

**Operator**

Good morning. My name is Casey and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Regal Entertainment Group third quarter conference call with our host, Mike Campbell, Chief Executive Officer, Theater Group and Co-CEO Regal Entertainment Group and Kurt Hall, CEO of Regal CineMedia and Co-CEO of Regal Entertainment Group. All lines have been placed on mute to prevent any background noise.

After Mr. Campbell's remarks, there will be a question and answer period. If you would like to ask a question during this time, simply press star, then the number 1 on your telephone keypad and questions will be taken in the order they are received. If you would like to withdraw your question, you may do so by pressing star 2. As a reminder, if you are on a speaker phone, please pick up your hand set before presenting your question. I would now like to turn the call over to Don De Laria, Vice President of Investor Relations.

**Don De Laria - Regal Entertainment Group – VP, Investor Relations**

Hi and good morning, before we begin today, as usual, I would like to remind our listeners that this conference call contains forward-looking statements within the meaning of Section 27-A of the Securities Act of 1933 as amended and section 21-E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical facts communicated during this conference call may constitute forward-looking statements. These forward-looking statements involve risks and uncertainties. Important factors that can cause actual results to differ materially from the company's expectations are disclosed in the risk factors contained in the company's annual report on Form 10-K, dated March 26, 2003. All forward-looking statements are expressly qualified in their entirety by such factors. During the call today we will make reference to certain Non GAAP measures. A reconciliation of the Non GAAP measures to the appropriate GAAP measures is included in our earnings press release and the press release is also posted on our website in the Investor Relations section.

Now, I will turn the call over to Mike Campbell, Vice Chairman, Co-CEO of Regal Entertainment Group and CEO of Regal Theater Group.

**Michael Campbell - Regal Entertainment Group - Co-Chairman and Co-CEO**

Thanks, Don. Good morning, and thank all of you for dialing into our third quarter conference call. Today I will provide an overview of Regal's third quarter results and discuss our expectations for the box office in the fourth fiscal quarter of 2003 and for the full year 2004.

Following my remarks, Kurt Hall will provide you an update on our Regal CineMedia business and Amy Miles, our CFO, will provide a summary review of our financial results. As always, we will conclude the call with a question and answer session.

*Now, beginning with third quarter results...*

Regal's box office results compared favorably against the third quarter of 2002. For the fiscal third quarter, our admission revenue was \$425.7 million, an increase of 10% over the comparable quarter of 2002. Regal's box office increased primarily due to the incremental Hoyts screens coupled with an approximate 3% increase in the U.S. domestic box office during Regal's comparable Q3 fiscal period

The July national box office declined approximately 1% vs. July 2002 and the top 10 films accounted for approximately 83% of Regal's box office vs. approximately 76% last year. This year, the top three films, "Pirates of the Caribbean", "T3" and "Charlie's Angels 2" compared well to "Men in Black 2", "Mr. Deeds" and "Lilo & Stitch" from July 2002.

The August national box office rebounded... finishing ahead of August 2002. The top 10 August films accounted for roughly 80% of Regal's box office both this year and last year, and overall, August accounted for approximately 43% of our Q3 2003 box office. In August 2003, it was the breadth of the movie slate that overcame strong openings last August from "Goldmember", "Signs" and "XXX".

Lastly, Regal's September box office finished approximately ahead of September 2002 and accounted for approximately 19% of the Q3 total. In September 2003, the top 10 films accounted for approximately 60% of the monthly total vs. roughly 65% in September 2002. Again, it was the breadth of the film slate in September 2003 that compensated for strong September 2002 performances from "My Big Fat Greek Wedding", "Barbershop" and "Signs".

In another successful quarter, we generated adjusted EBITDA of \$136.4 million and an adjusted EBITDA margin of 21.7%. The 14% increase in adjusted EBITDA for the quarter is due to the incremental Hoyts EBITDA, solid box office performance and the continued increase in the Regal CineMedia contribution to EBITDA.

As we have stated previously, we operate the Company with a focus on increasing cash flow and cash flow margins. We were pleased with the 80 basis point improvement in our EBITDA margins during the 3<sup>rd</sup> quarter. The increase in total

revenues of \$58.4 million coupled with our continued focus on controlling expenses where possible resulted in the margin expansion.

Again, we are pleased to announce the declaration of a \$0.15 per share dividend for the quarter. Our solid financial performance which has consistently produced free cash flow and positive net income has allowed us to return significant value to our shareholders. We will continue to focus on managing the business with a goal of maximizing shareholder value.

***Now, looking for the balance of 2003...***

Although, the fourth quarter industry box office is flat to slightly down through the fourth weekend versus the comparable period of '02, we expect the fourth quarter film slate will match up well with the fourth quarter of 2002. Upcoming films, such as the 3<sup>rd</sup> Lord of the Rings – “Return of the King”, the 3<sup>rd</sup> Matrix picture, “The Last Samurai” with Tom Cruise, “Master and Commander” as well as Holiday family pictures including, “Cat in the Hat”, are all expected to perform well at the box office during the 4<sup>th</sup> quarter.

We continue to remain on-track with our projection for a flat box office in 2003 and based on the phenomenal 2002 box office, we are pleased with the year to date box office performance. As of last Thursday, the year-to-date box office has increased just less than 1% vs. Regal’s fiscal year-to-date period last year.

***Briefly with respect to the 2004 box office...***

We remain optimistic regarding the 2004 film slate. Currently, the 2004 film line up consists of potential strong franchise films and other key tent pole pictures and we believe the industry is poised to benefit from another year of solid box office performance.

So, in summary, we're pleased again with our ability to post solid financial results and retain flexibility to continue to execute our business strategy. And, at this point, I'd like to turn the call over to Kurt Hall for a progress report on CineMedia. Kurt?

**Kurt Hall - Regal Entertainment Group - Co-Chairman and Co-CEO**

Thanks Mike.

Hello, everyone, and thanks for joining us this morning.

CineMedia continued to make great progress in the third fiscal quarter, providing meaningful year-over-year EBITDA growth for the Company.

*The CineMedia financial highlights include the following...*

- Total third quarter 2003 revenue was nearly three times the 2002 Q3 levels.
- The CineMedia share of REG's Other Revenue continued to grow. During the current quarter CineMedia revenue represented 53% of REG's Other Revenue, and 46% of Other Revenue on a year-to-date basis.
- Advertising revenue continued to represent over 80% of the total CineMedia revenue.
- CineMedia's overall EBITDA Margins continue to track ahead of the previously announced 50% annual target.

The deployment of our Digital Content Network, or "DCN", continued to track ahead of schedule and below budget. The DCN is now in 340 locations in 43 markets, with 4,089 theater screens, and 1,111 lobby plasma screens. We currently expect to finish the primary network deployment by year-end, several months ahead of schedule. The completed digital network will have over 400 locations, nearly 5,000 theatre screens and 1,250 plasma screens and will cover over 60 markets, 44 within the top 50 DMAs.

Our digital pre show "The Twenty" continues to be well received by audiences and advertisers. Each month, we have expanded the number of clients and client categories and the level of expenditure by current clients. This market acceptance of cinema advertising is expected to expand even further as marketers look for new ways to reach consumers and as we provide a better and more efficient medium.

To enhance advertiser acceptance, CineMedia has worked with ACNielsen market research and other providers of cinema advertising in the creation of an audience size and demography reporting system that can be used by media buyers to measure their campaign's reach and effectiveness in much the same way they use the television rating system.

With the expansion of the DCN and the efforts of our advertising marketing and sales team, during the third quarter, our total advertising revenue was 273% of the Q3 2002 revenue. This trend is continuing into the fourth quarter, as we have very limited available inventory for the remainder of the year and are now focusing most of our efforts on 2004 inventory. Our utilization or sell-through percentages for "The

Twenty" for the third and fourth quarter have averaged nearly 100%, with over 80% of the inventory sold for the entire year. Our advertising rates have also tracked ahead of plan with the increase in utilization rates.

We have also continued to experience higher year-over-year sales levels in our CineMeetings division. Current quarter sales were 378% percent of the Q3 2002 sales and on a year-to-date basis; we have already contracted approximately 106% of the CineMeetings annual plan, and 182% of 2002's total revenue.

With the expanding reach of our digital network, we are beginning to focus more resources on the development of new content designed to increase seat utilization during slow theatrical attendance periods. While there are several areas of focus which are being incubated, we have had some recent success in the music and education areas. During the last few months, we have held national concert events for Kiss and The Grateful Dead that created significant increases over historical seat utilization during mid-week evenings. Several other concert events, including the band Rush, which will be held later today, are planned for the coming months.

We are also experiencing significant demand for an interactive educational program related to the film Holes. The early November event will allow students and their teachers in over 50 theatres across the country to interact during a literature lesson plan with the book's author and screenwriter and the film's director. The program will also show clips from the film in support of the lesson plan and DVD release.

While the majority of the concert and other events held to date have been limited to a small number of markets to gauge consumer demand, test pricing and technology, with the completion of our digital network deployment, we are now ready to expand the number of markets and theatres, and thus provide a more significant revenue potential.

I am obviously very pleased with the financial and business development results of CineMedia to date. With the completion of our digital network, the expanding market acceptance of cinema advertising and the use of theatres for business meetings, church services, distance learning, concerts and other events, we are well positioned going into 2004 to deliver on our mission to provide new high margin revenue sources and incremental cash flow for REG.

I'd now like to turn over the presentation to Amy Miles, our CFO, to give you an overview of REG's overall Q3 financial performance.

**Amy Miles - Regal Entertainment Group - EVP, CFO, Treasurer**

Thanks, Kurt...and good morning.

Before we start discussing the numbers this morning, I want to remind you that the numbers we'll be discussing today for the third quarter of 2002 are pro forma numbers. The differences in the pro forma and the actual numbers for the third quarter of the prior year relates solely to the acquisition of the UA minority shareholders that occurred during the fiscal 2002 3<sup>rd</sup> quarter.

The impact of the Hoyts acquisition is included in our results of operation for the third quarter of 2003 only. All prior periods, including the third quarter of '02, exclude the results of operation for Hoyts. As we have said before, the Hoyts acquisition did not meet the SEC significance test, and accordingly, we did not pro forma results for the acquisition in our press release. I will, however, provide information regarding the impact of Hoyts in the current quarter during our call this morning.

***Looking at the numbers...***

Regal Entertainment Group reported total revenues of \$629.9 million, consisting of \$425.7 million from our box office or admissions revenues, \$160.9 million from concessions and \$43.3 million of other revenues.

Total box office revenues increased approximately 10% during the 3Q. The increase was driven primarily by the Hoyts acquisition coupled with an increase in national box office for the fiscal weeks included in our fiscal 3<sup>rd</sup> quarter.

Total attendance up just under 3% and Hoyts contributed 5.3 million attendees during the 3<sup>rd</sup> quarter. The increase in attendance coupled with an approximate 7% increase in average ticket prices resulted in the 10% increase in box office revenues. The 7% increase in average ticket price is due to both price increases and film mix for the quarter.

It is important to note that on a same screen basis, attendance per screen declined just under 3% for the quarter and this decline was offset by a 7% increase in average ticket prices. Therefore, same screen box office growth for the quarter is just over 4% and which is in line with the national box office growth for the comparable weeks in our fiscal quarter.

The growth in concession revenues, lagged the box office growth for the quarter as the concession per caps were impacted by the film mix during the third quarter and as a result the concession per caps were slightly down for the quarter.

We were pleased with another quarter of solid growth in the other revenue line item. Other revenues increase 67% over the comparable quarter of 2002, ending the quarter

at \$43.3 million. As Kurt just discussed, the significant increases in Regal CineMedia's revenues represented the majority of the increase in the other revenue line item.

From an operating perspective, Regal met and exceeded expectations for Total Revenues and Adjusted EBITDA in Q3. Regal's Adjusted EBITDA increased approximately 14% over the third quarter of 2002 and Adjusted EBITDA margins increased approximately 80 basis points for the quarter. On a per screen basis, Regal's Adjusted EBITDA increased 8%. Additionally same screen growth in EBITDA demonstrates our ability to convert revenue growth to EBITDA growth.

***Looking briefly at our expense line items for the quarter...***

Film and advertising as a percent of admissions revenue was 53%, a decrease of 50 basis points relative to the comparable quarter of 2002. The lower film rental and advertising expense was primarily attributable to declines in film costs for the quarter coupled with a slight decline in advertising expenses

And also, before Regal's vendor rebate programs, our concessions produced a gross margin of 85.5% this quarter and represents a 40 basis point increase in concession costs over the comp quarter of 2002. The slight increase in costs for the quarter was attributable to concession product mix and the cost increase is more than offset by the concession vendor marketing program growth included in other operating revenues.

With respect to other theater operating expense, those costs totaled 24.9% of total revenue in this quarter compared to 24.7% percent in the comparable quarter of 2002. The absolute increase in this line item relates primarily to the incremental Hoyts costs and growth in the Regal CineMedia business. The expenses were relatively consistent as a % of revenues with a 20 basis point decline in margins primarily related to the increase of certain occupancy costs.

General and administrative expense decreased 4.2% compared to the comparable quarter of 2002 and represented 2.4% of total revenue vs. 2.9% in Q3 2002.

Diluted EPS for the quarter, excluding merger and restructuring expenses and deferred stock amortization net of the tax impact, totaled \$0.31 for the quarter. We were pleased to report a quarter with growth in adjusted EPS of just under 7%. In addition to the 18.5% growth in Net Income, our share count increased approximately 9.1 million shares quarter over quarter. EPS was down \$0.01 from consensus due to primarily to 145.3 million fully diluted shares vs. consensus estimate of approximately 143 million shares.

***Looking briefly at cap-x and theater counts...***

Capital expenditures during the quarter totaled \$36.0 million. Of this, \$22.7 million was related to theater and then an additional \$13.3 million was for Regal CineMedia.

During the third quarter of this year, we closed 7 theaters with 58 screens, and did not open or acquire any additional theatres or screens.

***Briefly looking at our balance sheet....***

We ended the quarter with a cash balance of just under \$155.0 million and as of the end of the quarter, our net debt to adjusted EBITDA or “leverage ratio” was 2.2x.

In summary, we ended the quarter with a strong cash position and our focus on generating industry leading ebitda margins and net income has resulted in meaningful free cash flow for the Company. We will continue to evaluate the best alternatives for the use of our free cash flow with a focus on both growing the business and providing returns to shareholders.

So that's all that we have today with respect to our remarks. So we'd just now like to open the calls to any questions.

**Operator**

I would like to remind everyone, in order to ask a question please press \*, then the number 1 on your telephone keypad at this time. If your question has already been answered you may withdraw your question by pressing the # key. As a reminder, if you are on a speakerphone please pick up your handset before presenting your question. Please hold for your first question.

Your first question comes from Bishop Cheen

**Bishop Cheen, Wachovia Securities - Analyst**

Good morning Mike and Amy and Kurt and Don. Amy, can you just go over the balance sheet a little bit in detail — you're always kind enough to do it each quarter — in terms of the amount drawn on the revolver, I think the old term and the lease debt and the capital lease debt?

**Amy Miles, RGC - EVP, CFO**

Sure. We ended the quarter, as we said, with roughly \$155 million of cash, total outstanding debt of \$1.242 billion. The breakdown of that debt is the bank loan is at \$523.1. It converts at \$240. The bonds are at \$350. And lease financing and capital lease and other debt make up the balance to get to the \$1.242 billion. We have zero withdrawn — I'm sorry — zero drawn on our revolver.

**Bishop Cheen, Wachovia Securities - Analyst**

Great!



**Amy Miles, RGC - EVP, CFO**

The total assets, Bishop, of about \$2.340 billion.

**Bishop Cheen, Wachovia Securities - Analyst**

Right. And that was at September 30th, and any significant change since that?

**Amy Miles, RGC - EVP, CFO**

No, there's not.

**Bishop Cheen, Wachovia Securities - Analyst**

OK. Kurt, can you just — I know you gave a lot of metrics around CineMedia. Can you tell us what the revenue and the EBITDA contribution was in terms of dollars for the quarter?

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Well, the revenue we gave a metric that you can calculate, which was 53 percent of the other revenue, so if you do the math for the quarter you can get that, and 46 percent of the other revenue for the year-to-date. We are not separately disclosing what the EBITDA is for Regal CineMedia. It's not a separate segment and if we disclose what it is we have to go through a significant reconciliation under the new rule.

**Bishop Cheen, Wachovia Securities - Analyst**

Got it. But, it is positive?

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Well, as I said in my statements, we're tracking ahead of our 50 percent EBITDA margins for the whole unit, for the Regal CineMedia unit.

**Bishop Cheen, Wachovia Securities - Analyst**

Right. OK. And then, last question, significantly less cost of film and advertising this quarter versus Q2, over 300 basis points I think. Can you keep it down to that level for Q4, or will film advertising increase significantly?

**Amy Miles, RGC - EVP, CFO**

Yes, this is pretty much, from our perspective — and I'm sorry, I hope you can hear me because we're getting a lot of static...

**Bishop Cheen, Wachovia Securities - Analyst**

We're getting special effects, but I can hear you.

**Amy Miles, RGC - EVP, CFO**

Yes, OK, we apologize for the technical delays. We've had some of those this morning. But with respect to the film, I wouldn't — any kind of quarter-over-quarter trend, I wouldn't read that into what happens the next fiscal quarter. The third quarter is typically a lower film cost quarter for the company and the industry, and so it trends more kind of to a similar quarter and that's why, even though it's down, call it 300 basis points from the second quarter, this fiscal period it's only [technical difficulty] basis points from the same quarter last year.

So we continue to work on controlling all those costs, but I wouldn't read any kind of long-term trend into our quarterly film costs.

**Bishop Cheen, Wachovia Securities - Analyst**

Fair enough. Last question, ticket price hikes anticipated in this fourth quarter?

**Amy Miles, RGC - EVP, CFO**

You know, we have been averaging this year higher-than-expected and a lot of that has been due to the film mix. It's been skewed a lot more to the PG-13 and the 'R' film product, which generally brings a higher ticket price. So, when you look at the films in the first and fourth quarter, I would assume that our ticket prices should be, again north of that five percent increase year-over-year.

**Bishop Cheen, Wachovia Securities - Analyst**

OK, thank you very much.

**Operator**

Your next question comes from Scott Barry.

**Scott Barry, CSFB - Analyst**

Good morning. Just following up on that one, Amy, maybe you could talk briefly about what your expectations for a concession-per-caps would be going forward. And then, give us some color on the significance of this 53rd week, maybe in terms of attendance.

And then lastly, maybe Mike you could just comment on what you're seeing in terms of the private market environment out there. Thank you.

**Amy Miles, RGC - EVP, CFO**

Yes, thanks, Scott, I'll go ahead and take the first part of your question.

With respect to the concession-per-caps, we'll continue to raise prices in the concession area as we have historically. But what you saw this quarter was actually a decline in the concession-per-cap and we've indicated that that was due to a film mix.

And just to give you a little bit more color with respect to that issue, for the third quarter of 2003 approximately 82 percent of our box office was generated by PG-13 in our pictures, and that compares to roughly 73 percent of our box office being PG and 'R' in the third quarter of 2002. That's a pretty big variation there, but reality is the biggest variation was in the 'R' pictures, and if you look at the amount of 'R'-rated pictures for this quarter, it — I mean, approximately 32 percent of our box office revenues were generated by 'R'-rated pictures, and that compares to roughly 13.6 percent of our box office revenues were 'R'-rated pictures in the same quarter last year. So you can see a lot of variability there in the 'R'-rated picture, which really impacts your concession-per-cap.

Going forward, in any given year, and you would expect if the film product is evenly distributed between various ratings and that evens out your per-cap, the only thing I can say, however though, with respect to the fourth quarter, a lot of the pictures that we are projecting to be high performing, such as "The Last Samurai", "The Third Matrix", a couple of other pictures, "Something's Gotta Give" with Jack Nicholson, "Master and Commander". "The Last Samurai" and "Matrix" are 'R' pictures and I'm assuming that the other two are PG-13, but they probably skew to an older audience.

So, from that perspective, you will probably see pressure on our per-caps again in the fourth quarter, but we would not expect that trend to continue into the 2004 fiscal year just based on the film slate that we see today.

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

Now regarding, Scott, your question on the private market consolidation opportunities, we don't have anything to disclose today, but as we've said often in the past, we're continuing to look for other consolidation opportunities.

And going forward, I do sense that there may be a narrowing of the gap between private market and public market valuations, but there is still somewhat of a gap there and we'll just have to see what happens going forward.

**Amy Miles, RGC - EVP, CFO**

And Scott, I'm sorry, I cut off before the 53rd week. Just a reminder that the fourth quarter for us will have 14 weeks versus 13 weeks, and the week that we are adding is the week between Christmas and New Year's, which historically has represented between two to three percent of our annual attendance in that one fiscal week. So that is a big week and that will be a difference in our fourth quarter of 2003 as compared to the fourth quarter of 2002.

**Scott Barry, CSFB - Analyst**

Great! Thanks very much.

**Operator**

Our next question comes from Gordon Hodge.

**Gordon Hodge, Thomas Weisel Partners - Analyst**

Good morning. A couple of questions on CineMedia, Kurt. One is, you talked about accelerating the buildout of digital cinema systems and to finishing this year. I'm just wondering if you could talk about Cap ex related to that, or Amy, if you could just talk about aggregate Cap ex expectations for the fourth quarter.

And then also, [technical difficulty] ratings project with AC Mills and I gather that's on a trial basis now where you're not paying a lot for it, but do you anticipate incurring higher expenses from a ratings standpoint later on? Thanks.

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

On the capital, we had always, in the capital numbers that we had given to the market, we had always sort of assumed that the majority of the capital would be spent this year and that we were probably in a cleanup mode, if you will, in January with respect to the network, so I think we're still on track. We're somewhere in the range of \$70-73 million, which was the number we had reported for total Cap ex for the buildout. Twenty-three or four — well, how much of that was last year, Amy?

**Amy Miles, RGC - EVP, CFO**

Yes, I was going to say, let me — I'll take this piece for you and then you can answer the rest of the question. With respect to capital in the fourth quarter, as Kurt just indicated, assuming that most of that is spent in the fourth quarter, what that will mean for the company is another \$15 million on Regal CineMedia. And I would estimate about \$30 million on the theater side to get you to a \$45 million number in total. That would be a Cap ex for the year of roughly \$85 million on the theater side and \$50 million on CineMedia. And Kurt, as you were indicating, about \$23 million of yours was spent last year to get to your \$73 million.

And just — and I'm sorry, Kurt, before you go on, with respect to the total Cap ex, that is lower than previous guidance for an aggregate of \$135 million, and really that's just timing. That's Cap ex that due to timing of certain projects moving will go into '04 versus '03.

OK, I'm sorry Kurt.

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

That's all right. Thank you. The question on Nielsen is that this won't be a cast. We're actually creating a rating system for the industry, much the way television does. Clearly, one of our strategies has been to give the market all the same metrics and all the same reporting systems as television has and to make it easier, obviously, for the market to buy cinema. There will be expenses incurred for that that are being shared by all the participants in the program.

If you're familiar with the rating system, we'll have effectively what's called a 'pocket piece' just like television, the various television networks have.

**Gordon Hodge, Thomas Weisel Partners - Analyst**

Great! Is that — are those expenses being run through the income statement now, the margins you talked about on CineMedia?

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Some of them are this year, and then we've signed a reasonably long-term contract with Nielsen for future years.

**Gordon Hodge, Thomas Weisel Partners - Analyst**

Great! Thank you.

**Operator**

Our next question comes from Anthony [DiClemente] with Lehman Brothers.

**Anthony DiClemente, Lehman Brothers - Analyst**

Yes, hi, how are you? I actually have two questions. Just anecdotally we've heard that in the smaller markets, that is, the DMAs rank 5200, that you may have an offsetting factor and that those markets might be growing their admissions revenue at a greater rate than the major markets. I was wondering if you could verify that, and if that's not the case can you give us a little bit more color on the major versus the smaller markets?

And then, I have one more follow-up if possible. Thanks.

**Amy Miles, RGC - EVP, CFO**

I'm sorry, with the major markets versus the smaller market, did you say box office revenues or is that the revenue question you were asking?

**Anthony DiClemente, Lehman Brothers - Analyst**

Yes.

**Amy Miles, RGC - EVP, CFO**

No, we're not seeing a big change in any of the smaller market growth for us as a circuit than we are our large major market. So, we're not — you know a lot of those are growing and keeping with national box. Now, you may have a market here or there in both a major market and a small market that may be performing in a manner a little bit different than national box because of the screen capacity in that market, but overall, we're not seeing any kind of trend in major versus non-major.

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

I will tell you, to follow up on a point that Amy made, is that in some of the mid-sized markets, when you build a new stadium theater, we have seen evidence that the attendance levels do grow in those markets because they've been under-served effectively in the past. So, you know, some of our strategy, and I guess others as well, has been to go into some of these mid-sized markets and redo the facilities in those markets and to grow the cash flow and the revenue.

**Anthony DiClemente, Lehman Brothers - Analyst**

Got you. Thank you. That was very helpful. And my other question is just, Kurt, on CineMedia, I was wondering if you could comment at all on the pricing there, maybe as it relates to broadcast TV pricing, if you can give us any color any CPMs, or whatnot. And then, going into '04, on the broadcast TV side there's an anticipation for a strong advertising year given you have political spending and Olympics, and I just wonder if you anticipate any indirect spill-over effect from that into your business in '04?

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

We are seeing a little bit of softness, as you probably know, in the scatter market and television and I think that's just probably directly related to such a strong upfront this year. It's just from shifting going on between the money committed in the upfront and what's available or what's left now.

I think going into '04, I think you correctly pointed out the two things that are going to affect the market, the Olympics and the elections, especially as you get towards the end of the year. I actually do believe that we will benefit, as inventory on television tightens up with the elections, that we will benefit from some of that. And we are talking currently to several different clients about Olympic programs as well as what's going to happen next year in next year's third and fourth quarters.

**Anthony DiClemente, Lehman Brothers - Analyst**

Can you help us with CPM levels as it compares to TV CPM levels?

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Well, the CPM levels on average are a lot higher than television. And I think, as I've said in the past, it's somewhere in the range of 25–30 per thousand. The television rates, as you know, are in the teens. So, we are a higher-priced medium, but of course, we have — recall is four to six times better and a lot of other attributes that we think are very positive.

So, we'll continue to see increases, I think, along the same lines as what you're seeing in television. I think next year we'll be aided a little bit by the things that we talked about before.

**Anthony DiClemente, Lehman Brothers - Analyst**

Great! Thank you very much. Congratulations on your quarter.

**Operator**

One moment for your next question. Your next question comes from Stewart Halpern.

**Stewart Halpern, RBC Capital Markets - Analyst**

Hi. I've got four questions actually. First Mike, your reference to being optimistic about '04, could you refine that a little bit to say that your optimism is about matching what you expect '03 to do, or actually beating '03?

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

We haven't finished our budget yet for '04, but I think, when I say optimistic, you know, bearing in mind that we were down a little bit this year from '02 as far as attendance, I think we would expect the attendance to rebound a bit in '04, maybe not to the '02 levels, but, you know, on a really good year that could happen.

**Stewart Halpern, RBC Capital Markets - Analyst**

OK. And then, a couple of things, which I think are probably for Amy. Your reference to the operating expense costs in relation to revenues being influenced a little bit by you said certain occupancy — higher certain occupancy costs. Could you just...

**Amy Miles, RGC - EVP, CFO**

Typically in your third quarter, if you look at kind of trends over time in the industry, that's our most expensive utility quarter, so from that perspective you see some spike in that cost, not necessarily quarter-over-quarter, but from say Q2 to Q3 you see some growth in that line item. And here we went from — I think we were about 152 last quarter and we went to 157 roughly this quarter in that line item as compared to last year where we were at 133 for the second quarter going to 141.

So you can see there, there is some increase in that quarter-over-quarter, see certain occupancy, primarily utility.

**Stewart Halpern, RBC Capital Markets - Analyst**

And then, also just on the expense side, I noticed that the theater operating costs per average screen is as low as rent for average screen, are each up a bit, about 3.5–4 percent year-over-year. Is that in any way a function of the cost structure of the Hoyts theaters, or is there something else?

**Amy Miles, RGC - EVP, CFO**

Yes, there's a little bit in there with respect to the Hoyts. They have a higher revenue-per-screen, but they also have a little bit higher rent in occupancy that's more market related. So, some of that is with the Hoyts. And then, the only other thing that drives that is, obviously each year you do have annual cost increases in those line items that aren't necessarily related to your revenues. And the piece that would be related to your revenues would be any increases in percentage rents.

**Stewart Halpern, RBC Capital Markets - Analyst**

Right, OK. And then, just finally one maybe for Kurt, is there any concessions experience that you can talk about at some of the special events that you're doing?

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Yes, clearly there are concession sales that go on. Depending on the mix of the audience, the concession sales will generally be a little bit lower on a per capita basis. It's really not a per capita game that we're playing; it's actually, get more business and seats on a Monday or Tuesday night and just sell more gross concession.



So, we're in the process right of analyzing the effect on our concession numbers, so while overall revenue will go up, it may depress per capita a little bit. For instance, on "The Grateful Dead" that we just did, obviously that was a bit older audience. Concession sales are not as strong as you would have with a G- or PG-rated film, but again, you're just trying to get more revenue in the door during those mid-week nights.

**Stewart Halpern, RBC Capital Markets - Analyst**

Great! Thanks.

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

Stewart, one other additional follow-up on '04, one of the reasons that we're optimistic about '04 is that you actually have an increase in the number of films as well. There will probably be another 20-25 films next year, which doesn't always translate into quality, but in addition to the quality that we do see you have the quantity pushing the box office as well.

**Stewart Halpern, RBC Capital Markets - Analyst**

Great! Thanks, Mike.

**Operator**

Your next question comes from Allen Root with Principle Capital.

**Allen Root, Principle Capital - Analyst**

Hi, actually my questions are answered. Thanks.

**Operator**

Your next question comes from Aaron Watts with Deutsche Banc.

**Aaron Watts, Deutsche Bank - Analyst**

Hi. Are you currently a federal cash taxpayer?

**Amy Miles, RGC - EVP, CFO**

Yes, we are.

**Aaron Watts, Deutsche Bank - Analyst**

And you'll be, going forward?

**Amy Miles, RGC - EVP, CFO**

Yes, yes, we will be.

**Aaron Watts, Deutsche Bank - Analyst**

OK. Great!

**Operator**

Your next question comes from Matthew Harrigan with Janco Partners.

**Matthew Harrigan, Janco Partners - Analyst**

My questions were largely answered, but just quickly, when you look at the desperate performance of the chains, is there anything that you can really port over more from Regal, let's say, to UA to perform a little better on that circuit? And can you comment on the relative performance of that circuit?

And then also, when you look at the CPMs in some of the more developed markets that have a bigger emphasis on in-theater advertising, like the UK, would those be at a substantial premium to the broadcast CPMs in those markets?

**Amy Miles, RGC - EVP, CFO**

I'll answer the first question with respect to the differences in the circuit. We talked a lot pretty much last year. Now that we've had a year behind our belts of operating the companies about the synergies that we would bring to United Artists as well as the Edwards' acquisition, in the aggregate, those synergies totaled about \$35 million and consisted primarily of efficiencies in the concession area. Those are procurement cycle as well as our favorable contracts that were applied to the United Artists and Edwards, as well as the elimination of G&A.

So, most of those benefits in the United Artists and Edwards synergies — I mean, and Edwards assets have been realized from a synergy perspective. But then again, the overall Regal costs philosophy that focuses on a lot of line items where you continue to see operating efficiencies and how we staff labor and those kinds of things continue.

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

I'll answer the second — this is Kurt — the second part of the quarter. Clearly, in countries like the UK, Europe and Australia, and some of the countries that have had some advertising for a much longer time than we have in the United States, there's a

significant higher level of revenue being created per screen than we currently have in the U.S. We obviously see that as some upside potential.

I will say, however, that we've got to be very careful about balancing the amount of advertising and the kind of advertising we put on the screen with what our core customer, core theater patron thinks about it. That's one of the reasons that we've spent so much time developing the 20 — developing the programming and content that is implicit in it because you've got to strike that right balance.

So, I do think that there is some upside based on what we're seeing in other countries and I'll just temper that with making sure that it's very, very high quality.

**Matthew Harrigan, Janco Partners - Analyst**

Sure. Getting back to the first question, are you seeing much deviation though on the per-screen attendance numbers and the pricing power on UA, in other words, on an attendance basis? Are they underperforming relative to Regal and Edwards?

**Amy Miles, RGC - EVP, CFO**

They have a slightly lower margin than Regal and Edwards and I attribute that more to the nature of the asset base than any other factor, so I think the margin is maximized at United Artists. But again, since certain of their locations are more urban, they also have a little bit higher rent and fixed costs per screen.

**Matthew Harrigan, Janco Partners - Analyst**

OK, thank you.

**Operator**

Your next question comes from Lee Westerfield with Jefferies.

**Lee Westerfield, Jefferies - Analyst**

Thank you everyone. Good morning. I have four questions, but maybe if I can talk about the first two first...

**Operator**

Mr. Westerfield, you may proceed with your question.

**Lee Westerfield, Jefferies - Analyst**

Can you hear me? Hello.

**Operator**

One moment, Ladies and Gentlemen. Mr. Westerfield?

**Lee Westerfield, Jefferies - Analyst**

Yes.

**Operator**

Your line is open, sir.

**Lee Westerfield, Jefferies - Analyst**

Thank you. Mike, Amy, Don, and Kurt, can you hear me okay? OK, sorry about that. I have three questions if I may. First, Mike, concerning your IMAX locations with regard to Matrix upcoming, are you screening IMAX Matrix in all of your locations? And if so, are there also locations that would be screening a 35-millimeter version?

And Amy, I have a question regarding ticket pricing, which obviously was up rather nicely on a comparable basis, but was Hoyts comparable ticket pricing materially different than the pre-Hoyts screen base?

And then, I have one follow-up question, Kurt, regarding CineMedia.

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

Regarding the IMAX, we do anticipate playing the Matrix on all of our IMAX screens. And in some cases it will involve us playing 35-millimeter prints within the same theater complexes.

**Amy Miles, RGC - EVP, CFO**

With respect to the ticket price, with and without Hoyts, the ticket price was right at seven percent. For Hoyts there wasn't enough deviation there to skew the overall ticket price increase.

**Lee Westerfield, Jefferies - Analyst**

OK, thanks. That's very, very helpful. Kurt, a couple of questions on CineMedia. First, with regard to the process at Nielsen on ratings measurement, is Screen Vision and some of your other larger screen owners anyway contributing to that process, vis-à-vis Nielsen's rating standards?

And then, the second question really pertains to the proportion of advertising within your revenue during the third quarter. Now that the [indiscernible] has been built up

so substantially, obviously it's very interesting to look at how the advertising revenue growth is comparing its other revenue potentials within your business mix.

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Right. The answer to the first Nielsen question is 'yes'. We've actually formed — the industry has formed an association called "The Cinema Advertising Council", which we, Screen Vision, MCN, and several other people associated with the industry are involved with. And all three of the majors within the CAC — ourselves, Screen Vision, MCN — all participated in the Nielsen program. So, it's very much the way it happens in television. Everybody is part of the same measurement program.

And, I'm sorry, what was your second question?

**Lee Westerfield, Jefferies - Analyst**

On-screen advertising...

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

It's 53 percent of our total 'other revenue' for the current quarter; 46 percent of the year-to-date. So clearly, the percentage continues to grow as it did last quarter.

**Lee Westerfield, Jefferies - Analyst**

Perhaps I'm not asking the question exactly right. The percentage of advertising of CineMedia's revenue.

**Kurt C. Hall, Regal Cine-Media - President, CEO and Co-CEO**

Eighty percent.

**Lee Westerfield, Jefferies - Analyst**

OK. Wonderful! Thank you very much.

**Operator**

The next question comes from Richard Keller with Vantage Capital.

**Richard Keller, Vantage Capital - Analyst**

Good morning guys. I'm sorry, I've had some trouble hearing you, so if you've already answered this question I apologize. Most of my other questions have been answered. But, with regard to the share count, I guess my question would be, can you

offer some guidance to make sure that this doesn't happen again? I mean, what do you guys expect to have happen with the share count on a go-forward basis?

**Amy Miles, RGC - EVP, CFO**

Yes, pretty much in the second quarter we had an event where some Warrants were exercised midway through the quarter, so the midpoint of the quarter, Warrants were converted to common shares. So, from a treasury stock calculation, partial quarter those were, and fully diluted and not in basic, and the remaining part of the quarter they were obviously in both basic and fully diluted.

So, from that perspective, that was an extraordinary event that happened in the second quarter. Going forward, the difference today that exists between a basic and diluted EPS is the impact of the option. And obviously, that changes as options are exercised and based on how the stock price changes, but I would not think that would be a material variation from quarter to quarter as we saw this quarter between the 143 consensus and the 145.

And then, going forward, the only other thing that could start to impact EPS is if the share price gets over \$24 roughly, the converts will start to have an impact on EPS.

**Richard Keller, Vantage Capital - Analyst**

OK, thank you. And I guess my last question would be just with regard to concessions because you talked about product mix. You do expect the product mix, as it comes down from — with fewer — I guess a box office driven by fewer 'R' movies as a percentage of total, you do expect concessions to continue to expand as a percentage of revenues?

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

Yes. When you have 'R'-rated pictures just the nature of the picture you sell a bit less concession. And as Amy said earlier, the offset to that, we've had greater growth on ticket pricing but we've sacrificed a bit on the concession side. So, if that turns around you'll see probably the opposite effect.

**Richard Keller, Vantage Capital - Analyst**

OK. Great! Thanks and congratulations.

**Operator**

Your next question comes from Alexis Gold with CIBC World Market.

**Alexis Gold, CIBC World Markets - Analyst**

Good morning. Most of my questions have been answered as well, and I had some technical difficulties at the beginning myself, so excuse me if you've answered this. But can you talk — I know you answered the question about consolidation, but just as we are looking to 2004 are there any theaters that are scheduled to be built, or any locations that you're currently looking at?

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

Well, we do have, as far as Cap ex, we do have a small number of theaters that we're building in '04. Regarding consolidation, there's nothing to talk about now. We don't have anything to disclose. But Amy can tell you about what our Cap ex involves for next year.

**Amy Miles, RGC - EVP, CFO**

Yes, with respect — you could expect our screen count next year to stay relatively flat. We should have — you know call it, depending on the timing of certain openings, maybe around four new theaters next year, but that will be offset by continued closures. At the end of this year we should close, call is just under 200 screens, so you should see a slight decline in that number next year, offset by some openings to keep you to a relatively consistent or flat screen count.

**Alexis Gold, CIBC World Markets - Analyst**

OK, great! And I knew you answered the question about Hoyts and whether or not their revenues-per-patron were in line, but just in terms of margin, last quarter you would actually disclose the Hoyts revenue and EBITDA and it was about a 23-percent margin. Just to sort of get a sense for where we ended up this quarter, is that a safe margin to use?

**Amy Miles, RGC - EVP, CFO**

Yes, it's slightly lower this quarter because they had a little bit lower revenues this quarter than they did last quarter. And with the fixed nature — and with the fixed-costs nature of the business, when you give a margin calculation, their attendance was slightly lower this quarter than last quarter. But their contribution — we talked about — and I don't have that math right in front of me, but then on a same-screen basis, our EBITDA grew just under eight percent, so you can pretty much do that math to see what the impact of Hoyts was for the quarter.

**Alexis Gold, CIBC World Markets - Analyst**

Great! Thank you.

**Operator**

Your next question comes from John Fusek with Goldman Sachs.

**John Fusek, Goldman Sachs - Analyst**

Good morning. Just as a follow-up to the last question, you had indicated on the — on a same-screen basis, down about three percent. I assume that that — am I correct in assuming that that is excluding Hoyts? And if we looked at Hoyts separately, how were they year-over-year?

**Amy Miles, RGC - EVP, CFO**

To get to that same-screen basis there, all that I'm doing in that calculation is saying, "OK, we have roughly 60..." Hold on, let me say the exact number. You know, if you just take the 66 million attendees we have this year and the 6,000 screens we have this year and compare it to the 64 million attendees we had last year and the 5,700 screens that we had, that's how you get — or that's how I'm calculating that same-screen attendance.

So, if you did it excluding Hoyts from this year you would get almost exactly the same number, which is about a three percent.

**John Fusek, Goldman Sachs - Analyst**

OK, that's clear. Thanks very much.

**Operator**

The next question comes from John Maxwell with Merrill Lynch.

**John Maxwell, Merrill Lynch - Analyst**

Hi, good morning. Mike, I was wondering if you could expand on, if you don't find any acquisitions to your liking, do you see the development pipeline picking up a little bit from what you're — I guess what the — what Amy talked about with the four new theaters in '04?

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

I don't really see that changing a lot. I mean, obviously we're being very selective about the projects that we're choosing, but we stated that we see four to six projects a year. Could that vary from year to year? Could it be less on a certain year and maybe a couple more on other years? Yes, it could be, but we don't see any huge pickup in demand for new screens. We're just being very selective and primarily sticking to existing markets where we're either expanding market share or replacing some of the other complexes.



**John Maxwell, Merrill Lynch - Analyst**

OK. And then, Amy, I guess along that line, then '04 Cap ex would, I guess, be under \$100 million again?

**Amy Miles, RGC - EVP, CFO**

No, actually it was roughly \$135 million. We're still finalizing our Cap ex and on our next quarterly call, which will be our fiscal call, we'll give complete guidance with respect to that total number.

**John Maxwell, Merrill Lynch - Analyst**

OK. But, well, that included — the \$135 included Regal CineMedia, right?

**Amy Miles, RGC - EVP, CFO**

Yes. However, where Regal CineMedia has —and it also included maintenance, so we also only opened two new theaters this year, so where you'll see a decline in Regal CineMedia spending, you will see an increase in the theater operation spending due to the increase in the theaters that will open next year.

**John Maxwell, Merrill Lynch - Analyst**

OK. Thank you very much.

**Operator**

Ladies and Gentlemen, we have reached the end of the allotted time for questions and answers. Mr. Campbell, are there any closing remarks?

**Michael L. Campbell, RGC Theater Group - CEO and Co-CEO**

We appreciate everybody dialing in this morning and I understand we had some technical difficulties. We apologize for that, but we'll talk to you again in a few weeks. Thank you very much.

**Operator**

Ladies and Gentlemen, this concludes today's teleconference. You may now disconnect.