

REGAL ENTERTAINMENT GROUP

Moderator: Don Delaria
February 10, 2005
8:30 a.m. CT

Operator: Good day. My name is Deanna and I will be your conference facilitator today. At this time, I would like to welcome everyone to the Regal Entertainment Group Fourth Quarter and Year End 2004 Earnings Release conference call with our host Mike Campbell, Co-Chief Executive Officer of Regal Entertainment Group and Chief Executive Officer of Regal Cinemas; Kurt Hall, Co-Chief Executive Officer of Regal Entertainment Group and Chief Executive Officer of Regal CineMedia; and Amy Miles, Chief Financial Officer.

All lines have been placed on mute to prevent any background noise. After management'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 one 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 two. As a reminder if you are on a speakerphone, please pick up your handset before presenting your question.

I would now like to turn the call over to Don Delaria, Vice President of Investor Relations. Please go ahead, sir.

Don Delaria: Good morning. As usual before we begin today, I'd like to remind our listeners that this conference call contains forward-looking statements within the meaning of section 27A of the

Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. All statements other than statements of historical facts 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 16th 2004. All forward-looking statements are expressly qualified in their entirety by such factors.

Now I'll turn the call over to Mike Campbell.

Mike Campbell: Good morning, and thanks Don. Welcome and thank you for dialing in to our fourth-quarter and year-end conference call. Today I will provide, number one, an overview of the industry and Regal's fourth quarter results; secondly, our 2004 fiscal year highlights; and lastly, current trends in the exhibition industry, including some of our expectations regarding box office trends in the 2005 fiscal year.

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

Now, turning to the fourth-quarter industry results, the industry saw box office – the industry saw successful openings at the box office and solid performances during the fourth quarter from a number of films, including "The Incredibles," "National Treasure," "Shark Tale," "Polar Express," "Meet The Fockers," and "Oceans 12."

Although the fourth quarter of 2004 included the strong performance of these films, the comparisons with the same quarter last year were difficult. The fourth quarter of 2003 included

"Lord Of The Rings: Return Of The King," "Elf," "The Matrix Reloaded," and "Scary Movie III."

These and several other films opening in the fourth quarter of 2003 significantly out-performed their initial expectations.

For the period that corresponds to Regal's 2004 fiscal fourth quarter, which was impacted unfavorably by a calendar shift, EDI reported a US domestic box office revenue decrease of approximately 10.4 percent. Other industry sources for the period that corresponds with Regal's fiscal fourth quarter showed declines in domestic box office revenues ranging from 10.3 percent up to 13 percent.

Now turning briefly to Regal's fourth-quarter results. As you are aware, our 2004 reported fourth-quarter results consist of 13 weeks versus 14 weeks for the same quarter last year. The impact of the calendar coupled with the overall decline in industry box office results during our fiscal fourth quarter period obviously had a significant impact on our quarterly results.

On the positive side, we successfully integrated the Signature assets during the quarter and we're pleased with both the operating results and the integration process as well. During the fourth fiscal quarter of 2004 Regal benefited from the incremental Signature box office revenues and as a result reported a 7.5 percent decline in box office versus declines of anywhere from, as I said earlier, 10.3 percent to 13 percent for the industry as measured by various sources.

Due to the strong performance of family film product during the quarter and the Signature acquisition, concession revenues also fared well compared to industry and calendar effects, declining just 5.3 percent. Adjusted EBITDA per ending screen for the fourth quarter of 2004 averaged \$21,154, which as expected was below 2003 levels but was an increase of 11.1 percent compared to the fiscal fourth quarter of 2002.

Now turning to 2004 industry results. The 2004 fiscal year was a solid year for the company and the exhibition industry fared well against difficult box office comps. According to various industry sources, on a calendar year basis the 2004 U.S. box office increased slightly over 2003 levels.

The increase in national box office was driven by an increase in ticket prices offset by a decline in national attendance. For the 2004 calendar period, the national box office was the second largest box office in nearly 50 years with the second highest number of movie goers.

It is important to note that for the fiscal period that corresponds with Regal's 2004 period the U.S. box office decreased 2.7 percent compared to the fiscal period that corresponds with Regal's 2003 period. In 2004, 143 films reached wide release to be defined as 1,000 or more prints in the marketplace, a 6.7 percent increase over 2003. Further, 22 films grossed more than \$100 million and six films grossed over \$200 million.

Now turning to Regal's full-year results. The company had a very successful 2004 fiscal year. Our strategic accomplishments in 2004 included the following. During the 2004 fiscal year we demonstrated our commitment to providing value to our shareholders.

The total cash dividends distributed to our shareholders during the fiscal year exceeded \$840 million. Our dividend strategy rewarded shareholders with an extraordinary dividend in the second quarter and we were pleased to announce a 50 percent increase in our regular quarterly dividend during the third quarter of the fiscal year.

Further, we completed a strategic and highly accretive acquisition of Signature Theaters. The action of Signature provides further evidence of our commitment to creating growth opportunities through a prudent acquisition strategy. Also, we continue to gain traction in our Regal CineMedia business and finished the 2004 fiscal year ahead of our revenue and cash flow targets, and Kurt will provide a bit more detail as we get further into the presentation.

Also, we generated significant free cash flow during the 2004 fiscal year and ended the year with approximately \$243.9 million of cash on our balance sheet. The cash on-hand provides us additional flexibility in pursuing other growth and shareholder value opportunities.

Now turning briefly to our outlook for box office for the current 2005 fiscal year. Most analysts and many film studio representatives believe that 2005 national box office revenues will show continued growth for the industry. The growth in national box office revenues is expected to be between three percent and five percent, coupled with a one-to-three percent average concession growth on a per-patron basis.

As Regal will benefit from a full year of the Signature assets in 2005 versus one quarter in fiscal 2004, we expect to out-perform the industry top-line growth. Studios continue to spend the marketing dollars and 2005 is shaping up to be another year highlighting an extended film release calendar with a number of high-profile tent-pole releases as well as a few key sequels.

Some of the expected 2005 tent-poles include "Star Wars: Episode III," which is expected to be the last "Star Wars"; "War Of The Worlds" with Steven Spielberg and Tom Cruise teaming up; "Harry Potter: The Goblet Of Fire"; "King Kong," a remake which is directed by Peter Jackson, who also directed "Lord Of The Rings"; "Madagascar," a CGI animation from Dreamworks, the creators of "Shrek"; "The Longest Yard," a remake comedy featuring Adam Sandler and Chris Rock; and, lastly, "Batman Begins," a continuation of the Warners franchise.

Now, looking at a box office update for the first quarter. January was a solid month. We were encouraged by the strong hold-over performance from the films that opened around the Christmas holiday as well as strong performances from January openings. We expect that February will also compare well against last year with the upcoming wide releases of "Million Dollar Baby," "Constantine," and "Hitch."

In March, the industry will face a tough comparison against last year's "The Passion Of The Christ," which grossed \$125 million in its five days and \$320 million by the end of Regal's fiscal first quarter of 2004. However, partially offsetting last year's success of "The Passion" will be a solid list of titles, including the "The Ring II," "Robots," and "Miss Congeniality II" combined with the fact that Easter weekend this year falls into our 2005 first fiscal quarter.

In summary, we continue to believe our dividends are an efficient means of distributing value to our shareholders while still maintaining our ability to do the following: number one, capitalize on prudent industry consolidation opportunities; secondly, provide sufficient capital to maintain, enhance, and grow our theater circuit through selective new building and expansion to existing facilities; and, lastly, continue to realize high margin opportunities with our Regal CineMedia business.

Since the company's IPO in May 2002, Regal has returned \$11.66 per share to shareholders. If you bought the stock at the IPO price and reinvested the dividends received in additional Regal shares, your total return on Regal stock as of December 31st, 2004, would be 92 percent, or 28 percent annually.

At this point, I'd like to turn the call over to Kurt Hall for a progress report on Regal CineMedia.
Kurt.

Kurt Hall: Thanks, Mike. Hello everyone, and thanks for joining us this morning. CineMedia finished the year with another strong quarter as the advertising, CineMeetings and events and corporate box office businesses all exceeded their annual targets. CineMedia continues to provide incremental revenue and adjusted EBITDA margin growth for Regal.

For the year, while CineMedia only represented approximately four percent of REG's total revenue, it represented approximately 11 percent of its total adjusted EBITDA before inter-company allocations. Due to our growth in 2004, CineMedia now exceeds the quantitative threshold for segment reporting and our 2004 Form 10-K will include the required segment disclosures.

We have also separately stated the CineMedia EBITDA and adjusted EBITDA in the press release in the GAAP reconciliation sections. CineMedia EBITDA reconciled in the press release and used for today's discussion excludes the corporate box office advanced ticket and gift certificate business and all inter-company payments to the theater group.

The 2004 CineMedia Q4 and annual financial highlights include the following. Despite the effect of one less accounting week, 2004 Q4 revenue of 30 million represented a 20.2 percent increase over '03, and for the first time we had 100 million of revenue for the year, a 33 percent increase over last year.

While the majority of CineMedia's revenue continues to be included in REG's other revenue, for the current quarter and full year, one million and 4.9 million of CineMedia revenue was included in REG's admissions revenue respectively.

The CineMedia Q4 2004 adjusted EBITDA was 17.7 million, an increase of 17.7 percent over Q4 2003, and was 57 million for the year, 37.3 percent increase over the 2003 total. The Q4 adjusted EBITDA margin was approximately 60 percent in both 2003 and 2004. The 2004 annual adjusted EBITDA margin of 57 percent compares to a 55 percent margin during '03.

The operational highlights I'd like to talk about are as follows: The DCN ended the year with distribution to 441 theaters, with 5,350 auditoriums screens and 1,293 plasma screens and

lobbies, including for the first time screens of another theater operator. At year end, the DCN covered approximately 90 percent of Regal's attendance base, with coverage now in 79 markets.

During 2005 we plan only to add REG high attendance theaters in a few smaller markets and newly constructed or expanded theaters and will continue to pursue a strategy to expand the DCN impression base and reach through relationships with other theater operators.

We also will continue to expand our ability to broadcast encrypted live high definition concerts and other events to select theaters on the DCN. As of year end, we had the ability to broadcast live high definition digital content to approximately 60,000 seats in 46 markets.

Despite the lower-than-expected theater attendance, the advertising business had a very strong fourth quarter. Demand for our on-screen 20 pre-show continued to build as our national inventory for Q4 was nearly sold out. Inventory utilization for all of 2004 was approximately 88 percent.

Total Q4 advertising revenue of \$26 million was up 17 percent from Q4 2003 with revenue for the year of 82.7 million, increasing almost 23 percent over the 2003 total. You should note that these results excluded approximately 400,000 of committed Q4 revenue that was refunded to customers and 2.3 million of revenue that was deferred into 2005 due to the lower-than-expected Q4 2004 theater attendance levels.

The higher revenue levels reflect a strong national (van) and higher national 20 CPMs and higher (laud) and local on-screen advertising sales. The 20 Q4 CPMs increased 26.7 percent over Q4 '03 and 13.6 for the year – percent for the year.

The local on-screen advertising business, which generally utilizes inventory in the 20 more – that is more than 15 minutes from show time, had a very strong finish to the year. Q4 local sales of

3.5 million represented a 33.4 increase over Q4 '03 while revenue for the year of 10.4 million increased almost 28 percent over 2003. Our lobby revenue increased 61 percent and 43 percent for Q4 in the year respectively.

With a strong base of business provided by our four multi-year content partners agreements and several other annual or multi-site advertising relationships, we are off to a very strong start in 2005. Commitments for over 80 percent of our 2005 national on-screen inventories have already been made with several new names and categories being added to our client base.

As announced earlier this week, we are also launching the Regal branded credit card this coming March. This will be the first time that a theater circuit has offered its patrons a credit card that provides the opportunity to earn movie tickets and concession awards for every purchase.

Consumer feedback from our holiday marketing efforts has been very positive, and thus we are very hopeful that there will be a successful launch of the card and will provide new revenue and EBITDA sources for Regal and new customer databases and favorable market share shift. Our CineMeetings business during Q4 had a great finish as well. Revenue for the division increased 40 percent over 2003 to (3.5) million while annual revenue of 14.7 million increased almost 100 percent.

The Q4 increase reflected strong demand for private screenings and multi-site and network demands, while the annual results reflected growth in all product lines and the positive impact of over 1,300 private screenings and meetings associated with the film "The Passion Of The Christ." Excluding the revenue associated with "The Passion," the 2004 revenue growth was almost 40 percent over 2003.

Our CineMeetings revenue base continues to build as we expand our client base, the market awareness, and the brand. For the year we held over 7,400 meetings, an increase of 69 percent over 2003, and an increase in the average rental rate per meeting of almost 16 percent.

Our focus on multi-site network and non-network business and larger companies is beginning to pay off as these product lines offer centralized booking and operational control, something that hotels have difficulty offering due to their city-by-city franchise structure.

During late 2004 we also began to gain traction with respect to a number of education and training initiatives and have now merged that effort into the CineMeetings division so that we can provide more sales and operational focus and begin to scale that growing category.

We continue to also make progress developing various new digital content channels to expand the entertainment programming available to our theaters during slow movie-going time periods. During '04 we continued to expand our music event business. During the year, 22 live and pre-recorded events with aggregate ticket sales of 2.2 million were held at prices ranging from \$10.50 to \$20 per ticket.

In addition to providing the incremental ticket revenue when auditoriums would normally be empty, concession sales were also very strong. You should know, however, that all concession sales are excluded from the Regal CineMedia results as they are included in the theater concession revenue.

We are continuing to expand this business in '05 with several events in discussion, including a hybrid event featuring Usher which will have pre-recorded and a live interactive session with Usher. In late 2004 we successfully tested a digital program for young children ages three to nine and their parents which is based on G-rated animated films that would not ordinarily be distributed to the theaters.

This digital program will be shown on Saturday and Sunday mornings and will begin this weekend in nearly 200 screens in 28 markets. Given the lack of films suitable for this younger age group, we believe that this will be immediate – there will be a meaningful audience built over time for this business.

The Q4 sales of advanced tickets and gift certificates to corporations and other groups through our corporate box office division increased almost 30 percent, 28.5 percent, over 2003 while annual sales for 2004 were up a little over 22 percent. This business has benefited from the scale of REG as well as focus – cross-marketing and selling efforts across other products and services sold by CineMedia.

In summary, CineMedia had another great quarter and year. While year-over-year revenue growth slowed a bit as the advertising sell-through for the 20 approach 100 percent, the expansion of other CineMedia advertising and marketing platforms and businesses continued to provide solid incremental growth.

While expect revenue growth rates to moderate somewhat in '05, given the high operating margins and lower capital expenditures, we continue to provide REG with solid free cash flow growth.

I'd like now to turn over the presentation to Amy Miles, our CFO, to discuss the overall REG financial performance.

Amy Miles: Thanks, Kurt, and good morning. Today I will like to provide additional detail on the company's fiscal fourth-quarter results, a brief discussion regarding the company's balance sheet, as well as an update on capital expenditure plans for 2005, and provide some additional detail to help the investment community evaluate and model our business for the 2005 fiscal year.

Regal Entertainment Group reported total revenues of 643.1 million, consisting of 428.4 million from box office or admissions revenue, 165.8 million from concessions, and 48.9 million of other operating revenues. Our total revenues decreased this quarter approximately six percent over the prior comparable period primarily as a result of the 14-week period in our 2003 quarter versus a 13-week period in our 2004 quarter.

In addition to the shift in the calendar, we were, as the rest of the industry was, negatively impacted by attendance trends resulting from the tough comps during the quarter and we were able to offset a portion of that negative decline by the additional Signature Theater screens.

Our admission revenues this quarter decreased approximately 7.5 percent. This decrease in admissions revenue was primarily due to an attendance decline of 9.8 percent, which was offset by an increase in the average ticket price of 2.7 percent.

Looking briefly at the box office trends for the 2004 fiscal year. As we have previously stated, for the full-year box office comparison Regal's box office declined by 1.9 percent compared to an industry decline of 2.7 percent. And just another note further differentiating Regal from the industry were screen-count and attendance trends.

In 2004, we believe, based on certain industry sources, that the industry screen-count grew by two to 2.5 percent and yet box office declined by 2.7 percent, leading to a box office per-screen decline of just over five percent. This compares to Regal's average screen-count decline of just under one percent and offset by a box office decline of only 1.9 percent. So accordingly, on a box office-per-screen basis, Regal out-performed the industry.

Turning back to our fourth-quarter results. Concession revenues this quarter decreased 5.3 percent and we ended the quarter at 165.8 million. On a per-screen basis, concession revenue decreased 8.8 percent and on a per cap basis concession revenues increased to 5.4 percent.

Other revenues during the fourth fiscal quarter of 2004 increased 7.2 percent over the comp quarter of 2003 to 48.9 million. The increase in other revenues is related to the significant increases in CineMedia revenues, slightly offset by declines in vendor marketing program revenues which are negatively impacted by declines in attendance.

As Mike indicated previously, the fourth fiscal quarter of 2004 was one week shorter than the fourth fiscal quarter of 2003, which caused Regal to lose five days on the front end of the quarter and two high-volume days on the back end of the quarter. Due to numerous assumptions and reconciliation that would be necessary to compare comparable periods, we will not be providing 13-week versus 13-week metrics.

But just as a reminder, what we disclosed last year with respect to the summary impact of the 53rd week on our 2000 fiscal was as follows. We had an incremental 96 million of total revenues, an incremental 40 million of adjusted EBITDA, and just over 10 million of incremental attendees.

Turning back to our expense line items for this fiscal period. Film and advertising expense as a percentage of box office for the current quarter represented 54.9 percent of admissions revenue. This was a 140-basis-point increase over the same period in the prior year and was primarily the result of the mix film products.

However, as we have stated previously, quarterly fluctuations in film rental are primarily related to product and are not indicative of longer term trends. Although the quarter saw an increase in film and advertising, we were extremely pleased with our 2004 fiscal year results which benefited

from a 90-basis-point reduction in film and advertising costs as a percentage of admissions revenues.

Before our vendor marketing programs, our concession produced a gross margin of 85.2 this quarter, which represents a 10-basis-point increase over the comp quarter of 2003. Total rent expense increased 5.9 million during this quarter, and that's primarily due to the addition of the incremental Signature screens.

The other operating expenses increased approximately .8 percent for the quarter. And, again, this increase for the quarter relates primarily to the addition of the Signature Theaters and increases in fixed occupancy cost, partially offset by the fact this was a 13-week period versus a 14-week period in the prior year.

We are pleased to report adjusted EBITDA of 132.7 million for the current quarter. The adjusted EBITDA of 132.7 was slightly above the analyst consensus for this quarter. Our adjusted EBITDA margin totaled 20.6 percent compared to 24 percent during the fourth quarter of 2003.

And, again, this decline in margin is due to the decline in revenues related to the calendar shift. Fully diluted earnings per share, excluding the loss on debt extinguishment and restructuring expenses net of taxes, totaled 22 cents for the quarter.

Turning briefly to our balance sheet and asset base. We ended the quarter with just under 244 million of cash and we have a total debt balance at the end of the year of approximately two billion. That results in a net debt to adjust EBITDA ratio of approximately three times pro forma for our acquisitions.

Cap ex for the quarter totaled 43.5 million. Of this total, 38.7 million was related to theater ops and 4.8 million for Regal CineMedia. During the company – during the quarter, the company also recorded proceeds from asset sales of approximately five million.

For the 2004 fiscal year, cap ex totaled 124.3 million, 107.3 million of which is related to the theater operations and 17 million for Regal CineMedia. Asset sales, which funded a lot of our cap ex this year, totaled approximately 51.3 million. And, again, the 2004 cap ex was below forecast as certain projects moved to our 2005 fiscal period.

During the fourth quarter we opened three theaters with 48 screens. We added 10 total screens through expansion at theater sites and closed five theaters with 27 screens, bringing our totals to 558 theaters at year end with 6,273 screens.

With respect to cap ex for the '05 fiscal year, we expect total net cap ex of 135 to 150 million. The net number assumes that 30 million of the cap ex will be funded from asset sales. Just to further break out the cap ex by category. With respect to our new-build program, we expect spending in 2005 for theaters that will open in 2005 of 45 to 50 million.

That's 11 theaters with 167 screens. We expect spending in 2005 on new projects that will open in future years between 40 to 45 million. Our retro-fit and expansion, we expect to spend 13 to 15 million. Maintenance cap ex is around 55 million next year. And we expect around 15 million of expenditures from Regal CineMedia.

And just to give you a little further guidance with respect to the timing of the screens next year. We expect the screens to decline by 24 or 25 in the first quarter, to increase 36 screens in the second quarter, a decrease of 16 in the third quarter, 67 of an increase in fourth quarter.

So you can see some of these openings are weighted to the back half of the year. And that gets you to a net increase in screens for the company's 2005 fiscal year of 63 screens. And, again, these are estimates today and obviously are subject to update as we do our quarterly calls as construction projects may (move).

Now just briefly turning to modeling assumptions for 2005. In addition to reviewing our reported results for the quarter, we thought we may provide some highlights with respect to our expectations for 2005. With respect to the top-line, we continue to believe that Regal will be able to write ticket prices in line with historical averages of three percent per year.

Because there's less disparity between the price of concessions at movie theater and other forms of home entertainment than there is with our box office or ticket pricing, we believe that concession pricing will increase at a rate slightly below its historical trend lines and we expect that to be able two percent.

On the expense side, we'd like to take a moment to remind our investors that our other operating expense line items is largely composed of expenses that tend to be fixed. So based on that, it appears that some Wall Street models do not account for the addition of Signature operating expenses in the fourth quarter, and furthermore do not carry that assumption through the – out each quarter of 2005.

Other operating expenses, just as a reminder, is composed primarily of labor, and that accounts for roughly 45 percent of the total, and labor costs are between 80 and 90 percent fixed. Other occupancy cost include things like real estate taxes, insurance, all of which are also largely fixed for the majority of 55 percent of that cost component.

Our rent expense is expected to increase just under 10 percent in 2005 primarily due to the increase of the incremental Signature screens as well as an increase in our new-build activity.

Lastly, on interest expense, I'd like to encourage our investors to utilize the interest expense from our fiscal fourth quarter of 2004 as a proxy for interest expense going forward.

Having said all that, we have reviewed the various Wall Street estimates for our 2005 EBITDA and concur with the current range of 555 to 565 million. In closing, we remain committed to providing value to our shareholders and we're pleased to report another quarterly dividend of 30 cents and to report solid free cash flow for the year of \$314 million.

That concludes our presentation today, and we'd now like to open the lines for the Q&A.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please do so by pressing the star key followed by the digit one on your touch-tone telephone. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will proceed in the order that you signal us and we'll take as many questions as time permits. Once again, please press star one on your touch-tone telephone to ask a question. If you find that your question has been answered, you may remove yourself by pressing the star key followed by the digit two.

We'll take our first question from Anthony Diclemente, of Lehman Brothers.

Anthony Diclemente: Hi, Amy.

Amy Miles: Good morning.

Anthony Diclemente: Hi, Mike. My question is, you know, you guys did almost a buck a share in free cash flow in the fourth quarter, and the enterprise continues to throw off just massive amounts of free cash. So in the context of that, I mean, would you please rank for us in priority order what is your strategy in terms of use of cash.

And then just give us some more color on dividends, both regular and special, did the regular dividend come up, strategic acquisitions, and what your latest thinking is there. Are there opportunities out there, at what multiples. And then, finally, share buybacks. Thank you. Bye.

Amy Miles: Thanks, Anthony. I'll take the first part and let Mike conclude with respect to some color on the acquisition market. To your point, we do continue to generate a lot or a significant amount of free cash flow. And I think from a strategy perspective going forward, we will continue to view our cash and uses of cash in the manner that has been very successful from the company historically.

And that is trying to find the right balance of previous acquisition opportunities, and we've been able to find those each fiscal year that the company has been public as well as, you know, recognizing that since we do generate a lot of free cash flow we remain committed to the dividend.

As far as what form that will take, obviously we will, you know, evaluate that as we always do with, you know – in context of all opportunities – what is the acquisition landscape, what is our free cash flow generation through the box office opportunities. And while we don't have any specific plans, we will remain committed to focusing on those areas that have been very strategic from the company historically.

Mike Campbell: Anthony, related to specific acquisitions, we do believe that there are opportunities still in the marketplace. Clearly some of the larger circuits that might have been considered targets, you know, during the past year or two are not in play currently, but we believe that there are several opportunities remaining out there for consolidation with smaller regional players that have quality assets. And we have an ongoing dialogue at any given time to bring those opportunities to the surface.

Anthony Diclemente: OK. And then the quick follow-up is just is there a target or a trigger that allows you to be more likely to raise the dividend? I mean, is it – if you're only distributing back to shareholders three quarters or less of your – of your free cash that you would think about raising the dividend, is there a cushion that you think about that you want there? You know, what triggers that decision? And that's ...

Amy Miles: Yes, Anthony, there's not a – there's not any one given trigger or any cushion. Again, you – you know, at a point in time you may feel like you have a couple of acquisition opportunities, and so you will evaluate your dividend in light of those opportunities. Whether or not those come to fruition would impact how you would feel about your dividend, because you would obviously have more cash than expected if you were not able to execute.

So there is not some type of pay-out ratio or other type of one single trigger other than just to say from a company perspective the dividend is something that we do monitor every quarter and we do have the high-(cost) problem of a lot of cash and we do spend a lot of time focusing on the best use of that cash from a shareholder perspective.

Kurt Hall: Anthony, this is Kurt. I think it's fair to say that we're very sensitive to the cost of leaving all that cash on our balance sheet, you know, from a negative arbitrage or however you want to look at it.

Anthony Diclemente: Yes.

Kurt Hall: So it is something we study pretty carefully.

Anthony Diclemente: Great. That makes sense. Thank you very much.

Operator: Thank you. We'll go next to Michael Savner of Banc of America Securities.

Michael Savner: Good morning. Thanks.

Amy Miles: Hi.

Michael Savner: Amy, can you go into a little bit more detail about the other theater operating costs? I believe that in the third quarter when you did about 160 – roughly \$158 million – \$162 million of other theater operating costs you talked about the Signature acquisition adding \$9 to \$10 million on a go-forward basis.

Obviously on a sequential basis you actually came down, which is interesting. Is that the – is that the baseline we should think about going forward? As you just said, this is mostly a fixed cost category, yet with the Signature acquisition in the fourth quarter you didn't really show any increase as you had anticipated. So can you give us a little more color there?

Amy Miles: Yes. Signature added – just so you know – just under seven million to that cost line. The only that's hard from a comparison perspective, Michael, is remember that last year we had 14 weeks of expense and this year we have 13 weeks.

So some of the increase in the Signature acquisition was offset by the decline of the number of weeks with respect to that line item. And the only thing that you often see when you're looking at a third quarter that you don't see again in fourth quarter ...

Michael Savner: Yes.

Amy Miles: ... from – there's certain costs in there, like utilities, where that's your most expensive quarter. So if you go back in time you'll see that a lot of times during third quarter you'll see spikes during

that time period. So certain of those costs were offset by Signature, adding incremental Signature, and then having a decline in the period.

Michael Savner: So you're – so that spike was more than enough to offset ...

Amy Miles: Yes.

Michael Savner: ... on a sequential basis all the Signature additions.

Amy Miles: That's correct.

Michael Savner: OK. And, Kurt, could you just talk a little bit about CPM growth? Obviously with the DCN build-out now largely complete and just doing add-ons here and there in your inventory sell-through at very impressive rates, I think you mentioned 26 percent growth in CPM levels. How much continued strength of above-industry-normal CPM growth do you anticipate? Is that something that you think can carry through the duration of '05?

Kurt Hall: Well, when you say industry, what are you comparing it to, television?

Michael Savner: Broader media. Yes, broader media CPM growth, which is obviously far lower than 20 percent.

Kurt Hall: Yes. Clearly, you know, based on my comments, we expect the revenue to start to moderate. Having said that, you would hope the relationship between amount of inventory left – the supply/demand characteristics of that, if you will – should start to drive CPM. I will tell you, however, that there are two other major sellers out there of – you know, of the advertising services that we have to be mindful of.

And so there is a – you know, a market that we have to deal with. I think there's clearly upward room, there's headroom on CPMs. If you compare the relativity of our CPMs to television, we're a little over two times. If you do that same metric in – you know, in England or Europe or Australia, it's four times. So obviously that's our goal. I don't know if we'll ever be able to get there, but it certainly is an attractive goal.

Michael Savner: Great. Thanks very much.

Kurt Hall: And I think we're also being, you know, helped by what's going on in television. Clear there's a move afoot to, you know, provide more accountability in television, move money away from television into other media that people think may be more effective.

Operator: Thank you. We'll go next to Gordon Hodge of Thomas Weisel Partners.

(Lloyd): Hey, it (Lloyd) in for Gordon. I was just wondering if you could comment a little bit about what you're seeing in terms of screen growth nationally for 2005.

Mike Campbell: Well, last year we saw, as Amy said earlier, two to 2.5 percent. And, you know, there is some continued building. We expect it to be in that range. And if you go back and look over time, that's about the historical replacement range that you've seen over a long trend line, you know, two to three percent screen growth per year. That's continuing to be offset to some extent by older theaters that will continue to close.

Operator: And we'll go to Ray Schleinkofer, of Sturdivant & Company.

Ray Schleinkofer: Yes, I was wondering if maybe you could give us some color on just how you saw the marketing expenditures for the studios increase a little bit in '04 and maybe what you're seeing

going into '05. And also along that same line of thought, in terms of wide release slate for '05, do you think that'll be up again and by about what percentage. Thanks.

Mike Campbell: First of all, marketing expenses, you know, they continue to be rising at the studio level.

I think the payback very clearly is not just in the – in the theatrical market but there's some benefit downstream for those marketing expenditures. But you'll continue to see some increases there, I think, in line with what we've seen the last few years.

As far as releases, number of releases, you know, the number of releases appears to be very stable for the next couple of years. And, you know, whether it's up five percent or down five percent I think on an annual basis, as long as it's within a range I think it's kind of irrelevant as to what that does to the ultimate box office. But we see a lot of stability there.

Ray Schleinkofer: OK. Thank you so much.

Operator: Thank you. We'll go next to Matt Harrigan of Janco Partners.

Matt Harrigan: Can you comment broadly on changes on technology for – with digital advancing fairly quickly, some of the technology announcements over the last couple of days from IBM and Sony, and with respect to slightly older technology. On IMAX, I think on "Polar Express" you had about eight to 10 times the grosses per screen on IMAX relative to the 35 millimeter.

Is there any – I think you haven't been that enthused about that business model in the past, and some people that PE might be a bit of anomaly. But is that something you feel called upon to reassess or do you think that something better is going to come along that would make you inclined to wait a while?

Mike Campbell: Well, why do we answer that in two parts. Let me – let me take the IMAX and then, Kurt, if you want to talk about the technology.

Kurt Hall: OK.

Mike Campbell: You know, clearly IMAX had a good year end with "Polar Express," and, you know, we were certainly excited to be part of that success on the film. But at the end of the day, I think we still need to see an ongoing roll-out of product on a consistent basis throughout the year.

And, you know, what would get us excited. And I think there is some progress being made, but, you know, we still are going to take a wait and see attitude before we invest any additional dollars. But certainly what we've seen, you know, at least in the last three or four months is encouraging.

Kurt Hall: Yes, Matt, this is Kurt. I think clearly the 3D aspects of "Polar Express" were what drove the attendance. And I think if IMAX can put together, as Mike indicated, a great schedule of films that are 3D that have something that's new and different for the consumer, I think it could be a – you know, a very good niche part of our business.

You know, the question is, you know, expensive is it to produce in 3D and so on. So, you know, I think there's still a lot of unanswered questions, but I like the fact that we've provided something new and different for the consumer that they seem to really like. The issue on other technology – Matt, just refresh my memory on what exact technology releases you're talking about.

Matt Harrigan: Yes, I'm actually being a bit of a bore and this may translate more towards the digital creation side than the viewing side. But there have been a number of announcements on chip technology over the last couple weeks that could relate to the digital projection business, particularly from Sony.

I was – I was thinking that there would be some things out at (Show West), but obviously (Show West) hasn't happened yet. So in terms of the specific applications to the exhibition business, maybe it's still a couple weeks off.

Kurt Hall: Yes, I think, you know, just reference to the digital cinema, there clearly is progress being made. You know, I'm hoping that we can sort of be into a testing phase next year sometime on, you know, actual equipment. But, you know, there is this ongoing debate about whether the 2K projectors or the 4K projectors will be the ultimate device or technology that's rolled out.

And clearly Sony has been one of the more aggressive pursuers of 4K technology. I think from our standpoint, from an exhibitor standpoint, we want to make sure whatever technology that does get rolled out it has a very long useful life and the quality of it is something that is significantly better than you can get in the hall.

So if there are advances in technology that are happening that will achieve those two goals, then, you know, obviously we're very much supportive of it. And we've been very supportive of the whole digital cinema and DCI effort.

Matt Harrigan: Sure. Thank you.

Kurt Hall: Yes.

Operator: Thank you. We'll take our next question from Jim Esserting of ING.

Jim Esserting: Good morning, Amy. I just wanted to clarify that I heard you correctly. Your estimate for 2005 expectations for free cash flow was 343 million?

Amy Miles: I'm sorry. That was our – we did not provide that as we don't provide guidance. But what I said was our 2004 free cash flow was 314 million.

Jim Esserting: Oh, OK, 2004. But you did ...

Amy Miles: Yes, that's –

Jim Esserting: ... you did reiterate that the EBITDA estimate of 555 million to 565 was OK?

Amy Miles: Yes, we sure did.

Jim Esserting: Thank you.

Amy Miles: Yes.

Operator: Once again if you'd like to ask a question, please press star one. We'll go next to Dennis McAlpine of McAlpine & Associates.

Dennis McAlpine: Thank you, and good morning. As you start to see the expansion apparently picking up as the theater operators get in better financial shape, what are the chances that we'll get into an over-build the way we did a few years ago, and what sort of things can you do to prevent that?

Mike Campbell: Well, I think, you know, if we can keep that screen growth in that historical 2.5 to three percent a year like you've seen over time, that's essentially a replacement rate. And, you know, what we've seen recently is some of the growth – in fact, a disproportionate amount of the growth seems to be coming in secondary and third tier markets that may have escaped a lot of the stadium building the first few years.

But clearly I think what we can do as an industry, from our standpoint as exhibitors, is certainly not stretch the new deals that don't make a lot of sense out there in the marketplace. And what we need to see from the real estate industry is to be prudent on their expectations as to where a theater should be placed as well. But what I see is the industry returning after, you know, some time – some years of over-building, you know, followed by a decline in screen-count as you're going back to a more normal replacement rate now.

Dennis McAlpine: And as we look at going into next year – going into '05 rather, how big a problem is it going to be to overcome the sort of bonanza that came from "Passion"?

Mike Campbell: Well, clearly, as I said earlier, I think the first quarter so far has been – has been good. January was good, February looks pretty good. But, you know, we have a big nut to overcome in March with "The Passion," but we do have some good product out there.

And, you know, on any given year, you know, a lot of this is based on, you know, films in the marketplace on given weeks. I think we're pretty bullish overall that the industry will have a good year. Second and third quarter looks very good on paper. And I think we'll survive the first quarter OK.

Dennis McAlpine: Thank you.

Operator: Thank you. We'll go back to Michael Savner, of Banc of America Securities.

Michael Savner: Hey, Amy; just wanted to go through those numbers on screens counts because you went through them kind of quick. That was all net basis, correct?

Amy Miles: Yes, it was.

Michael Savner: And it was 24 dispositions net on the – (in the first), additions of 36 in the second, dispositions of 13 in the third, and additions of 67 in the fourth for a net for the year of 65 to 66?

Amy Miles: Yes, except third quarter was 16, so it's net of 63.

Michael Savner: Got it.

Amy Miles: Yes, you got it.

Michael Savner: Thank you so much.

Amy Miles: Yes.

Operator: That does conclude the question and answer session today. At this time, Mr. Campbell, I will turn the conference back over to you for any additional or closing remarks.

Mike Campbell: Well, we'd like to thank everybody for joining us today and we look forward to speaking with you again next quarter. Thanks a lot.

Kurt Hall: Thanks, everyone.

Operator: That does conclude today's conference. Thank you for your participation. You may disconnect at this time.

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