated to all existing and future indebtedness and other liabilities of the Company's subsidiaries. None of the Company's subsidiaries guarantee any of the Company's obligations with respect to the $5^3/_4$% Senior Notes Due 2023.

Prior to June 15, 2018, the Company may redeem all or any part of the $5^3/_4$% Senior Notes Due 2023 at its option at 100% of the principal amount, plus accrued and unpaid interest to the redemption date and a make-whole premium. The Company may redeem the $5^3/_4$% Senior Notes Due 2023 in whole or in part at any time on or after June 15, 2018 at the redemption prices specified in the indenture. In addition, prior to June 15, 2016, the Company may redeem up to 35% of the original aggregate principal amount of the $5^3/_4$% Senior Notes Due 2023 from the net proceeds of certain equity offerings at the redemption price specified in the indenture. The Company has not separated the make-whole premium from the underlying debt instrument to account for it as a derivative instrument as the economic characteristics and risks of this embedded derivative are clearly and closely related to the economic characteristics and risks of the underlying debt.

If the Company undergoes a change of control (as defined in the indenture), holders may require the Company to repurchase all or a portion of their $5^3/_4$% Senior Notes Due 2023 at a price equal to 101% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any, to the date of purchase.

The indenture contains covenants that limit the Company's (and its restricted subsidiaries') ability to, among other things: (i) incur additional indebtedness; (ii) pay dividends on or make other distributions in respect of its capital stock, purchase or redeem capital stock, or purchase, redeem or otherwise acquire or retire certain subordinated obligations; (iii) enter into certain transactions with affiliates; (iv) permit, directly or indirectly, it to create, incur, or suffer to exist any lien, except in certain circumstances; (v) create or permit encumbrances or restrictions on the ability of its restricted subsidiaries to pay dividends or make distributions on their capital stock, make loans or advances to other subsidiaries or the Company, or transfer any properties or assets to other subsidiaries or the Company; and (vi) merge or consolidate with other companies or transfer all or substantially all of its assets. These covenants are, however, subject to a number of important limitations and exceptions. The indenture contains other customary terms, including, but not limited to, events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding notes to be due and payable immediately.

Interest Rate Swaps— As of September 25, 2014, the Company maintained three effective hedging relationships via three distinct interest rate swap agreements (maturity dates ranging from June 30, 2015 through December 31, 2016), which require Regal Cinemas to pay interest at fixed rates ranging from 0.817% to 1.820% and receive interest at a variable rate. These interest rate swap agreements are designated to hedge $450.0 million of variable rate debt obligations at an effective rate of approximately 3.88% as of September 25, 2014.

Under the terms of the Company's three effective interest rate swap agreements as of September 25, 2014 detailed below, Regal Cinemas currently receives interest at a variable rate based on the 3-month LIBOR on the first $300.0

million of aggregate borrowings under the Term Facility and receives 1-month LIBOR on the next $150.0 million of borrowings under the Term Facility. In addition, the Company will receive 1-month LIBOR on the next $200.0 million of borrowings under the Term Facility once the remaining interest rate swap agreement becomes effective. With respect to the Company's three effective interest rate swap agreements as of September 25, 2014, the 3-month LIBOR rate and the 1-month LIBOR rate on each respective reset date determines the variable portion of the interest rate swaps for the following three-month and one-month periods, respectively. The interest rate swaps settle any accrued interest for cash on the last day of each calendar month or calendar quarter, as applicable, until expiration. At such dates, the differences to be paid or received on the interest rate swaps will be included in interest expense. No premium or discount was incurred upon the Company entering into the interest rate swaps, because the pay and receive rates on the interest rate swaps represented prevailing rates for the counterparty at the time the interest rate swaps were entered into. The interest rate swaps qualify for cash flow hedge accounting treatment and as such, the change in the fair value of the interest rate swaps are recorded on the Company’s consolidated balance sheet as an asset or liability with the effective portion of the interest rate swaps’ gains or losses reported as a component of other comprehensive income (loss) and the ineffective portion reported in earnings (interest expense). As interest expense is accrued on the debt obligation, amounts in accumulated other comprehensive income (loss) related to the interest rate swaps will be reclassified into earnings to obtain a net cost on the debt obligation equal to the effective yield of the fixed rate of each swap. In the event that an interest rate swap is terminated prior to maturity, gains or losses accumulated in other comprehensive income or loss remain deferred and are reclassified into earnings in the periods during which the hedged forecasted transaction affects earnings.

Below is a summary of the Company's current interest rate swap agreements designated as hedge agreements as of September 25, 2014:

Nominal Amount		Effective Date	Base Rate	Receive Rate	Expiration Date
$200.0 million	(1)	June 30, 2012	1.820%	3-month LIBOR	June 30, 2015
$100.0 million	(1)	December 31, 2012	1.325%	3-month LIBOR	December 31, 2015
$150.0 million	(2)	December 31, 2013	0.817%	1-month LIBOR	December 31, 2016
$200.0 million	(3)	June 30, 2015	1.828%	1-month LIBOR	June 30, 2018

(1) During the year ended December 29, 2011, Regal Cinemas entered into two hedging relationships via two distinct interest rate swap agreements with effective dates beginning on June 30, 2012 and December 31, 2012, respectively, and maturity terms ending on June 30, 2015 and December 31, 2015, respectively. These swaps require Regal Cinemas to pay interest at fixed rates ranging from 1.325% to 1.820% and receive interest at a variable rate. The interest rate swaps are designated to hedge $300.0 million of variable rate debt obligations.

(2) During the year ended December 27, 2012, Regal Cinemas entered into one additional hedging relationship via one distinct interest rate swap agreement with an effective date beginning on December 31, 2013 and a maturity date of December 31, 2016. This swap requires Regal Cinemas to pay interest at a fixed rate of 0.817% and receive interest at a variable rate. The interest rate swap is designated to hedge $150.0 million of variable rate debt obligations.

(3) During the year ended December 26, 2013, Regal Cinemas entered into one additional hedging relationship via one distinct interest rate swap agreement with an effective date beginning on June 30, 2015, and a maturity date of June 30, 2018. This swap will require Regal Cinemas to pay interest at a fixed rate of 1.828% and receive interest at a variable rate. The interest rate swap is designated to hedge $200.0 million of variable rate debt obligations.

See Note 11—"Fair Value of Financial Instruments" for discussion of the Company's interest rate swaps' fair value estimation methods and assumptions.

Lease Financing Arrangements—These obligations primarily represent lease financing obligations resulting from the requirements of ASC Subtopic 840-40. In connection with the acquisition of Hollywood Theaters discussed further in Note 3—"Acquisitions," the Company assumed approximately $40.4 million of lease financing obligations associated with 14 acquired theatres. Such obligations have a weighted average interest rate of approximately 10.7% and mature in various installments through November 2028.

Other Long-Term Obligations— Other long-term obligations, including capital lease obligations, not explicitly discussed herein are described in Note 5 to the 2013 Audited Consolidated Financial Statements and incorporated by reference herein.

Covenant Compliance—As of September 25, 2014, we are in full compliance with all agreements, including all related covenants, governing our outstanding debt obligations.

5. INCOME TAXES

The provision for income taxes of $18.0 million and $50.2 million for the quarters ended September 25, 2014 and September 26, 2013, respectively, reflect effective tax rates of approximately 40.5% and 40.1%, respectively. The provision for income taxes of $42.3 million and $92.2 million for the three quarters ended September 25, 2014 and September 26, 2013, respectively, reflect effective tax rates of approximately 41.8% and 40.8%, respectively. The increase in the effective tax rate for the quarter ended September 25, 2014 is primarily attributable to the impact of federal and state interest accruals on certain deferred taxes during the quarter ended September 25, 2014. The increase in the effective tax rate for the three quarters ended September 25, 2014 is primarily attributable to the state tax effects of the $62.4 million ($39.2 million after related tax effects) loss on debt extinguishment associated with the repurchase of approximately $711.4 million aggregate principal amount of the Company's $9^{1}/_{8}$% Senior Notes and Regal Cinemas' $8^{5}/_{8}$% Senior Notes that occurred during the three quarters ended

September 25, 2014, which was not deductible in certain states. The effective tax rates for the quarters and three quarters ended September 25, 2014 and September 26, 2013 also reflect the impact of certain non-deductible expenses and income tax credits.

In assessing the realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The Company has recorded a valuation allowance against deferred tax assets at September 25, 2014 and December 26, 2013 of $34.5 million and $34.1 million, respectively, as management believes it is more likely than not that certain deferred tax assets will not be realized in future tax periods. During the quarter ended September 25, 2014, the valuation allowance was increased by $0.4 million related to management's determination that it was more likely than not that net operating losses generated in certain U.S. territories by Hollywood Theaters prior to the acquisition would not be realized. Future reductions in the valuation allowance associated with a change in management's determination of the Company's ability to realize these deferred tax assets will result in a decrease in the provision for income taxes.

The Company and its subsidiaries collectively file income tax returns in the U.S. federal jurisdiction and various state and U.S. territory jurisdictions. The Company is not subject to U.S. federal examinations by tax authorities for years before 2010, and with limited exceptions, is not subject to state income tax examinations for years before 2010. However, the taxing authorities still have the ability to review the propriety of tax attributes created in closed tax years if such tax attributes are utilized in an open tax year. In May 2014, the Company was notified that the Internal Revenue Service ("IRS") would examine its 2012 federal income tax return. As of the quarter ended September 25, 2014, the Company has not been notified of any items that are being disputed by the IRS. Management believes that it has provided adequate provision for income taxes relative to the tax year under examination.

6. CAPITAL STOCK AND SHARE-BASED COMPENSATION

Capital Stock

As of September 25, 2014, the Company’s authorized capital stock consisted of:

- 500,000,000 shares of Class A common stock, par value $0.001 per share;
- 200,000,000 shares of Class B common stock, par value $0.001 per share; and
- 50,000,000 shares of preferred stock, par value $0.001 per share.

Of the authorized shares of Class A common stock, 18.0 million shares were sold in connection with the Company’s initial public offering in May 2002. The Company’s Class A common stock is listed on the New York Stock Exchange under the trading symbol "RGC." As of September 25, 2014, 132,465,104 shares of Class A common stock were outstanding. Of the authorized shares of Class B common stock, 23,708,639 shares were outstanding as of September 25, 2014, all of which are beneficially owned by Anschutz Company and its affiliates (collectively, "Anschutz"). Each share of Class B common stock converts into a single share of Class A common stock at the option of the holder or upon certain transfers of a holder’s Class B common stock. Each holder of Class B common stock is entitled to ten votes for each outstanding share of Class B common stock owned by that stockholder on every matter properly submitted to the stockholders for their vote. Of the authorized shares of the preferred stock, no shares were issued and outstanding as of September 25, 2014. The Class A common stock is entitled to a single vote for each outstanding share of Class A common stock on every matter properly submitted to the stockholders for a vote. Except as required by law, the Class A and Class B common stock vote together as a single class on all matters submitted to the stockholders. The material terms and provisions of the Company’s certificate of incorporation affecting the relative rights of the Class A common stock and the Class B common stock are described in Note 9 to the 2013 Audited Consolidated Financial Statements, incorporated by reference herein.

Warrants

No warrants to acquire the Company's Class A or Class B common stock were outstanding as of September 25, 2014.

Share-Based Compensation

In 2002, the Company established the Regal Entertainment Group Stock Incentive Plan (the "Incentive Plan"), which provides for the granting of incentive stock options and non-qualified stock options to officers, employees and consultants of

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the Company. As described below under "Restricted Stock" and "Performance Share Units," the Incentive Plan also provides for grants of restricted stock and performance shares that are subject to restrictions and risks of forfeiture. Readers should refer to Note 9 to the 2013 Audited Consolidated Financial Statements for additional information related to these awards and the Incentive Plan.

On May 9, 2012, the stockholders of Regal approved amendments to the Incentive Plan increasing the number of Class A common stock authorized for issuance under the Incentive Plan by a total of 5,000,000 shares and extending the term of the Plan to May 9, 2022. As of September 25, 2014, 4,620,331 shares remain available for future issuance under the Incentive Plan.

Stock Options

As of September 25, 2014, there were no options to purchase shares of Class A common stock outstanding under the Incentive Plan. There were no stock options granted during the quarters and three quarters ended September 25, 2014 and September 26, 2013 and no compensation expense related to stock options was recorded during such periods.

The Company receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the stock is sold over the exercise price of the options. The Company is required to report excess tax benefits from the award of equity instruments as financing cash flows. Excess tax benefits are recorded when a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes. For the three quarters ended September 25, 2014, the unaudited condensed consolidated statement of cash flows reflects less than $0.1 million of excess tax benefits as financing cash flows and $0.1 million of proceeds from the exercise of stock options. The actual income tax benefit realized from stock option exercises was less than $0.1 million for the same period. For the three quarters ended September 26, 2013, the unaudited condensed consolidated statement of cash flows reflects less than $0.1 million of excess tax benefits as financing cash flows. Net cash proceeds from the exercise of stock options were $1.3 million for the three quarters ended September 26, 2013. The actual income tax benefit realized from stock option exercises was approximately $0.2 million for the same period.

The following table represents stock option activity for the three quarters ended September 25, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contract Life (Yrs.)
Outstanding options at beginning of period	3,900	$ 13.72	0.49
Granted during the period	—	—	
Exercised during the period	(3,900)	13.72	
Forfeited during the period	—	—	
Outstanding options at end of period	—	—	—
Exercisable options at end of period	—	—	—

Restricted Stock

As described further in Note 9 to the 2013 Audited Consolidated Financial Statements, the Incentive Plan also provides for restricted stock awards to officers, directors and key employees. Under the Incentive Plan, shares of Class A common stock of the Company may be granted at nominal cost to officers, directors and key employees, subject to a continued employment/service restriction. During the three quarters ended September 25, 2014, 227,447 restricted shares were granted under the Incentive Plan at nominal cost to officers, directors and key employees. These awards vest 25% at the end of each year for 4 years (in the case of officers and key employees) and vest 100% at the end of one year (in the case of directors). The closing price of the Company’s Class A common stock on the date of the grant (January 8, 2014) was $19.08 per share. The Company assumed a forfeiture rate of 4% for such restricted stock awards.

During the three quarters ended September 25, 2014, the Company withheld approximately 194,675 shares of restricted stock at an aggregate cost of approximately $3.8 million, as permitted by the applicable equity award agreements, to satisfy employee tax withholding requirements related to the vesting of 576,921 restricted stock awards. In addition, during the three quarters ended September 25, 2014, 330,750 performance share awards (originally granted on January 12, 2011) were effectively converted to shares of restricted common stock. As of the calculation date, which was January 12, 2014, threshold performance goals for these awards were satisfied, and therefore, all 330,750 outstanding performance shares were converted to

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restricted shares as of January 12, 2014. These awards are scheduled to fully vest on January 12, 2015, the one year anniversary of the calculation date.

During the quarters ended September 25, 2014 and September 26, 2013, the Company recognized approximately $1.0 million of share-based compensation expense related to restricted share grants. During the three quarters ended September 25, 2014 and September 26, 2013, the Company recognized approximately $3.0 million and $3.5 million, respectively of share-based compensation expense related to restricted share grants. Such expense is presented as a component of "General and administrative expenses." The compensation expense for these awards was determined based on the market price of the Company's stock at the date of grant applied to the total numbers of shares that were anticipated to fully vest. As of September 25, 2014, we have unrecognized compensation expense of $5.1 million associated with restricted stock awards.

The following table represents the restricted stock activity for the three quarters ended September 25, 2014:

Unvested at beginning of period	927,261
Granted during the period	227,447
Vested during the period	(576,921)
Forfeited during the period	(23,172)
Conversion of performance shares during the period	330,750
Unvested at end of period	885,365

During the three quarters ended September 25, 2014, the Company paid three cash dividends of $0.22 on each share of outstanding restricted stock totaling approximately $0.6 million. During the three quarters ended September 26, 2013, the Company paid three cash dividends of $0.21 on each share of outstanding restricted stock totaling approximately $0.7 million.

Performance Share Units

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