REGAL ENTERTAINMENT GROUP
Form 10-K
February 28, 2011

Use these links to rapidly review the document
TABLE OF CONTENTS
PART IV
INDEX TO FINANCIAL STATEMENTS

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 30, 2010

Commission file number: 001-31315

Regal Entertainment Group

(Exact name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: o

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on July 1, 2010, computed by reference to the price at which the registrant's Class A common stock was last sold on the New York Stock Exchange on such date was $1,711,529,346 (128,686,417 shares at a closing price per share of $13.30).

Shares of Class A common stock outstanding 130,849,073 shares at February 22, 2011

Shares of Class B common stock outstanding 23,708,639 shares at February 22, 2011

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement on Schedule 14A to be used in connection with its 2011 Annual Meeting of Stockholders and to be filed within 120 days of December 30, 2010 are incorporated by reference into Part III, Items 10-14, of this report on Form 10-K.

TABLE OF CONTENTS

Table of Contents

Table of Contents

REGAL ENTERTAINMENT GROUP

PART I

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

Item 1. BUSINESS.

THE COMPANY

Regal Entertainment Group, a Delaware corporation organized on March 6, 2002 ("we," "us," "our," the "Company" or "Regal"), is the parent company of Regal Entertainment Holdings, Inc. ("REH"), which is the parent company of Regal Cinemas Corporation ("Regal Cinemas") and its subsidiaries. Regal Cinemas' subsidiaries include Regal Cinemas, Inc. ("RCI") and its subsidiaries, which include Edwards Theatres, Inc. ("Edwards"), Regal CineMedia Corporation ("RCM"), Hoyts Cinemas Corporation ("Hoyts") and United Artists Theatre Company ("United Artists"). The terms Regal or the Company, REH, Regal Cinemas, RCI, Edwards, RCM, Hoyts and United Artists shall be deemed to include the respective subsidiaries of such entities when used in discussions included herein regarding the current operations or assets of such entities.

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

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

DESCRIPTION OF BUSINESS

Overview

We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 6,698 screens in 539 theatres in 37 states and the District of Columbia as of December 30, 2010, with over 224 million attendees for the fiscal year ended December 30, 2010 ("fiscal 2010"). Our geographically diverse circuit includes theatres in 43 of the top 50 U.S. designated market areas. We operate multi-screen theatres and have an average of 12.4 screens per location, which is well above the North American motion picture exhibition industry 2009 average of 6.6 screens per location. We develop, acquire and operate multi-screen theatres primarily in mid-sized metropolitan markets and suburban growth areas of larger metropolitan markets throughout the U.S. with a national footprint representing approximately 16.9% of total U.S. screens as of December 30, 2010.

The Company's fiscal year ends on the first Thursday after December 25, which in certain years (such as fiscal 2008) results in a 53-week fiscal year. For fiscal 2010, we reported total revenues, income from operations and net income attributable to controlling interest of $2,807.9 million, $215.8 million and $77.6 million, respectively. In addition, we generated $259.4 million of cash flows from operating activities during fiscal 2010.

We maintain an investment in National CineMedia, LLC ("National CineMedia" or "NCM"). National CineMedia primarily concentrates on in-theatre advertising and creating complementary business lines that leverage the operating personnel, asset and customer bases of its theatrical exhibition partners, which includes us, AMC Entertainment, Inc. ("AMC") and Cinemark, Inc. ("Cinemark"). National CineMedia operates the largest digital in-theatre network in North America and utilizes its in-theatre digital content network to distribute pre-feature advertising, cinema and lobby advertising and entertainment programming content. See "National CineMedia Joint Venture" under Part I, Item I of this Form 10-K for further discussion of National CineMedia.

Business Strategy

Key elements of our business strategy include:

Maximizing Stockholder Value. We believe that our cash dividends are an efficient means of distributing value to our stockholders. From our initial public offering ("IPO") in May 2002 through December 30, 2010, we have returned approximately $3.1 billion to our stockholders in the form of cash dividends.

Pursuing Selective Growth Opportunities. We intend to selectively pursue expansion opportunities through new theatre construction that meets our strategic and financial return criteria. We also intend to enhance our theatre operations by selectively expanding and upgrading existing properties in prime locations. In addition, we will continue to expand our loyalty program and create new strategic interactive marketing programs aimed at increasing attendance and to enhance our food and beverage offerings.

Pursuing Premium Experience Opportunities. We continue to embrace new technologies to deliver a premium movie-going experience for our customers on three complementary fronts:

During fiscal 2010, the Company focused on an accelerated deployment of 3D compatible digital projection systems to a majority of its first run U.S. theatres and expects to continue the accelerated 3D deployment into the first half of 2011. As of December 30, 2010, we operated 2,202 screens outfitted with digital projection systems, 1,710 of which are digital 3D capable. We expect all of our screens to be outfitted with digital projection systems by late 2012 or early 2013, with approximately 40% of our total screens being digital 3D capable by mid-2011.

Second, we renegotiated our agreement with IMAX® during fiscal 2010 to expand our IMAX® footprint by agreeing to install a total of up to 77 IMAX® digital projection systems by the end of 2012. We believe that expanding our IMAX® footprint, combined with a more favorable allocation of costs included in the new agreement, will continue to have a positive impact on our operating results.

Finally, as of December 30, 2010, we had converted seven of our auditoriums to our proprietary large screen format known as "Regal Premium Experience" ("RPX(SM)"). We have been encouraged by the initial results of RPX(SM) and expect to expand our RPX(SM) footprint by converting up to 12 additional auditoriums throughout 2011.

We believe the installation of 3D digital projection systems and IMAX® theatres systems and the conversion of existing auditoriums to RPX(SM) auditoriums allow us to offer our patrons premium 3D movie and large all-digital format experiences that we believe generate incremental revenue and cash flows for the Company. We remain optimistic regarding the benefits of digital cinema primarily as it relates to future growth potential associated with 3D film product and other 3D content and are pleased to see continued support of 3D and IMAX® film product by the major motion picture studios.

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

Table of Contents

We believe our business strategy should enable us to continue to produce the free cash flow necessary to maintain a prudent allocation of our capital among dividend payments, debt service and repayment and investment in our theatres assets, all to provide meaningful value to our stockholders.

Competitive Strengths

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

Industry Leader. We are the largest domestic motion picture exhibitor operating 6,698 screens in 539 theatres in 37 states and the District of Columbia. We believe that the quality and size of our theatre circuit is a significant competitive advantage for negotiating attractive national contracts and generating economies of scale. We believe that our market leadership allows us to capitalize on favorable attendance trends and attractive consolidation opportunities.

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

Proven Acquisition and Integration Expertise. We have significant experience identifying, completing and integrating acquisitions of theatre circuits. Since our 2002 initial public offering, we have demonstrated our ability to enhance revenues and realize operating efficiencies through the successful acquisition and integration of seven theatre circuits, consisting of 157 theatres and 1,808 screens. We have generally achieved immediate cost savings at acquired theatres and improved their profitability through the application of our consolidated operating functions and key supplier contracts.

Quality Theatre Portfolio. We believe that we operate one of the most modern theatre circuits among major motion picture exhibitors. As of December 30, 2010, approximately 81% of our screens were located in theatres featuring stadium seating and approximately 86% of our screens were located in theatres with 10 or more screens. Our theatres have an average of 12.4 screens per location, which is well above the North American motion picture exhibition industry 2009 average of 6.6 screens per location. We believe that our modern theatre portfolio coupled with our operating margins should allow us to generate significant cash flows from operations. We believe that our theatre circuit will be further enhanced with the installation of digital projection systems in our theatres.

Investment in National CineMedia. National CineMedia operates the largest digital in-theatre network in North America representing approximately 17,300 U.S. and Canadian theatres screens (of which 15,700 are part of National CineMedia's digital content network) as of September 30, 2010 and reaching over 640 million movie guests annually. National CineMedia utilizes its in-theatre digital content network to distribute pre-feature advertising, cinema and lobby advertising and entertainment programming content. We believe our investment in National CineMedia will generate incremental value for our stockholders. See "National CineMedia Joint Venture" under Part I, Item I of this Form 10-K for further discussion of National CineMedia.

Dividend Policy

We believe that paying dividends on our shares of common stock is important to our stockholders. To that end, during fiscal 2010, we paid to our stockholders four quarterly cash dividends of $0.18 per share, on each outstanding share of our Class A and Class B common stock, or approximately

Table of Contents

$111.1 million in the aggregate. In addition, on December 30, 2010, Regal paid an extraordinary cash dividend of $1.40 per share on each outstanding share of its Class A and Class B common stock, or approximately $216.0 million. Further, on February 9, 2011, we declared a cash dividend of $0.21 per share on each outstanding share of Class A and Class B common stock. The dividend is payable on March 15, 2011 to our stockholders of record on March 3, 2011. This dividend reflects a $0.03 per share increase from the Company's last quarterly cash dividend of $0.18 per share declared on October 28, 2010. These dividends have been or will be funded through cash flow from operations and available cash on hand. We, at the discretion of our board of directors and subject to applicable law, anticipate paying regular quarterly dividends on our Class A and Class B common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors. Dividends are considered quarterly and may be paid only when, and in such amounts as, approved by our board of directors.

INDUSTRY OVERVIEW AND TRENDS

The domestic motion picture exhibition industry is a mature business that has historically maintained steady long-term growth in revenues and attendance. Since 1965, total box office revenues have grown at a compound annual growth rate of approximately 5% with annual attendance of approximately 1.3 billion attendees in 2010. Against this background of steady long-term growth in revenues and attendance, the exhibition industry has experienced periodic short-term increases and decreases in attendance and, consequently, box office revenues. We expect the cyclical nature of the domestic motion picture exhibition industry to continue for the foreseeable future.

More recently, the domestic motion picture exhibition industry has experienced increased competition from other methods of delivering films to consumers, including cable television, in-home video and DVD, satellite and pay-per-view services and downloads via the Internet. Traditionally, when motion picture distributors license their films to the domestic exhibition industry, they refrain from licensing their products to other delivery channels for a period of time, commonly called the theatrical release window. Over the past several years, the average period between a film's theatrical release and its in-home video or DVD release has remained relatively stable. However, we believe that a material contraction of the theatrical release window could significantly dilute the consumer appeal of the out-of-home motion picture offering. As a result, we continue to monitor the status of the theatrical release window during our film licensing decisions. Fundamentally, we believe that movie-going is a convenient, affordable and attractively priced form of out-of-home entertainment, which, on an average price per patron basis, continues to compare favorably to other out-of-home entertainment alternatives, such as concerts and sporting events.

The domestic motion picture industry is in the process of converting from film-based media to electronic-based media, including the distribution of feature films in a digital format rather than a 35 mm film format. Virtually all entertainment content today can be exhibited digitally. Digital projection produces a consistent state-of-the-art presentation for patrons as there is no degradation of image over the exhibition period of the motion picture. We believe that operating a digital theatre circuit has enabled us to generate incremental revenue from differentiated motion picture formats such as digital 3D, IMAX® and RPX(SM), generate additional revenue from exhibition of specialty content offerings and provide greater flexibility in scheduling our programming content, which we expect will enhance our capacity utilization. Given our market presence, the overall diversity of our patron base and our high average screen per theatre count, we believe the benefits associated with digital technologies will be significant for our theatre circuit and provide us with the opportunity for incremental revenue. We remain optimistic regarding the benefits of digital cinema primarily as it relates to future growth potential associated with 3D film product and other 3D content and are pleased to see growing support of 3D and IMAX® film product by the major motion picture studios. We have also experienced an increase in alternative content available to us. As directors and producers continue to embrace new technology in their productions, we expect new and innovative content generation to continue. To that end, on February 12, 2007, we, along with AMC and Cinemark, formed Digital Cinema Implementation Partners, LLC ("DCIP"), to create a financing model and execute agreements with major motion picture studios for the implementation of digital cinema. During fiscal 2010, DCIP executed definitive agreements and related financing transactions in connection with the conversion to digital projection. During fiscal 2010, the Company focused on an accelerated deployment of 3D compatible digital projection systems to a majority of its first run U.S. theatres and expects to continue the accelerated 3D deployment into the first half of 2011. As of December 30, 2010, we operated 2,202 screens outfitted with digital projection systems, 1,710 of which are digital 3D capable. See "Digital Cinema Implementation Partners Joint Venture" under Part I, Item I of this Form 10-K for further discussion of this joint venture arrangement.

We believe a modern megaplex featuring stadium seating is preferred by patrons over a sloped-floor multiplex theatre, the predominant theatre-type built prior to 1996. We believe theatres larger than the current 10 to 18 screen megaplex are not able to generate attractive returns in most locations because of the substantial market suitability requirements to generate a level of profitability similar to the current megaplex format. We also believe that another evolution of theatre formats beyond the current megaplex is unlikely to occur in the foreseeable future.

THEATRE OPERATIONS

We operate the largest theatre circuit in the United States with 6,698 screens in 539 theatres in 37 states and the District of Columbia as of December 30, 2010. We operate theatres in 43 of the top 50 U.S. designated market areas, which include locations in suburban growth areas. We target prime locations with excellent access to large, high patron-traffic areas. We operate our theatre circuit using our Regal Cinemas, United Artists and Edwards brands through our wholly owned subsidiaries.

We operate multi-screen theatres. Our multi-screen theatre complexes typically contain 10 to 18 screens, each with auditoriums ranging from 100 to 500 seats. As a result, our theatres appeal to a diverse group of patrons because we offer a wide selection of films and convenient show times. In addition, many of our theatres feature state-of-the-art amenities such as immersive wall-to-wall and floor-to-ceiling screens, Sony Digital Cinema 4K projection systems, digital stereo surround-sound, closed-captioning, multi-station concessions stands, computerized ticketing systems, plush stadium seating with cup holders and retractable armrests, enhanced interiors and exteriors and video game areas adjacent to the theatre lobby.

We believe that our theatre circuit will be further enhanced with the installation of digital projection systems. We believe that operating a digital theatre circuit will enable us to generate incremental revenue from differentiated motion picture formats such as digital 3D, IMAX® and RPX^{SM}, generate additional revenue from exhibition of specialty content offerings and provide greater flexibility in scheduling our programming content, which we expect will enhance our capacity utilization.

Our modern, multi-screen theatres are designed to increase profitability by optimizing revenues per square foot and reducing the cost per square foot of operation. We vary auditorium seating capacities within the same theatre, allowing us to exhibit films on a more cost effective basis for a longer period of time by shifting films to smaller auditoriums to meet changing attendance levels. In addition, we realize significant operating efficiencies by having common box office, concessions, projection, lobby and restroom facilities, which enables us to spread some of our costs, such as payroll, advertising and rent, over a higher revenue base. We stagger movie show times to reduce staffing requirements and lobby congestion and to provide more desirable parking and traffic flow patterns. We also actively monitor ticket sales in order to quickly recognize demand surges, which enables us to add seating capacity quickly and efficiently. In addition, we offer various forms of convenient ticketing methods, including print-at-home technology, self-serve kiosks, self-reserved seating and themed gift cards and e-gift cards. We believe that operating a theatre circuit consisting primarily of modern theatres enhances our ability to attract patrons.

Table of Contents

The following table details the number of locations and theatre screens in our theatre circuit ranked by the number of screens in each state and the District of Columbia as of December 30, 2010:

State/District	Locations	Number of Screens
California	93	1,100
Florida	48	692
New York	50	561
Virginia	31	409
Washington	33	349
Ohio	21	291
North Carolina	25	290
Pennsylvania	22	283
Texas	17	241
Oregon	22	224
Georgia	15	221
South Carolina	16	216
Maryland	13	178
New Jersey	11	147
Illinois	10	147
Colorado	12	145
Tennessee	11	142
Massachusetts	13	141
Nevada	10	136
Indiana	7	96
Idaho	5	73
New Mexico	7	66
Connecticut	5	57
Mississippi	7	56
Alaska	5	52
Louisiana	5	50
Hawaii	4	47
Alabama	3	42
Minnesota	2	36
Missouri	2	36
New Hampshire	3	33
Delaware	2	33
Maine	3	30
West Virginia	2	22
Kentucky	1	16
District of Columbia	1	14
Michigan	1	14
Arkansas	1	12
Total	539	6,698

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

Table of Contents

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

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

NATIONAL CINEMEDIA JOINT VENTURE

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

As described further in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, on February 13, 2007, National CineMedia, Inc. ("NCM, Inc."), a newly formed entity that serves as the sole manager of National CineMedia, completed an IPO of its common stock. In connection with the IPO of NCM, Inc., RCM, through its wholly owned subsidiary Regal CineMedia Holdings, LLC ("RCH"), AMC and Cinemark amended and restated the operating agreement of National CineMedia and other ancillary agreements. In connection with the series of transactions completed in connection with the IPO, Regal received gross cash proceeds totaling approximately $628.3 million and retained a 22.6% interest in NCM, Inc. After the payment of current taxes, net cash proceeds from these transactions totaled approximately $447.4 million.

As described more fully in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, on April 9, 2008, March 17, 2009 and March 17, 2010 we received from National CineMedia approximately 0.8 million, 0.5 million and 0.3 million, respectively, newly issued common units of National CineMedia in accordance with the annual adjustment provisions of the Common Unit Adjustment Agreement. In addition, on May 29, 2008, we received from National CineMedia approximately 2.9 million newly issued common units of National CineMedia in accordance with the adjustment provisions of the Common Unit Adjustment Agreement in connection with our acquisition of Consolidated Theatres. On August 18, 2010, we redeemed 4.2 million of our National CineMedia common units for a like number of shares of NCM, Inc. common stock, which we sold in an underwritten public offering for $16.00 per share, reducing our investment in National CineMedia by $13.7 million, the average carrying amount of the shares sold. We received approximately $64.5 million in proceeds after deducting related fees and expenses payable by us, resulting in a gain on sale of $50.8 million. In addition, on September 8, 2010, we redeemed an additional 0.1 million National CineMedia common units for a like number of shares of NCM, Inc. common stock and sold them to the underwriters to cover over-allotments at $16.00 per share, further reducing our investment in National CineMedia by $0.3 million, the average carrying amount of the shares sold. We received approximately $1.5 million of net proceeds from this sale, resulting in a gain on sale of $1.2 million. These transactions, together with National CineMedia's issuance of 6.5 million common units to AMC in the second quarter of 2010 as a result of an acquisition, had the effect of decreasing the Company's ownership share in National CineMedia. As a result, on a fully diluted basis, we own a 19.4% interest in NCM, Inc. as of December 30, 2010. See Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K for further discussion of National CineMedia.

Table of Contents

DIGITAL CINEMA IMPLEMENTATION PARTNERS JOINT VENTURE

On February 12, 2007, we, along with AMC and Cinemark, formed DCIP to create a financing model and establish agreements with major motion picture studios for the implementation of digital cinema in our theatres. On March 10, 2010, DCIP executed definitive agreements and related financing transactions in connection with the conversion to digital projection. Concurrent with closing, the Company entered into a master equipment lease agreement (the "Master Lease") and other related agreements (collectively, the "Digital Cinema Agreements") with Kasima, LLC, a wholly owned subsidiary of DCIP. Upon execution of the Digital Cinema Agreements, the Company made equity contributions to DCIP of approximately $41.7 million, consisting of $29.1 million in cash and 200 existing digital projection systems with a fair value of approximately $12.6 million (collectively, the "DCIP Contributions"). The Company recorded such DCIP Contributions as an increase in its investment in DCIP. In connection with the contribution of its 200 existing digital projection systems, the Company recorded a loss on the contribution of $2.0 million based on the excess of the carrying value of the digital projection systems contributed over the $12.6 million fair value (as determined by an independent appraisal) of such equipment. In addition, during May 2010, Regal sold an additional 337 digital projection systems to DCIP for aggregate proceeds of approximately $20.0 million. In connection with this sale, the Company recorded a loss on disposal of approximately $2.8 million. After giving effect to the DCIP Contributions, the Company holds a 46.7% economic interest in DCIP as of December 30, 2010, while continuing to maintain a one-third voting interest along with each of AMC and Cinemark. Since the Company determined that it is not the primary beneficiary of DCIP or any of its subsidiaries, it will continue to account for its investment in DCIP under the equity method of accounting.

The costs of implementing digital projection in our theatres will be substantially funded by DCIP. We expect DCIP to fund the cost of conversion to digital projection principally through the collection of virtual print fees from motion picture studios and equipment lease payments from participating exhibitors, including us. We will bear operating and maintenance costs with respect to digital projection systems in our theatres, which we expect to be relatively comparable to what we currently spend on our conventional film projectors. In accordance with the Master Lease, the digital projection systems are leased from Kasima, LLC under a twelve-year term with ten one-year fair value renewal options. The Master Lease also contains a fair value purchase option. Under the Master Lease, the Company pays annual minimum rent of $1,000 per digital projection system for the first six and a half years from the effective date of the agreement and is, upon certain conditions, subject to minimum annual rent of $3,000 per digital projection system beginning at six and a half years from the effective date of the agreement through the end of the lease term. The Company is also subject to various types of other rent if such digital projection systems do not meet minimum performance requirements as outlined in the Master Lease. Certain of the other rent payments are subject to either a monthly or an annual maximum. The Company accounts for the Master Lease as an operating lease for accounting purposes.

The initial financing is expected to cover the cost of conversion to digital projection for approximately 70% of our circuit's screens. We ultimately expect to outfit our entire circuit with digital projection systems by late 2012 or early 2013, with approximately 40% of our total screens being digital 3D capable by mid-2011. As of December 30, 2010, we operated 2,202 screens outfitted with digital projection systems, 1,710 of which are digital 3D capable.

FILM DISTRIBUTION

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

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

FILM EXHIBITION

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

Access to Film Product. Films are licensed from film distributors owned by major production companies and from independent film distributors that distribute films for smaller production companies. Film distributors typically establish geographic licensing zones and allocate each available film to one theatre within that zone.

In licensing zones where we are the sole exhibitor, we obtain film licenses by selecting a film from among those films being offered and negotiating directly with the distributor. In zones where there is competition, a distributor will allocate films among the exhibitors in the zone. When films are licensed under the allocation process, a distributor will select an exhibitor for each film who then negotiates film rental terms directly with the distributor.

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

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

Relationship with Distributors. Many distributors provide quality first-run movies to the motion picture exhibition industry. For fiscal 2010, ten major film distributors accounted for approximately 96% of our admissions revenues. Five of the ten major film distributors each accounted for more than 10% of fiscal 2010 admission revenues. No single film distributor accounted for more than 20% of fiscal 2010 admissions revenues. We license films from each of the major distributors and believe that our relationships with these distributors are good. From year to year, the revenues attributable to individual distributors will vary widely depending upon the number and popularity of films that each one distributes.

CONCESSIONS

In addition to box office admissions revenues, we generated approximately 25.8% of our total revenues from concessions sales during fiscal 2010. We emphasize prominent and appealing concession stations designed for rapid and efficient service. We continually seek to increase concessions sales by optimizing product mix and through expansion of our concession offerings, introducing special promotions from time to time and offering employee training and incentive programs to up-sell and cross-sell products. We have favorable concession supply contracts and have developed an efficient concession purchasing and distribution supply chain. Our management negotiates directly with manufacturers for many of our concession items to obtain competitive prices and to ensure adequate supplies.

COMPETITION

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

- ability to secure films with favorable licensing terms;
- availability of stadium seating, location, reputation and seating capacity;
- quality of projection and sound systems; and
- ability and willingness to promote the films that are showing.

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

We also compete with other motion picture distribution channels, including home video and DVD, cable television, broadcast television and satellite, pay-per-view services and downloads via the Internet. Other technologies such as video on demand could also have an adverse effect on our business and results of operations. When motion picture distributors licensed their products to the domestic exhibition industry, they refrained from licensing their motion pictures to these other distribution channels for a period of time, commonly called the theatrical release window. The theatrical release window has been stable over the past five to six years. However, we believe that a material contraction of the theatrical release window could significantly dilute the consumer appeal of the out-of-home motion picture offering. As a result, we continue to monitor the status of the theatrical release window during our film licensing decisions.

In addition, we compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants.

MARKETING AND ADVERTISING

Currently, film distributors organize and finance multimedia advertising campaigns for major film releases. To market our theatres, we utilize Internet, newspaper and radio advertising to inform our patrons of film selections and show times. Newspaper advertisements are typically displayed in a single

grouping for all of our theatres located in a newspaper's circulation area. In many of our markets we employ special interactive marketing programs for specific films and concessions items.

We have a frequent moviegoer loyalty program, named the Regal Crown Club®, in all of our markets and it is the largest loyalty program in our industry. Regal Crown Club® members are eligible for specified awards, such as concession items, based on purchases made at our participating theatres. As of December 30, 2010, we had over six million active members in the Regal Crown Club®. In addition, we seek to develop patron loyalty through a number of other marketing programs such as summer children's film series, cross-promotional ticket redemptions and promotions within local communities. We offer these programs only in selected markets. We plan to use these programs in markets where we believe patron loyalty can be further enhanced, and we will continue to evaluate our markets on a case-by-case basis to determine the suitability of these programs in individual regions.

MANAGEMENT INFORMATION SYSTEMS

We make extensive use of information technology ("IT") for the management of our business, our theatres, and other revenue generating operations. The revenue streams generated by attendance and concession sales are fully supported by information systems to monitor cash flow and to detect fraud and inventory shrinkage. We have implemented software and hardware solutions which provide for enhanced capabilities and efficiency within our theatre operations. These solutions have enabled us to sell gift cards at various major retailers, grocery stores and mass discounters and to redeem those gift cards at our theatre box offices and concession stands. We continue to expand our ability to sell tickets remotely by using our Internet ticketing partner, Fandango.com, and by deploying self-service customer activated terminals ("CATs") in appropriate theatres. The CATs can sell tickets for current and future shows and provide the capability to retrieve tickets purchased through Fandango.com. We continue to invest in IT to improve services to our patrons and provide information to our management, allowing them to operate our theatres efficiently.

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

SEASONALITY

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

EMPLOYEES

As of February 3, 2011, we employed approximately 22,061 persons. Some of our facilities employ union projectionists. The Company's expansion into new markets may increase the number of employees represented by unions. The Company considers its employee relations to be good.

Table of Contents

REGULATION

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

Our theatres must comply with Title III of the Americans with Disabilities Act of 1990 (the "ADA") to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the ADA. Compliance with the ADA requires that public accommodations "reasonably accommodate" individuals with disabilities and that new construction or alterations made to "commercial facilities" conform to accessibility guidelines unless "structurally impracticable" for new construction or technically infeasible for alterations. Non-compliance with the ADA could result in the imposition of injunctive relief, fines, an award of damages to private litigants and additional capital expenditures to remedy such non-compliance.

We believe that we are in substantial compliance with all current applicable regulations relating to accommodations for the disabled. We intend to comply with future regulations in this regard and except as set forth in Note 8 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, we do not currently anticipate that compliance will require us to expend substantial funds.

Our theatre operations are also subject to federal, state and local laws governing such matters as wages, working conditions, citizenship and health and sanitation and environmental protection requirements. We believe that we are in substantial compliance with all relevant laws and regulations.

FORWARD-LOOKING STATEMENTS

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

Table of Contents

Item 1A. RISK FACTORS.

Investing in our securities involves a significant degree of risk. In addition to the other information contained in this Form 10-K, you should consider the following factors before investing in our securities.

Our substantial lease and debt obligations could impair our financial condition.

We have substantial lease and debt obligations. For fiscal 2010, our total rent expense and net interest expense were approximately $382.3 million and $148.1 million, respectively. As of December 30, 2010, we had total debt obligations of $2,073.0 million. As of December 30, 2010, we had total contractual cash obligations of approximately $6,381.1 million. For a detailed discussion of our contractual cash obligations and other commercial commitments over the next several years, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Cash Obligations and Commitments" provided in Part II, Item 7 of this Form 10-K.

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

Our theatres operate in a competitive environment.

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

Generally, stadium seating found in modern megaplex theatres is preferred by patrons over slope-floored multiplex theatres, which were the predominant theatre-type built prior to 1996. Although, as of December 30, 2010, approximately 81% of our screens were located in theatres featuring stadium seating, we still serve many markets with sloped-floored multiplex theatres. These theatres may be more vulnerable to competition than our modern megaplex theatres, and should other theatre operators choose to build and operate modern megaplex theatres in these markets, the performance of our theatres in these markets may be significantly and negatively impacted. In addition, should other theatre operators return to the aggressive building strategies undertaken in the late 1990's, our attendance, revenue and income from operations per screen could decline substantially.

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

We also compete with other movie delivery vehicles, including cable television, downloads via the Internet, in-home video and DVD, satellite and pay-per-view services. When motion picture distributors license their products to the domestic exhibition industry, they refrain from licensing their motion pictures to these other delivery vehicles during the theatrical release window. The theatrical release window has been stable over the past five to six years. We believe that a material contraction of the

Table of Contents

current theatrical release window could significantly dilute the consumer appeal of the in-theatre motion picture offering, which could have a material adverse effect on our business and results of operations. We also compete for the public's leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theatre and restaurants.

We depend on motion picture production and performance.

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

We depend on our relationships with film distributors.

The film distribution business is highly concentrated, with ten major film distributors accounting for approximately 96% of our admissions revenues during fiscal 2010. Our business depends on maintaining good relations with these distributors. In addition, we are dependent on our ability to negotiate commercially favorable licensing terms for first-run films. A deterioration in our relationship with any of the ten major film distributors could affect our ability to negotiate film licenses on favorable terms or our ability to obtain commercially successful films and, therefore, could hurt our business and results of operations.

No assurance of a supply of motion pictures.

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

We may not benefit from our acquisition strategy.

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

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

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

Our investment in and revenues from National CineMedia may be negatively impacted by the competitive environment in which National CineMedia operates.

As of December 30, 2010, we owned approximately 19.4% of National CineMedia. In addition, we receive theatre access fees and mandatory distributions of excess cash from National CineMedia. National CineMedia's in-theatre advertising operations compete with other cinema advertising companies and other advertising mediums including, most notably, television, newspaper, radio and the Internet. There can be no guarantee that in-theatre advertising will continue to attract major advertisers or that National CineMedia's in-theatre advertising format will be able to generate expected sales of advertising. Although we have representation on the board of directors of National CineMedia, we do not control this business. Should National CineMedia fail to maintain the level of profitability it hopes to achieve, its results of operations may be adversely affected and our investment in and earnings and cash flows from National CineMedia may be adversely impacted.

We depend on our senior management.

Our success depends upon the retention of our senior management, including Michael Campbell, our Executive Chairman and Amy Miles, our Chief Executive Officer. We cannot assure you that we would be able to find qualified replacements for the individuals who make up our senior management if their services were no longer available. The loss of services of one or more members of our senior management team could have a material adverse effect on our business, financial condition and results of operations. The loss of any member of senior management could adversely affect our ability to effectively pursue our business strategy.

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

Anschutz Company owns all of our outstanding Class B common stock. Our Class A common stock has one vote per share while our Class B common stock has ten votes per share on all matters to be voted on by stockholders. As a result, as of December 30, 2010, Anschutz Company controlled approximately 78% of the voting power of all of our outstanding common stock. For as long as

Anschutz Company continues to own shares of common stock representing more than 50% of the voting power of our common stock, it will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on our common stock. Anschutz Company will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Anschutz Company but not to other stockholders. In addition, Anschutz Company and its affiliates have controlling interests in companies in related and unrelated industries, including interests in the sports, motion picture production and music entertainment industries. In the future, it may combine our company with one or more of its other holdings.

A prolonged economic downturn could materially affect our business by reducing consumer spending on movie attendance or could have an impact on our business and financial condition in ways that we currently cannot predict.

We depend on consumers voluntarily spending discretionary funds on leisure activities. Motion picture theatre attendance may be affected by prolonged negative trends in the general economy that adversely affect consumer spending, including those resulting from terrorist attacks on, or wars or threatened wars involving, the United States. A prolonged reduction in consumer confidence or disposable income in general may affect the demand for motion pictures or severely impact the motion picture production industry, which, in turn, could adversely affect our operations. If economic conditions become weak or deteriorate, or if financial markets experience significant disruption, it could materially adversely affect our results of operations, financial position and/or liquidity. For example, deteriorating conditions in the global credit markets could negatively impact our business partners which may impact film production, the development of new theatres or the enhancement of existing theatres, including delaying the deployment of new projection and other technologies to our theatres.

In addition, our ability to access capital markets may be restricted at times when the implementation of our business strategy may require us to do so, which could have an impact on our flexibility to react to changing economic and business conditions. For example, our future ability to borrow on our revolving credit facility (the "Revolving Facility") or the effectiveness of our remaining and future interest rate hedging arrangements could be negatively impacted if one or more counterparties files for bankruptcy protection or otherwise fails to perform their obligations thereunder. All of these factors could adversely affect our credit ratings, the market price of our Class A common stock and our financial condition and results of operations.

Substantial sales of our Class A common stock could cause the market price for our Class A common stock to decline.

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

As of February 22, 2011, we had outstanding 23,708,639 shares of Class B common stock that may convert into Class A common stock on a one-for-one basis, all of which shares of common stock constitute "restricted securities" under the Securities Act. Provided the holders comply with the applicable volume limits and other conditions prescribed in Rule 144 under the Securities Act, all of these restricted securities are currently freely tradable.

Table of Contents

Anschutz Company is able to sell their shares pursuant to the registration rights that we have granted. We cannot predict whether substantial amounts of our Class A common stock will be sold in the open market in anticipation of, or following, any divestiture by Anschutz Company or our directors or executive officers of their shares of our common stock.

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

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

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

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

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

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

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

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

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

Regal is a holding company with no operations of our own. Consequently, our ability to service our and our subsidiaries' debt and pay dividends on our common stock is dependent upon the earnings from the businesses conducted by our subsidiaries. Our subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Any distribution of earnings to us from our subsidiaries, or advances or other distributions of funds by these subsidiaries to us, all of which are subject to statutory or contractual restrictions, are contingent upon the subsidiaries' earnings and are subject to various business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of the holders of our $9\frac{1}{8}$% Senior Notes due 2018 (the "$9\frac{1}{8}$% Senior Notes") and $6\frac{1}{4}$% Convertible Senior Notes due March 15, 2011 (the "$6\frac{1}{4}$% Convertible Senior Notes") and our common stock to participate in those assets, will be structurally subordinated to the claims of that subsidiary's creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

Hedging transactions and other transactions.

We have entered into convertible note hedge and warrant transactions with respect to our Class A common stock, the exposure for which was held by Credit Suisse International ("Credit Suisse") at the time the $6\frac{1}{4}$% Convertible Senior Notes were issued. The convertible note hedge and warrant transactions are expected to reduce the potential dilution from conversion of the $6\frac{1}{4}$% Convertible Senior Notes. In connection with these hedging arrangements, Credit Suisse has taken positions in our Class A common stock in secondary market transactions and/or entered into various derivative transactions after the pricing of the $6\frac{1}{4}$% Convertible Senior Notes. Such hedging arrangements could affect the price of our Class A common stock. Credit Suisse may modify its hedge positions from time to time prior to the March 15, 2011 maturity of the $6\frac{1}{4}$% Convertible Senior Notes by purchasing and selling shares of our Class A common stock, other securities of Regal or other instruments we may wish to use in connection with such hedging. We cannot assure you that such activity will not affect the market price of our Class A common stock. For further description of the convertible note hedge and warrant transactions, see Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Item 1B. UNRESOLVED STAFF COMMENTS.

As of December 30, 2010, there are no unresolved comments from the Commission regarding any of our periodic or current reports filed under the Exchange Act.

Item 2. PROPERTIES.

As of December 30, 2010, we operated 476 theatre locations pursuant to lease agreements and owned the land and buildings in fee for 63 theatre locations. For a list of the states in which we operated theatres and the number of theatres and screens operated in each such state as of December 30, 2010, please see the chart under Part I, Item 1 of this Form 10-K under the caption "Business Theatre Operations", which is incorporated herein by reference.

The majority of our leased theatres are subject to lease agreements with original terms of 15 to 20 years or more and, in most cases, renewal options for up to an additional 10 years. These leases provide for minimum annual rentals and the renewal options generally provide for rent increases. Some leases require, under specified conditions, further rental payments based on a percentage of revenues above specified amounts. A significant majority of the leases are net leases, which require us to pay the cost of insurance, taxes and a portion of the lessor's operating costs. Our corporate office is located in Knoxville, Tennessee. We believe that these facilities are adequate for our operations.

Item 3. LEGAL PROCEEDINGS.

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

Table of Contents

EXECUTIVE OFFICERS OF THE REGISTRANT

Shown below are the names, ages as of December 30, 2010, and current positions of our executive officers. There are no family relationships between any of the persons listed below, or between any of such persons and any of the directors of the Company or any persons nominated or chosen by the Company to become a director or executive officer of the Company.

Name	Age	Position
Michael L. Campbell	57	Executive Chairman of the Board of Directors
Amy E. Miles	44	Chief Executive Officer
Gregory W. Dunn	51	President and Chief Operating Officer
Peter B. Brandow	50	Executive Vice President, General Counsel and Secretary
David H. Ownby	41	Executive Vice President, Chief Financial Officer and Treasurer

Michael L. Campbell is our Executive Chairman of the Board and has served in this capacity since June 2009. Mr. Campbell has served as a director since March 2002 and is a member of our Executive Committee. From March 2002 to May 2005, Mr. Campbell served as our Co-Chairman of the Board and Co-Chief Executive Officer. Mr. Campbell became our Chief Executive Officer and Chairman of the Board in May 2005 and served in that capacity through June 2009. Mr. Campbell founded Regal Cinemas, Inc. in November 1989, and served as Chief Executive Officer of Regal Cinemas, Inc. through June 2009. Prior thereto, Mr. Campbell was the Chief Executive Officer of Premiere Cinemas Corporation, which he co-founded in 1982, and served in such capacity until Premiere was sold in October 1989. Mr. Campbell is a director of NCM, Inc.

Amy E. Miles is our Chief Executive Officer and has served in this capacity since June 2009. Prior thereto, Ms. Miles served as our Executive Vice President, Chief Financial Officer and Treasurer from March 2002 to June 2009. Additionally, Ms. Miles has served as the Chief Executive Officer of Regal Cinemas, Inc. since June 2009. Ms. Miles formerly served as the Executive Vice President, Chief Financial Officer and Treasurer of Regal Cinemas, Inc. from January 2000 to June 2009. Prior thereto, Ms. Miles served as Senior Vice President of Finance from April 1999, when she joined Regal Cinemas, Inc. Prior to joining the Company, Ms. Miles was a Senior Manager with Deloitte & Touche LLP from 1998 to 1999. From 1989 to 1998, she was with PricewaterhouseCoopers LLP.

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

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

David H. Ownby is our Executive Vice President, Chief Financial Officer and Treasurer and has served in this capacity since June 2009. Mr. Ownby served as our Senior Vice President of Finance from March 2002 to June 2009. Mr. Ownby also served as our Chief Accounting Officer from May 2006 to June 2009. Prior thereto, Mr. Ownby served as the Company's Vice President Finance and Director of Financial Projects from October 1999 to March 2002. Prior to joining the Company, Mr. Ownby served with Ernst & Young LLP from September 1992 to October 1999.

Item 4. RESERVED.

PART II

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

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

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

	Fiscal 2010	
	High	Low
First Quarter (January 1, 2010 - April 1, 2010)	$ 18.49	$ 14.05
Second Quarter (April 2, 2010 - July 1, 2010)	18.42	12.66
Third Quarter (July 2, 2010 - September 30, 2010)	14.37	11.59
Fourth Quarter (October 1, 2010 - December 30, 2010)	15.22	11.67

	Fiscal 2009	
	High	Low
First Quarter (January 2, 2009 - April 2, 2009)	$ 14.56	$ 8.83
Second Quarter (April 3, 2009 - July 2, 2009)	14.83	10.58
Third Quarter (July 3, 2009 - October 1, 2009)	14.33	11.41
Fourth Quarter (October 2, 2009 - December 31, 2009)	14.47	11.11

On February 22, 2011, there were approximately 271 stockholders of record of our Class A common stock and one stockholder of record of our Class B common stock.

Additionally, as of February 22, 2011, approximately 525,638 shares of our Class A common stock are issuable upon exercise of stock options that vest and are exercisable at various dates through June 23, 2014, with exercise prices ranging from $2.2090 to $14.6414. All such options were exercisable as of February 22, 2011. Finally, as of February 22, 2011 our officers, directors and key employees hold, or in the case of performance shares are eligible to receive, approximately 2,496,428 restricted shares of our Class A common stock, for which the restrictions lapse or the performance criteria and vesting may be satisfied, at various dates through January 12, 2015. All shares underlying outstanding options and all shares of restricted stock are registered and will be freely tradable when the option is exercised, in the case of restricted stock when the restrictions lapse, or, in the case of performance shares when the performance criteria and vesting are satisfied, unless such shares are acquired by an affiliate of Regal, in which case the affiliate may only sell the shares subject to the volume limitations imposed by Rule 144 of the Securities Act.

Dividend Policy

During fiscal 2010, we paid to our stockholders four quarterly cash dividends of $0.18 per share, on each outstanding share of our Class A and Class B common stock, or approximately $111.1 million in the aggregate. In addition, on December 30, 2010, Regal paid an extraordinary cash dividend of $1.40 per share on each outstanding share of its Class A and Class B common stock, or approximately $216.0 million. During fiscal 2009, we paid to our stockholders four quarterly cash dividends of $0.18 per share, on each outstanding share of our Class A and Class B common stock, or approximately $110.8 million in the aggregate. On February 9, 2011, we declared a cash dividend of $0.21 per share on each outstanding share of Class A and Class B common stock. The dividend is payable on March 15, 2011 to our stockholders of record on March 3, 2011. This dividend reflects a $0.03 per share increase from the Company's last quarterly cash dividend of $0.18 per share declared on

Table of Contents

October 28, 2010. These dividends have been or will be funded through cash flow from operations and available cash on hand. We, at the discretion of our board of directors and subject to applicable law, anticipate paying regular quarterly dividends on our Class A and Class B common stock for the foreseeable future. The amount, if any, of the dividends to be paid in the future will depend upon our then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors. For a description of the loan agreement restrictions on the payment of dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" included in Part II, Item 7 of this Form 10-K and Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

None.

Item 6. SELECTED FINANCIAL DATA.

We present below selected historical consolidated financial data for Regal based on historical data, for periods subsequent to the respective acquisition dates, (i) the fiscal year ended December 28, 2006, considering the results of United Artists, Regal Cinemas, Edwards, Hoyts, the results of operations of seven theatres acquired during the fiscal quarter ended July 1, 2004 and the 28 theatres acquired from Signature Theatres on September 30, 2004 (the "fiscal 2004 acquisitions") and the results of operations of seven theatres acquired from R/C Theatres on April 28, 2005 and 21 theatres acquired from Eastern Federal Corporation on July 21, 2005 (the "fiscal 2005 acquisitions") from December 30, 2005 and the results of operations of four theatres acquired from AMC on September 15, 2006 for the period subsequent to the acquisition date, (ii) the fiscal year ended December 27, 2007, considering the results of United Artists, Regal Cinemas, Edwards, Hoyts, the fiscal 2004 acquisitions, the fiscal 2005 acquisitions and the results of operations of four theatres acquired from AMC on September 15, 2006 from December 29, 2006, (iii) the fiscal year ended January 1, 2009, considering the results of United Artists, Regal Cinemas, Edwards, Hoyts, the fiscal 2004 acquisitions, the fiscal 2005 acquisitions, the four theatres acquired from AMC from December 28, 2007 and the results of operations of the 28 theatres acquired from Consolidated Theatres on April 30, 2008 for the period subsequent to the acquisition date, (iv) the fiscal year ended December 31, 2009, considering the results of United Artists, Regal Cinemas, Edwards, Hoyts, the fiscal 2004 acquisitions, the fiscal 2005 acquisitions, the four theatres acquired from AMC and the 28 theatres acquired from Consolidated Theatres from January 2, 2009 and (v) the fiscal year ended December 30, 2010, considering the results of United Artists, Regal Cinemas, Edwards, Hoyts, the fiscal 2004 acquisitions, the fiscal 2005 acquisitions, the four theatres acquired from AMC, the 28 theatres acquired from Consolidated Theatres from January 1, 2010 and the eight theatres acquired from AMC on May 24, 2010 and June 24, 2010 for periods subsequent to their acquisition dates. The fiscal year ended January 1, 2009 consisted of 53 weeks of operations. The selected historical consolidated financial data as of and for the fiscal years ended December 30, 2010, December 31, 2009, January 1, 2009, December 27, 2007 and December 28, 2006 were derived from the audited consolidated financial statements of Regal and the notes thereto. The selected historical financial data do not necessarily indicate the operating results or financial position that would have resulted from our operations on a combined basis during the periods presented, nor is the historical data necessarily indicative of any future operating results or financial position of Regal. In addition to

Table of Contents

the below selected financial data, you should also refer to the more complete financial information included elsewhere in this Form 10-K.

	Fiscal year ended December 30, 2010	Fiscal year ended December 31, 2009	Fiscal year ended January 1, 2009(1)	Fiscal year ended December 27, 2007	Fiscal year ended December 28, 2006
	(in millions, except per share data)				
Statement of Operations Data:					
Total revenues	$ 2,807.9	$ 2,893.9	$ 2,771.9	$ 2,661.2	$ 2,598.1
Income from operations	215.8	279.4	284.4	322.2	308.5
Net income attributable to controlling interest	77.6	95.5	112.2	360.4	104.3
Earnings per diluted share	0.50	0.62	0.72	2.26	0.67
Dividends per common share	$ 2.12(2)	$ 0.72	$ 1.20	$ 3.20(3)	$ 1.20

	As of or for the fiscal year ended December 30, 2010	As of or for the fiscal year ended December 31, 2009	As of or for the fiscal year ended January 1, 2009(1)	As of or for the fiscal year ended December 27, 2007	As of or for the fiscal year ended December 28, 2006
	(in millions, except operating data)				
Other financial data:					
Net cash provided by operating activities	$ 259.4	$ 410.8	$ 270.9	$ 453.4	$ 304.4
Net cash (used in) provided by investing activities	(82.7)	(110.5)	(338.5)	299.8	(151.7)
Net cash used in financing activities(2)(3)	(299.5)	(142.4)	(197.4)	(480.2)	(186.8)
Balance sheet data at period end:					
Cash and cash equivalents	$ 205.3	$ 328.1	$ 170.2	$ 435.2	$ 162.2
Total assets	2,492.6	2,637.7	2,595.8	2,634.2	2,468.8
Total debt obligations	2,073.0	1,997.1	2,004.9	1,963.7	1,987.9
Deficit	(491.7)	(246.9)	(235.9)	(117.7)	(16.6)
Operating data:					
Theatre locations	539	548	552	527	539
Screens	6,698	6,768	6,801	6,388	6,403
Average screens per location	12.4	12.4	12.3	12.1	11.9
Attendance (in millions)	224.3	244.5	245.2	242.9	247.4
Average ticket price	$ 8.72	$ 8.15	$ 7.68	$ 7.43	$ 6.98
Average concessions per patron	$ 3.23	$ 3.17	$ 3.09	$ 3.03	$ 2.82

(1) Fiscal year ended January 1, 2009 was comprised of 53 weeks.

(2) Includes the December 30, 2010 payment of the $1.40 extraordinary cash dividend paid on each share of Class A and Class B common stock.

(3) Includes the April 13, 2007 payment of the $2.00 extraordinary cash dividend paid on each share of Class A and Class B common stock.

Table of Contents

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

This discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of Regal Entertainment Group for the fiscal years ended December 30, 2010, December 31, 2009 and January 1, 2009. The following discussion and analysis should be read in conjunction with the consolidated financial statements of Regal and the notes thereto included elsewhere in this Form 10-K.

Overview and Basis of Presentation

We conduct our operations through our wholly owned subsidiaries. We operate the largest and most geographically diverse theatre circuit in the United States, consisting of 6,698 screens in 539 theatres in 37 states and the District of Columbia as of December 30, 2010. We believe the size, reach and quality of our theatre circuit provide an exceptional platform to realize economies of scale from our theatre operations. We also maintain an investment in National CineMedia, which concentrates on in-theatre advertising and creating complementary business lines that leverage the operating personnel, asset and customer bases of its theatrical exhibition partners, which include us, AMC and Cinemark. The Company manages its business under one reportable segment: theatre exhibition operations.

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

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

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

Critical Accounting Estimates

Our consolidated financial statements are prepared in conformity with U.S generally accepted accounting principles ("GAAP"), which require management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosures of contingent assets and liabilities as of the date of the balance sheet as well as the reported amounts of revenues and expenses during the reporting period. We routinely make estimates and judgments about the carrying value of our assets and liabilities that are not readily apparent from other sources. We evaluate and modify on an ongoing basis such estimates and assumptions, which include those related to film costs, property and equipment, goodwill, income taxes and purchase accounting as well as others discussed in Note 2

Table of Contents

to the consolidated financial statements included in Part II, Item 8 of this Form 10-K. Estimates and assumptions are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities. Actual results, under conditions and circumstances different from those assumed, may differ materially from estimates. The impact and any associated risks related to estimates, assumptions, and accounting policies are discussed within "Management's Discussion and Analysis of Financial Condition and Results of Operations", as well as in the notes to the consolidated financial statements, if applicable, where such estimates, assumptions, and accounting policies affect our reported and expected results. Management has discussed the development and selection of its critical accounting estimates with the audit committee of our board of directors and the audit committee has reviewed our related disclosures herein.

We believe the following accounting policies are critical to our business operations and the understanding of our results of operations and affect the more significant judgments and estimates used in the preparation of our consolidated financial statements:

We have applied the principles of purchase accounting when recording theatre acquisitions. Under current purchase accounting principles, we are required to use the acquisition method of accounting to estimate the fair value of all assets and liabilities, including: (i) the acquired tangible and intangible assets, including property and equipment, (ii) the liabilities assumed at the date of acquisition (including contingencies), and (iii) the related deferred tax assets and liabilities. Because the estimates we make in purchase accounting can materially impact our future results of operations, for significant acquisitions, we have obtained assistance from third party valuation specialists in order to assist in our determination of fair value. The Company provides the assumptions to the third party valuation firms based on information available to us at the acquisition date, including both quantitative and qualitative information about the specified assets or liabilities. The Company primarily utilizes the third parties to accumulate comparative data from multiple sources and assemble a report that summarizes the information obtained. The Company then uses the information to determine fair value. The third party valuation firms are supervised by Company personnel who are knowledgeable about valuations and fair value. The Company evaluates the appropriateness of the valuation methodology utilized by the third party valuation firm. The estimation of the fair value of the assets and liabilities involves a number of judgments and estimates that could differ materially from the actual amounts. Historically, the estimates made have not experienced significant changes and, as a result, we have not disclosed such changes.

FASB Accounting Standards Codification ("ASC") Subtopic 350-20, *Intangibles Goodwill and Other Goodwill* specifies that goodwill and indefinite-lived intangible assets will be subject to an annual impairment assessment. Based on our annual impairment assessment conducted during fiscal 2010, fiscal 2009 and fiscal 2008, we were not required to record a charge for goodwill impairment. In assessing the recoverability of the goodwill, we must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for these assets in future periods.

We estimate our film cost expense and related film cost payable based on management's best estimate of the expected box office revenue of each film over the length of its run in our theatres and the ultimate settlement of such film costs with the distributors. Generally, less than one-third of our quarterly film expense is estimated at period-end. The length of time until these costs are known with certainty depends on the ultimate duration of the film play, but is typically "settled" within two to three months of a particular film's opening release. Upon settlement with our film distributors, film cost expense and the related film cost payable are adjusted to the final film settlement. The ultimate revenues of a film can be estimated reasonably accurately within a

Table of Contents

few weeks after the film is released based on the film's initial box office performance, which is determined by a film's initial box office receipts. As a result, there are typically insignificant variances between our estimates of film cost expense and the final film cost payable, because we make such estimates based on each film's box office receipts through the end of the reporting period. For the fiscal years ended December 30, 2010, December 31, 2009 and January 1, 2009, there were no significant changes in our film cost estimation and settlement procedures.

We depreciate and amortize the components of our property and equipment relating to both owned and leased theatres on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets. Each owned theatre consists of a building structure, structural improvements, seating and concession and film display equipment. While we have assigned an estimated useful life of less than 30 years to certain acquired facilities, we estimate that our newly constructed buildings generally have an average economic useful life of 30 years. Certain of our buildings have been in existence for more than 40 years. With respect to equipment (e.g., concession stand, point-of-sale equipment, etc.), a substantial portion is depreciated over seven years or less, which has been our historical replacement period. Seats and digital projection equipment generally have a longer useful economic life, and their depreciable lives (12-17.5 years) are based on our experience and replacement practices. The estimates of the assets' useful lives require our judgment and our knowledge of the assets being depreciated and amortized. Further, we review the economic useful lives of such assets annually and make adjustments thereto as necessary. To the extent we determine that certain of our assets have become obsolescent, we accelerate depreciation over the remaining useful lives of the assets. For example, currently the Company is focusing on an accelerated deployment of 3D compatible digital projection systems to a majority of its first run U.S. theatres. With respect to the Company's existing 35mm film projection equipment that is scheduled to be replaced with digital projection systems, the Company has begun to accelerate depreciation on such 35 mm film projection equipment over the expected deployment schedule since the Company plans to dispose of such equipment prior to the end of their useful lives. To that end, during the fiscal year ended December 30, 2010, the Company recorded approximately $18.9 million of accelerated depreciation related to such 35mm film projection equipment, as described further in Note 2 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K. Actual economic lives may differ materially from these estimates.

The majority of our properties have been appraised. Such appraisals supported the estimated lives being used for depreciation and amortization purposes. Furthermore, our analysis of our historical capital replacement program is consistent with our depreciation policies. Finally, we review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. Such analysis generally evaluates assets for impairment on an individual theatre basis. When the estimated future undiscounted cash flows of the operations to which the assets relate do not exceed the carrying value of the assets, such assets are written down to fair value. Our experience indicates that theatre properties become impaired primarily due to market or competitive factors rather than physical (wear and tear) or functional (inadequacy or obsolescence) factors. In this regard, we do not believe the frequency or volume of facilities impaired due to these market factors are significant enough to impact the useful lives used for depreciation periods.

For the fiscal years ended December 30, 2010, December 31, 2009 and January 1, 2009, no significant changes have been made to the depreciation and amortization rates applied to operating assets, the underlying assumptions related to estimates of depreciation and amortization, or the methodology applied. For the fiscal year ended December 30, 2010, consolidated depreciation and amortization expense was $213.4 million, representing 7.6% of consolidated total revenues. If the estimated lives of all assets being depreciated were increased by one year, the consolidated depreciation and amortization expense would have decreased by approximately $14.3 million, or 6.7%. If the estimated lives of all assets being depreciated were decreased by one year, the consolidated depreciation and amortization expense would have increased by approximately $16.6 million, or 7.8%.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We record a valuation allowance if it is deemed more likely than not that our deferred income tax assets will not be realized. We reassess the need for such valuation allowance on an ongoing basis. An increase in the valuation allowance generally results in an increase in the provision for income taxes recorded in such period. A decrease in the valuation allowance generally results in a decrease to the provision for income taxes recorded in such period.

Additionally, income tax rules and regulations are subject to interpretation, require judgment by us and may be challenged by the taxing authorities. As described further in Note 7 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, effective December 29, 2006, the Company adopted the provisions of ASC Subtopic 740-10, *Income Taxes Overview*. Although we believe that our tax return positions are fully supportable, in accordance with ASC Subtopic 740-10, we recognize a tax benefit only for tax positions that we determine will more likely than not be sustained based on the technical merits of the tax position. With respect to such tax positions for which recognition of a benefit is appropriate, the benefit is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions are evaluated on an ongoing basis as part of our process for determining our provision for income taxes. Among other items deemed relevant by us, the evaluations are based on new legislation, other new technical guidance, judicial proceedings, and our specific circumstances, including the progress of tax audits. Any change in the determination of the amount of tax benefit recognized relative to an uncertain tax position impacts the provision for income taxes in the period that such determination is made.

For fiscal 2010, our provision for income taxes was $48.7 million. Changes in management's estimates and assumptions regarding the probability that certain tax return positions will be sustained, the enacted tax rate applied to deferred tax assets and liabilities, the ability to realize the value of deferred tax assets, or the timing of the reversal of tax basis differences could impact the provision for income taxes and change the effective tax rate. A one percentage point change in the effective tax rate from 38.7% to 39.7% would have increased the current year income tax provision by approximately $1.3 million.

Significant Events and Fiscal 2011 Outlook

During the fiscal years ended December 30, 2010 ("Fiscal 2010 Period"), December 31, 2009 ("Fiscal 2009 Period") and January 1, 2009 ("Fiscal 2008 Period"), the Company entered into various financing transactions which are more fully described under "Liquidity and Capital Resources Financing Activities" below and in Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K.

On March 10, 2010, DCIP executed definitive agreements and related financing transactions in connection with the conversion to digital projection. DCIP's financing raised $660.0 million, consisting

Table of Contents

of $445.0 million in senior bank debt, $135.0 million in additional junior capital and approximately $80.0 million in equity contributions (consisting of cash and existing digital projection systems) from us, AMC and Cinemark. As discussed further under "Liquidity and Capital Resources Investing Activities" below and in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, concurrent with closing, the Company entered into the Digital Cinema Agreements with Kasima, LLC, and made the DCIP Contributions. After giving effect to the DCIP Contributions, the Company holds a 46.7% economic interest in DCIP as of December 30, 2010, while continuing to maintain a one-third voting interest along with each of AMC and Cinemark.

As discussed further under "Liquidity and Capital Resources Investing Activities" below and in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, during the Fiscal 2010 Period, the Fiscal 2009 Period and the Fiscal 2008 Period, the Company received an additional 4.5 million newly issued common units of National CineMedia. In addition, during the Fiscal 2010 Period, we redeemed approximately 4.3 million of our National CineMedia common units for a like number of shares of NCM, Inc. common stock, which we sold in an underwritten public offering for $16.00 per share, reducing our investment in National CineMedia by $14.0 million, the average carrying amount of the shares sold. We received approximately $66.0 million in proceeds after deducting related fees and expenses payable by us, resulting in an aggregate gain on sale of $52.0 million. These transactions, together with National CineMedia's issuance of 6.5 million common units to AMC in the second quarter of 2010 as a result of an acquisition, had the effect of decreasing the Company's ownership share in National CineMedia. As a result, on a fully diluted basis, we own a 19.4% interest in NCM, Inc. as of December 30, 2010.

On May 24, 2010 and June 24, 2010, the Company acquired eight theatres with 106 screens located in Illinois, Indiana and Colorado from an affiliate of AMC. Regal purchased five of these AMC theatres representing 63 screens for approximately $55.0 million in cash, subject to post-closing adjustments, and acquired the other three AMC theatres representing 43 screens in exchange for two Regal theatres consisting of 26 screens. The results of operations of the eight acquired theatres have been included in the Company's consolidated financial statements for periods subsequent to the respective acquisition dates. See "Liquidity and Capital Resources Investing Activities" below and Note 3 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K for further discussion of this acquisition.

During the Fiscal 2010 Period, we continued to make progress with respect to the following strategic initiatives:

- We demonstrated our commitment to providing incremental value to our stockholders. Total cash dividends distributed to our stockholders during the Fiscal 2010 Period totaled approximately $327.1 million, including an extraordinary cash dividend of $1.40 per share on each outstanding share of its Class A and Class B common stock.

- In addition to the eight theatres representing 106 screens acquired from an affiliate of AMC, we opened two new theatres with 24 screens and closed 19 theatres with 200 screens (including the two theatres exchanged with AMC), ending the Fiscal 2010 Period with 539 theatres and 6,698 screens.

- We continued to embrace new technologies to deliver a premium movie-going experience for our customers on three complementary fronts:

  During the Fiscal 2010 Period, the Company focused on an accelerated deployment of 3D compatible digital projection systems to a majority of its first run U.S. theatres and expects to continue the accelerated 3D deployment into the first half of 2011. As of December 30, 2010, we operated 2,202 screens outfitted with digital projection systems, 1,710 of which are digital 3D

Table of Contents

capable. We expect all of our screens to be outfitted with digital projection systems by late 2012 or early 2013, with approximately 40% of our total screens being digital 3D capable by mid-2011.

Second, we renegotiated our agreement with IMAX® during the Fiscal 2010 Period to expand our IMAX® footprint by agreeing to install a total of up to 77 IMAX® digital projection systems by the end of 2012. As of December 30, 2010, we operated a total of 50 IMAX® screens. We believe that expanding our IMAX® footprint, combined with a more favorable allocation of costs included in the new agreement, will continue to have a positive impact on our operating results.

Finally, as of December 30, 2010, we had converted seven of our auditoriums to our proprietary large screen format known as RPX^{SM}. We have been encouraged by the initial results of RPX^{SM} and expect to expand our RPX^{SM} footprint by converting up to 12 additional auditoriums throughout 2011.

We believe the installation of 3D digital projection systems and IMAX® theatres systems and the conversion of existing auditoriums to RPX^{SM} auditoriums allow us to offer our patrons premium 3D movie and large all-digital format experiences that we believe generate incremental revenue and cash flows for the Company. We remain optimistic regarding the benefits of digital cinema primarily as it relates to future growth potential associated with 3D film product and other 3D content and are pleased to see continued support of 3D and IMAX® film product by the major motion picture studios.

We are optimistic regarding the breadth of the 2011 film slate, including the timing of the release schedule and the number of films scheduled for release in premium-priced formats. Evidenced by the motion picture studios' continued efforts to promote and market upcoming film releases, 2011 appears to be another year of high-profile releases such as *Rango*, *Thor*, *Pirates of the Caribbean: On Stranger Tides*, *The Hangover Part II*, *Kung Fu Panda 2*, *Cars 2*, *X-Men: First Class*, *Super 8*, *Green Lantern*, *Transformers: Dark of the Moon*, *Harry Potter and the Deathly Hallows: Part 2*, *Captain America: The First Avenger*, *Cowboys & Aliens*, *Happy Feet 2*, *The Twilight Saga: Breaking Dawn Part One*, *Alvin and the Chipmunks: Chip-Wrecked* and *Sherlock Holmes 2*.

We intend to grow our theatre circuit through selective expansion and through accretive acquisitions. With respect to capital expenditures, subject to the timing of certain construction projects, we expect capital expenditures (net of proceeds from asset sales) to be in the range of $85.0 million to $100.0 million for fiscal 2011, consisting of new theatre development, expansion of existing theatre facilities, upgrades and replacements.

Overall for the fiscal 2011 year, we expect to benefit from modest increases in ticket prices and average concessions per patron and a continued increase in 3D screens and the number of films scheduled for release in premium-priced formats. In addition, we expect fiscal 2011 admissions and concessions revenues to be supported by our continued focus on efficient theatre operations and through opportunities to expand our concession offerings. We will continue to maintain a business strategy focused on the evaluation of accretive acquisition opportunities, selective upgrades and premium experience opportunities and providing incremental returns to our stockholders. For an understanding of the significant factors that influenced our performance during the past three fiscal years, the preceding and following discussion should be read in conjunction with the consolidated financial statements and the notes thereto presented in Part II, Item 8 of this Form 10-K.

Table of Contents

Recent Developments

As discussed further in Note 14 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, on January 4, 2011, Regal issued and sold $150.0 million in aggregate principal amount of the Company's 9$^{1}/_{8}$% Senior Notes at a price equal to 104.5% of their face value. The notes were issued under an existing Indenture entered into by and between the Company and Wells Fargo Bank, National Association, as trustee (the "Trustee"), dated August 16, 2010, as supplemented by the First Supplemental Indenture, dated January 7, 2011. The net proceeds from the offering, after deducting underwriting discounts and commissions by the Company, were approximately $154.7 million. The Company used substantially all of the net proceeds from the offering ($152.5 million) to repay a portion of the Amended Senior Credit Facility.

On February 9, 2011, the Company declared a cash dividend of $0.21 per share on each share of the Company's Class A and Class B common stock. This dividend reflects a $0.03 per share increase from the Company's last quarterly cash dividend of $0.18 per share declared on October 28, 2010. The dividend is payable on March 15, 2011 to stockholders of record on March 3, 2011.

On February 10, 2011, the issued and sold $100.0 million in aggregate principal amount of the Company's 9$^{1}/_{8}$% Senior Notes due 2018 at a price equal to 104.5% of their face value. The notes were issued on February 15, 2011 under an existing Indenture entered into by and between the Company and the Trustee, dated August 16, 2010, as supplemented by the First Supplemental Indenture, dated January 7, 2011 and the Second Supplemental Indenture, dated February 15, 2011. The net proceeds from the offering, after deducting underwriting discounts and commissions by the Company, were approximately $103.1 million. The Company used a portion the net proceeds from the offering ($82.1 million) to repay a portion of the Amended Senior Credit Facility. See Note 14 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K for further discussion of this transaction.

As described further under "Liquidity and Capital Resources Financing Activities" below and in Note 5 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K, on May 19, 2010, Regal Cinemas entered into a sixth amended and restated credit agreement (the "Amended Senior Credit Facility"), with Credit Suisse AG, Cayman Islands Branch, as Administrative Agent ("Credit Suisse") and the lenders party thereto (the "Lenders"), which consists of a term loan facility (the "Term Facility") with a final maturity date in November 2016.

On February 23, 2011 Regal Cinemas entered into a permitted secured refinancing agreement (the "Refinancing Agreement") with REH, Regal, the Guarantors, Credit Suisse, and the Lenders, which amends and refinances the Term Facility under the Amended Senior Credit Facility. Pursuant to the Refinancing Agreement, Regal Cinemas consummated a permitted secured refinancing of the Term Facility in the amount of $1,006.0 million, and in accordance therewith, the Lenders advanced term loans in an aggregate principal amount of $1,006.0 million with a final maturity date in August 2017 (the "New Term Loans"). Together with other amounts provided by Regal Cinemas, proceeds of the New Term Loans were applied to repay all of the outstanding principal and accrued and unpaid interest on the Term Facility under the Amended Senior Credit Facility in effect immediately prior to the making of the New Term Loans.

Table of Contents

In addition to extending the maturity date of the New Term Loans, the Refinancing Agreement also amends the Amended Senior Credit Facility by reducing the interest rate on the New Term Loans, by providing, at Regal Cinemas' option, either a base rate or an adjusted LIBOR rate plus, in each case, an applicable margin that is determined according to the consolidated leverage ratio of Regal Cinemas and its subsidiaries. Such applicable margin will be either 2.00% or 2.25% in the case of base rate loans and either 3.00% or 3.25% in the case of LIBOR rate loans. The Refinancing Agreement also amends the Second Amended and Restated Guaranty and Collateral Agreement, dated May 19, 2010, to exclude Margin Stock from the grant of the security interest in the Collateral used to secure the obligations under the Amended Senior Credit Facility.

Results of Operations

Based on our review of industry sources, national box office revenues for the time period that corresponds to Regal's fiscal year of 2010 were estimated to have decreased by less than one percent in comparison to the fiscal year of 2009. The industry's box office results were negatively impacted by difficult comparisons generated by the breadth of films released during the fiscal year of 2009, partially offset by ticket price increases and an increase in the percentage of attendance generated by premium-priced 3D and IMAX® films, including the strong performance of *Avatar*, *Toy Story 3*, *Alice in Wonderland*, *Iron Man 2*, and *Inception*.

The following table sets forth the percentage of total revenues represented by certain items included in our consolidated statements of income for the Fiscal 2010 Period, the Fiscal 2009 Period

Table of Contents

and the Fiscal 2008 Period (dollars and attendance in millions, except average ticket prices and average concession per patron):

	Fiscal 2010 Period		Fiscal 2009 Period		Fiscal 2008 Period	
	$	% of Revenue	$	% of Revenue	$	% of Revenue
Revenues:						
Admissions	$ 1,956.3	69.7%	$ 1,991.6	68.8%	$ 1,883.1	67.9%
Concessions	724.3	25.8	775.6	26.8	758.0	27.3
Other operating revenues	127.3	4.5	126.7	4.4	130.8	4.8
Total revenues	2,807.9	100.0	2,893.9	100.00	2,771.9	100.0
Operating expenses:						
Film rental and advertising costs(1)	1,026.7	52.5	1,046.5	52.5	990.4	52.6
Cost of concessions(2)	101.1	14.0	110.6	14.3	106.6	14.1
Rent expense(3)	382.3	13.6	378.8	13.1	363.3	13.1
Other operating expenses(3)	784.0	27.9	778.5	26.9	739.9	26.7
General and administrative expenses (including share-based compensation of $8.4 million, $5.9 million and $5.7 million for the Fiscal 2010 Period, the Fiscal 2009 Period and the Fiscal 2008 Period, respectively)(3)	66.7	2.4	64.2	2.2	62.1	2.2
Depreciation and amortization(3)	213.4	7.6	201.9	7.0	202.3	7.3
Net loss on disposal and impairment of operating assets(3)	17.9	0.6	34.0	1.2	22.4	0.8
Equity in earnings of joint venture including former employee compensation(3)					0.5	
Total operating expenses(3)	2,592.1	92.3	2,614.5	90.3	2,487.5	89.7
Income from operations(3)	215.8	7.7	279.4	9.7	284.4	10.3
Interest expense, net(3)	148.1	5.3	151.0	5.2	128.4	4.6
Loss on debt extinguishment(3)	23.5	0.8	7.4	0.3	3.0	0.1
Earnings recognized from NCM(3)	(40.8)	1.5	(38.6)	1.3	(32.9)	1.2
Gain on NCM transaction(3)	(52.0)	1.9				
Gain on sale of Fandango interest(3)					(3.4)	0.1
Provision for income taxes(3)	48.7	1.7	61.9	2.1	74.4	2.7
Net income attributable to controlling interest(3)	$ 77.6	2.8	$ 95.5	3.3	$ 112.2	4.0
Attendance	224.3	*	244.5	*	245.2	*
Average ticket price(4)	$ 8.72	*	$ 8.15	*	$ 7.68	*
Average concession per patron(5)	$ 3.23	*	$ 3.17	*	$ 3.09	*

* Not meaningful

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

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

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

(4) Calculated as admissions revenue/attendance.

(5)

Calculated as concessions revenue/attendance.

Table of Contents

Fiscal 2010 Period Compared to Fiscal 2009 Period

Admissions

During the Fiscal 2010 Period, total admissions revenues decreased $35.3 million, or 1.8%, to $1,956.3 million, from $1,991.6 million in the Fiscal 2009 Period. An 8.3% decline in attendance, partially offset by a 7.0% increase in average ticket prices, led to the decrease in the Fiscal 2010 Period admissions revenues. We believe that our attendance is primarily dependent upon the commercial appeal of content released by the major motion picture studios. The Fiscal 2010 Period decline in attendance was primarily attributable to the overall lack of appeal to our patrons of the films exhibited in our theatres during the Fiscal 2010 Period as compared to the films exhibited during the Fiscal 2009 Period. An increase in the percentage of our admissions revenues generated by premium-priced 3D and IMAX® films exhibited during the Fiscal 2010 Period along with price increases identified during our ongoing periodic pricing reviews (which include analysis of various factors such as general inflationary trends and local market conditions) were the primary drivers of the increase in our Fiscal 2010 Period average ticket prices. Based on our review of certain industry sources, the decrease in our admissions revenues on a per screen basis was slightly greater than the industry's results for the Fiscal 2010 Period as compared to the Fiscal 2009 Period. We believe the greater than industry decrease in admissions revenues on a per screen basis in the Fiscal 2010 Period was attributable to geographical differences in film product performance.

Concessions

Total concessions revenues decreased $51.3 million, or 6.6%, to $724.3 million in the Fiscal 2010 Period, from $775.6 million in the Fiscal 2009 Period. Average concessions revenues per patron during the Fiscal 2010 Period increased 1.9%, to $3.23, from $3.17 for the Fiscal 2009 Period. The increase in average concessions revenues per patron for the Fiscal 2010 Period was primarily a result of selective price increases.

Other Operating Revenues

During the Fiscal 2010 Period, other operating revenues increased $0.6 million, or 0.5%, to $127.3 million, from $126.7 million in the Fiscal 2009 Period. Included in other operating revenues are the theatre access fees paid by National CineMedia (net of payments for onscreen advertising time provided to our beverage concessionaire), revenues from our vendor marketing programs and other theatre revenues, including revenue related to our gift card and discount ticket programs. The slight increase in other operating revenues during the Fiscal 2010 Period was primarily driven by increases in revenues related to our gift card and discount ticket programs and other theatre revenues, partially offset by a decrease in revenues from our vendor marketing programs.

Film Rental and Advertising Costs

Film rental and advertising costs as a percentage of admissions revenues of 52.5% during the Fiscal 2010 Period were consistent with that of the Fiscal 2009 Period. Film rental and advertising costs as a percentage of admissions revenues during the Fiscal 2010 Period was primarily impacted by higher film costs associated with the success of *Avatar*, offset by a reduction in newspaper advertising costs.

Cost of Concessions

For the Fiscal 2010 Period, cost of concessions as a percentage of concession revenues was approximately 14.0%, compared to 14.3% for the Fiscal 2009 Period. The decrease in cost of concessions as a percentage of concessions revenues during the Fiscal 2010 Period was primarily related to selective price increases effected subsequent to the end of the Fiscal 2009 period, slightly lower raw material costs for certain items and a shift in the mix and sizes of products sold at the concession stand. In addition, we also experienced an increase in the amount of vendor marketing revenue recorded as a reduction of cost of concessions during the Fiscal 2010 Period.

Rent Expense

Rent expense increased by $3.5 million, or 0.9%, to $382.3 million in the Fiscal 2010 Period, from $378.8 million in the Fiscal 2009 Period. The increase in rent expense during the Fiscal 2010 Period was primarily attributable to incremental rent associated with the 106 screens acquired from an affiliate of AMC, partially offset by a reduction in rent associated with the closure of 200 screens subsequent to the end of the Fiscal 2009 Period.

Other Operating Expenses

During the Fiscal 2010 Period, other operating expenses increased $5.5 million, or 0.7%, to $784.0 million, from $778.5 million in the Fiscal 2009 Period. The increase in other operating expenses during the Fiscal 2010 Period was attributable to increased costs associated with higher 3D and IMAX® film revenues and incremental DCIP related expenses, partially offset by savings in theatre-level payroll and non-rent occupancy costs.

General and Administrative Expenses

General and administrative expenses increased $2.5 million, or 3.9%, to $66.7 million during the Fiscal 2010 Period, from $64.2 million in the Fiscal 2009 Period. As a percentage of total revenues, general and administrative expenses increased to 2.4% during the Fiscal 2010 Period, from 2.2% in the Fiscal 2009 Period. The increase in general and administrative expenses during the Fiscal 2010 Period was primarily attributable to increases in stock-based compensation expense and corporate payroll costs during the period.

Depreciation and Amortization

During the Fiscal 2010 Period, depreciation and amortization expense increased $11.5 million, or 5.7%, to $213.4 million, from $201.9 million in the Fiscal 2009 Period. The increase in depreciation and amortization expense during the Fiscal 2010 Period as compared to the Fiscal 2009 Period was primarily due to accelerated depreciation of $18.9 million related to the replacement of 35mm film projectors in connection with our conversion to digital projection systems, partially offset by slightly lower capital expenditures during the Fiscal 2010 Period.

Income from Operations

Income from operations decreased $63.6 million, or 22.8%, to $215.8 million during the Fiscal 2010 Period, from $279.4 million in the Fiscal 2009 Period. The net decrease in income from operations during the Fiscal 2010 Period as compared to the Fiscal 2009 Period was primarily attributable to the overall decrease in total revenues and the fixed cost nature of certain operating expense line items including rent expense and other operating expenses, partially offset by a lower loss on disposal and impairment of operating assets ($17.9 million and $34.0 million, respectively, for the Fiscal 2010 Period and Fiscal 2009 Period).

Interest Expense, net

During the Fiscal 2010 Period, net interest expense declined $2.9 million, or 1.9%, to $148.1 million, from $151.0 million in the Fiscal 2009 Period. The decrease in net interest expense during the Fiscal 2010 Period was principally due to a lower average effective interest rate on our Term Facility as a result of a change in our interest rate swap portfolio during the Fiscal 2009 Period, a reduction in interest expense resulting from the repurchases of our $6^1/_4$% Convertible Senior Notes and

Table of Contents

incremental interest income during the Fiscal 2010 Period, partially offset by incremental interest expense associated with the issuance of the $400.0 million Regal Cinemas $8^5/_8$% Senior Notes due 2019 (the "$8^5/_8$% Senior Notes") in July 2009 and the issuance of the $9^1/_8$% Senior Notes in August 2010.

Earnings Recognized from NCM

The Company received $43.0 million and $39.6 million, respectively, in cash distributions from National CineMedia (including payments received under the tax receivable agreement described in Note 4 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K) during the Fiscal 2010 Period and Fiscal 2009 Period. Approximately $7.4 million and $6.2 million, respectively, of these cash distributions received during the Fiscal 2010 Period and the Fiscal 2009 Period were recognized as a reduction in our investment in National CineMedia. The remaining amounts were recognized in equity earnings during each of these periods and have been included as a component of "Earnings recognized from NCM" in the accompanying consolidated financial statements. The increase in earnings recognized from National CineMedia during the Fiscal 2010 Period as compared to the Fiscal 2009 Period was primarily attributable to slightly higher earnings of National CineMedia and the timing of their contractual cash distributions to the Company.

Income Taxes

The provision for income taxes of $48.7 million and $61.9 million for the Fiscal 2010 Period and the Fiscal 2009 Period, respectively, reflect effective tax rates of approximately 38.7% and 39.4%, respectively. The decrease in the effective tax rate for the Fiscal 2010 Period is primarily attributable to a decrease in the effective tax rates in certain states and the lapse of statute of limitations on uncertain tax positions with state taxing authorities during the Fiscal 2010 Period. The effective tax rates for such periods also reflect the impact of certain non-deductible expenses and income tax credits.

Net Income Attributable to Controlling Interest

Net income attributable to controlling interest for the Fiscal 2010 Period was $77.6 million, which represents a decrease of $17.9 million, from net income attributable to controlling interest of $95.5 million during the Fiscal 2009 Period. The decrease in net income attributable to controlling interest for the Fiscal 2010 Period was primarily attributable to a reduction in operating income, the Fiscal 2010 Period loss on debt extinguishment associated with the Amended Senior Credit Facility and certain repurchases of the $6^1/_4$% Convertible Senior Notes, incremental losses from the Company's equity investment in DCIP, partially offset by the impact of the $52.0 million ($31.4 million after related tax effects) gain on sale of NCM, Inc. common stock.

Fiscal 2009 Period Compared to Fiscal 2008 Period

Admissions

Total admissions revenues increased $108.5 million during the Fiscal 2009 Period, or 5.8%, to $1,991.6 million, from $1,883.1 million in the Fiscal 2008 Period primarily due to a 6.1% increase in average ticket prices, partially offset by a 0.3% decrease in attendance. We believe the overall decrease in attendance during the Fiscal 2009 Period was primarily a result of the timing of the Fiscal 2008 Period calendar, which consisted of fifty-three weeks compared to fifty-two weeks during the Fiscal 2009 Period. The overall decrease in Fiscal 2009 Period attendance was mitigated by the full benefit (twelve months in the Fiscal 2009 Period as compared to eight months in the Fiscal 2008 Period) of the inclusion of 400 screens acquired from Consolidated Theatres during the Fiscal 2008 Period. Price increases identified during our ongoing periodic pricing reviews (which include analysis of various factors such as general inflationary trends and local market conditions) along with an increase in the percentage of our admissions revenues generated by premium priced IMAX® and 3D films exhibited during the Fiscal 2009 Period were the primary drivers of the increase in our Fiscal 2009 Period average ticket prices. Based on our review of certain industry sources, the increase in our admissions revenues on a per screen basis was approximately 200 basis points less than the industry's results for the Fiscal 2009 Period as compared to Fiscal 2008 Period. We believe our less than industry increase in admissions revenues on a per screen basis was largely attributable to geographical differences in film product performance and to a lesser extent, the impact of incremental competitor screens.

Concessions

During the Fiscal 2009 Period, total concessions revenues increased $17.6 million, or 2.3%, to $775.6 million, from $758.0 million for the Fiscal 2008 Period. Average concessions revenues per patron during the Fiscal 2009 Period increased 2.6%, to $3.17, from $3.09 for the Fiscal 2008 Period. The increase in total concessions revenues during the Fiscal 2009 Period was attributable to an increase in average concessions revenues per patron, partially offset by a slight decrease in attendance during the period. The increase in average concessions revenues per patron for the Fiscal 2009 Period were primarily a result of price increases and also benefitted from the concession friendly mix of film product exhibited during such periods.

Other Operating Revenue

Other operating revenue decreased $4.1 million, or 3.1%, to $126.7 million for the Fiscal 2009 Period, from $130.8 million for the Fiscal 2008 Period. Included in other operating revenue are the theatre access fees paid by National CineMedia (net of payments for onscreen advertising time provided to our beverage concessionaire), marketing revenues from our vendor marketing programs and other theatre revenues, including revenue related to our gift card and discount ticket programs. The decrease in other operating revenue during the Fiscal 2009 Period was primarily driven by decreases in revenues related to our gift card and discount ticket programs and other theatre revenues, partially offset by a slight increase in marketing revenues from our vendor marketing programs.

Film Rental and Advertising Costs

Film rental and advertising costs as a percentage of admissions revenues declined slightly to 52.5% during the Fiscal 2009 Period from 52.6% in the Fiscal 2008 Period. The decrease in film rental and advertising costs as a percentage of box office revenues during the Fiscal 2009 Period was primarily the result of a reduction in newspaper advertising costs during such period.

Cost of Concessions

During the Fiscal 2009 Period, cost of concessions increased $4.0 million, or 3.8% as compared to the Fiscal 2008 Period. Cost of concessions as a percentage of concessions revenues for the Fiscal 2009 Period was approximately 14.3% compared to 14.1% for the Fiscal 2008 Period. The increase in cost of concessions as a percentage of concessions revenues during the Fiscal 2009 Period was primarily related to a greater percentage of our concession sales being generated from higher cost items and a decrease in the amount of vendor marketing revenue recorded as a reduction of cost of concessions.

Rent Expense

Rent expense increased by $15.5 million, or 4.3%, to $378.8 million in the Fiscal 2009 Period, from $363.3 million in the Fiscal 2008 Period. The increase in rent expense during the Fiscal 2009 Period was primarily due to the full impact of Consolidated Theatres during the Fiscal 2009 Period and to a lesser extent, incremental rent from 78 new screens added during the Fiscal 2009 Period and modest increases in contingent rent, partially offset by a reduction in rent associated with the closure of 111 screens during the Fiscal 2009 Period.

Table of Contents

Other Operating Expenses

Other operating expenses increased $38.6 million, or 5.2%, to $778.5 million in the Fiscal 2009 Period, from $739.9 million in the Fiscal 2008 Period. The increase in other operating expenses during the Fiscal 2009 Period as compared to the Fiscal 2008 Period was attributable to the full impact of Consolidated Theatres during the Fiscal 2009 Period, increased costs associated with higher IMAX® and 3D film revenues, increased gift card transaction fees and general inflationary increases.

General and Administrative Expenses

For the Fiscal 2009 Period, general and administrative expenses increased $2.1 million, or 3.4%, to $64.2 million as compared to $62.1 million in the Fiscal 2008 Period. As a percentage of total revenues, general and administrative expenses remained consistent, at 2.2%, during the Fiscal 2009 Period and the Fiscal 2008 Period. The slight increase in general and administrative expenses during the Fiscal 2009 Period was primarily attributable to increases in corporate payroll costs and legal and professional fees during such period.

Depreciation and Amortization

Depreciation and amortization expense decreased $0.4 million, or 0.2%, to $201.9 million for the Fiscal 2009 Period, from $202.3 million in the Fiscal 2008 Period. The decrease in depreciation and amortization expense during the Fiscal 2009 Period as compared to the Fiscal 2008 Period was primarily due to lower capital expenditures during the Fiscal 2009 Period and a slightly greater number of fully depreciated fixed assets during the Fiscal 2009 Period as compared to the Fiscal 2008 Period.

Income from Operations

During the Fiscal 2009 Period, income from operations decreased $5.0 million, or 1.8%, to $279.4 million, from $284.4 million in the Fiscal 2008 Period. The overall decrease in income from operations during the Fiscal 2009 Period as compared to the Fiscal 2008 Period was driven by increases in various operating expense line items, including cost of concessions, rent expense, other operating expenses, general and administrative expenses and net loss on disposal and impairment of operating assets ($34.0 million and $22.4 million, respectively, for the Fiscal 2009 Period and Fiscal 2008 Period).

Interest Expense, net

Net interest expense totaled $151.0 million for the Fiscal 2009 Period, which represents an increase of $22.6 million, or 17.6%, from that of the Fiscal 2008 Period. The increase in net interest expense during the Fiscal 2009 Period was principally due to a higher effective interest rate on our term facility under the Amended Senior Credit Facility (the "Term Facility") as a result of a change in our interest rate swap portfolio during the Fiscal 2009 Period, incremental interest expense related to the Fiscal 2009 Period issuance of the $8^5/_8$% Senior Notes, the impact of a full year of interest expense on the $200.0 million $6^1/_4$% Convertible Senior Notes and less interest income ($1.8 million and $6.3 million, respectively, for the Fiscal 2009 Period and the Fiscal 2008 Period) during such period.

Table of Contents

Earnings Recognized from NCM

The Company recorded $39.6 million and $33.1 million, respectively, in cash distributions from National CineMedia during the Fiscal 2009 Period and Fiscal 2008 Period. Approximately $6.2 million and $2.8 million, respectively, of these cash distributions received during the Fiscal 2009 Period and the Fiscal 2008 Period were recognized as a reduction in our investment in National CineMedia. In addition, during the Fiscal 2009 Period and the Fiscal 2008 Period, the Company recorded an additional $5.2 million and $2.6 million, respectively, of equity earnings with respect to newly issued common units received from National CineMedia during such periods. As a result, during the Fiscal 2009 Period and the Fiscal 2008 Period, the Company recognized $38.6 million and $32.9 million, respectively, of earnings from National CineMedia. Such amounts are presented as "Earnings recognized from NCM" in the consolidated financial statements. The increase in earnings recognized from National CineMedia during the Fiscal 2009 Period was primarily attributable to incremental earnings of National CineMedia and a corresponding increase in their contractually committed cash distributions to the Company.

Income Taxes

The provision for income taxes of $61.9 million and $74.4 million for the Fiscal 2009 Period and the Fiscal 2008 Period, respectively, reflect effective tax rates of approximately 39.4% and 39.9%, respectively. The decrease in the effective tax rate for the Fiscal 2009 Period was primarily attributable to the lapse of statute of limitations on uncertain tax positions with state taxing authorities during the Fiscal 2009 Period. The effective tax rates for the Fiscal 2009 Period and the Fiscal 2008 Period also reflect the impact of certain non-deductible expenses.

Net Income Attributable to Controlling Interest

During the Fiscal 2009 Period, net income attributable to controlling interest totaled $95.5 million, which represents a decrease of $16.7 million, from net income attributable to controlling interest of $112.2 million in the Fiscal 2008 Period. The decrease in net income attributable to controlling interest for the Fiscal 2009 Period was primarily attributable to a decrease in operating income coupled with incremental interest expense and loss on debt extinguishment, partially offset by incremental earnings recognized from National CineMedia described above.

Quarterly Results

The Company's consolidated financial statements for the Fiscal 2010 Period include the results of operations of the eight theatres acquired from an affiliate of AMC during May and June 2010 for periods subsequent to the respective date of acquisition. The acquisition of such theatres is further described in Note 3 to the consolidated financial statements included in Part II, Item 8 of this Form 10-K. The comparability of our results between quarters is impacted by the inclusion from such date of the results of operations of the acquisitions and to a lesser extent, seasonality.

The following tables set forth selected unaudited quarterly results for the eight quarters ended December 30, 2010. The quarterly financial data as of each period presented below have been derived from Regal's unaudited condensed consolidated financial statements for those periods. Results for these periods are not necessarily indicative of results for the full year. The quarterly financial data should be

Table of Contents

read in conjunction with the consolidated financial statements of Regal and notes thereto included in Part II, Item 8 of this Form 10-K.

	Dec. 30, 2010	Sept. 30, 2010	July 1, 2010	April 1, 2010	Dec. 31, 2009	Oct. 1, 2009	July 2, 2009	April 2, 2009
	In millions (except per share data)							
Total revenues	$ 661.0	$ 696.4	$ 730.7	$ 719.8	$ 765.6	$ 673.5	$ 789.2	$ 665.6
Income from operations	44.1	58.1	66.0	47.6	82.2	38.4	96.3	62.5
Net income (loss) attributable to controlling interest	13.7	42.6	4.8	16.5	35.5	(1.8)	40.5	21.3
Diluted earnings (loss) per share	0.09	0.28	0.03	0.11	0.23	(0.01)	0.26	0.14
Dividends per common share	$ 1.58(1)	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18	$ 0.18

(1) Includes the December 30, 2010 payment of the $1.40 extraordinary cash dividend paid on each share of Class A and Class B Common Stock. See Note 9 to the accompanying consolidated financial statements included in Item 8 of this Form 10-K for further discussion.

Liquidity and Capital Resources

On a consolidated basis, we expect our primary uses of cash to be for operating expenses, capital expenditures, investments, general corporate purposes related to corporate operations, debt service and the Company's quarterly dividend payments. The principal sources of liquidity are cash generated from operations, cash on hand and borrowings under the Amended Senior Credit Facility described below. Under the terms of the Amended Senior Credit Facility and the $8^5/_8$% Senior Notes issued during fiscal 2009, Regal Cinemas is restricted as to how much it can advance or distribute to Regal, its indirect parent. Since Regal is a holding company with no significant assets other than the stock of its subsidiaries, this restriction could impact Regal's ability to effect future debt or dividend payments, pay corporate expenses or redeem or convert for cash its $9^1/_8$% Senior Notes and $6^1/_4$% Convertible Senior Notes. In addition, as described further below, the Indenture under the $9^1/_8$% Senior Notes limits the Company's (and its restricted subsidiaries') ability to, among other things, incur additional indebtedness, pay dividends on or make other distributions in respect of its capital stock, purchase or redeem capital stock, make loans or advances to its subsidiaries (or the Company), or purchase, redeem or otherwise acquire or retire certain subordinated obligations.

Operating Activities

Our revenues are generated principally through admissions and concessions sales with proceeds received in cash or via credit cards at the point of sale. Our operating expenses are primarily related to film and advertising costs, rent and occupancy, and payroll. Film costs are ordinarily paid to distributors within 30 days following receipt of admissions revenues and the cost of the Company's concessions are generally paid to vendors approximately 30 to 35 days from purchase. Our current liabilities generally include items that will become due within 12 months. In addition, from time to time, we use cash from operations and borrowings to fund dividends in excess of net income attributable to controlling interest and cash flows from operating activities less cash flows from investing and other financing activities. As a result, at any given time, our balance sheet may reflect a working capital deficit.

Net cash flows provided by operating activities totaled approximately $259.4 million, $410.8 million and $270.9 million for the Fiscal 2010 Period, the Fiscal 2009 Period and the Fiscal 2008 Period, respectively. The decrease in net cash flows generated from operating activities for the Fiscal 2010 Period as compared to the Fiscal 2009 Period was primarily attributable to a reduction in operating income, coupled with the timing of certain Fiscal 2010 Period vendor and income tax payments. The increase in net cash flows generated from operating activities for the Fiscal 2009 Period as compared to

Table of Contents

the Fiscal 2008 Period was primarily attributable to an increase in working capital, primarily the timing of certain Fiscal 2009 Period vendor payments.

Investing Activities

Our capital requirements have historically arisen principally in connection with acquisitions of theatres, new theatre construction, adding new screens to existing theatres, upgrading the Company's theatre facilities (including digital 3D and IMAX® screens) and replacing equipment. We fund the cost of capital expenditures through internally generated cash flows, cash on hand, proceeds from disposition of assets and financing activities.

We intend to continue to grow our theatre circuit through selective expansion and acquisition opportunities. The Company has a formal and intensive review procedure for the authorization of capital projects, with the most important financial measure of acceptability for a discretionary non-maintenance capital project being whether its projected discounted cash flow return on investment meets or eximes new roman">

	2,382
	800
	3,187
	1,090
Net income available to common shareholders	
	$ 3,837
	$ 3,660
	$ 9,053
	$ 7,240
Weighted average shares outstanding for basic earnings per common share	
	16,114,408
	12,416,710
	16,103,080
	12,409,146
Dilutive effect of stock options and awards	
	98,052
	98,486
	92,174
	103,744

Weighted average shares outstanding for diluted earnings per common share	16,212,460	12,515,196	16,195,254	12,512,890
Basic earnings per common share	$ 0.24	$ 0.29	$ 0.56	$ 0.58
Diluted earnings per common share	$ 0.24	$ 0.29	$ 0.56	$ 0.58

8

Stock options for 89,918 and 120,000 shares for the three month periods ended June 30, 2010 and June 30, 2009, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. Stock options for 109,000 and 120,000 shares for the six month periods ended June 30, 2010 and June 30, 2009, respectively, were not considered in computing diluted earnings per common share because they were antidilutive. In addition, warrants for 198,269 shares for the periods ended June 30, 2010 and 2009, were not considered in computing diluted earnings per share because they were antidilutive.

NOTE 3. LOANS

	June 30, 2010	December 31, 2009
Commercial and industrial loans	$ 727,047	$ 693,579
Commercial real estate – owner occupied	361,618	348,812
Commercial real estate – nonowner occupied	253,158	257,374
Commercial real estate - multifamily loans	25,153	26,558
Commercial real estate construction loans	195,990	166,959
Agri-business and agricultural loans	183,137	206,252
Residential real estate mortgage loans	90,118	95,211
Home equity loans	167,420	161,594
Installment loans and other consumer loans	55,280	57,478
Subtotal	2,058,921	2,013,817
Less: Allowance for loan losses	(37,364)	(32,073)
Net deferred loan fees	(1,194)	(1,807)
Loans, net	$ 2,020,363	$ 1,979,937
Impaired loans (including troubled debt restructurings)	$ 41,008	$ 31,838
Amount of the allowance for loan losses allocated	$ 8,457	$ 6,658
Nonperforming loans	$ 30,725	$ 30,708
Nonperforming troubled debt restructured loans	$ 6,219	$ 6,521
Performing troubled debt restructured loans	8,417	0
Total troubled debt restructured loans	$ 14,636	$ 6,521
Allowance for loan losses to total loans	1.82%	1.59%

Changes in the allowance for loan losses are summarized as follows:

	Six Months Ended June 30, 2010	2009
Balance at beginning of period	$ 32,073	$ 18,860
Provision for loan losses	11,276	9,452
Charge-offs	(6,377)	(3,450)
Recoveries	392	228
Net loans charged-off	(5,985)	(3,222)
Balance at end of period	$ 37,364	$ 25,090

NOTE 4. SECURITIES

Information related to the fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) is provided in the tables below.

	Fair Value	Gross Unrealized Gain	Gross Unrealized Losses	Amortized Cost
June 30, 2010				
U.S. Treasury securities	$ 1,033	$ 28	$ 0	$ 1,005
Residential mortgage-backed securities	293,487	12,279	(75)	281,283
Non-agency residential mortgage-backed securities	68,883	169	(11,057)	79,771
State and municipal securities	68,622	2,055	(104)	66,671
Total	$ 432,025	$ 14,531	$ (11,236)	$ 428,730
December 31, 2009				
U.S. Treasury securities	$ 992	$ 0	$ (13)	$ 1,005
U.S. Government agencies	4,610	22	0	4,588
Residential mortgage-backed securities	270,796	7,598	(1,078)	264,276
Non-agency residential mortgage-backed securities	72,495	46	(15,933)	88,382
State and municipal securities	61,135	1,898	(138)	59,375
Total	$ 410,028	$ 9,564	$ (17,162)	$ 417,626

Information regarding the fair value of available for sale debt securities by maturity as of June 30, 2010 is presented below. Maturity information is based on contractual maturity for all securities other than mortgage-backed securities. Actual maturities of securities may differ from contractual maturities because borrowers may have the right to prepay the obligation without prepayment penalty.

	Fair Value	Amort Cost
Due in one year or less	$ 215	$ 215
Due after one year through five years	8,960	8,584
Due after five years through ten years	42,593	41,338
Due after ten years	17,887	17,539
	69,655	67,676
Mortgage-backed securities	362,370	361,054
Total debt securities	$ 432,025	$ 428,730

There were no security sales for the first six months in 2010 and 2009. All of the gains and losses were from calls or maturities.

Purchase premiums or discounts are recognized in interest income using the interest method over the terms of the securities or over estimated lives for mortgage-backed securities. Gains and losses on sales are based on the amortized cost of the security sold and recorded on the trade date.

Securities with carrying values of $258.8 million and $226.9 million were pledged as of June 30, 2010 and 2009, as collateral for deposits of public funds, securities sold under agreements to repurchase, borrowings from the FHLB and for other purposes as permitted or required by law.

Information regarding securities with unrealized losses as of June 30, 2010 and December 31, 2009 is presented below. The tables distribute the securities between those with unrealized losses for less than twelve months and those with unrealized losses for twelve months or more.

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2010						
Mortgage-backed securities	$ 11,913	$ 75	$ 5	$ 0	$ 11,918	$ 75
Non-agency mortgage-backed securities	0	0	62,950	11,057	62,950	11,057
State and municipal securities	5,374	60	1,866	44	7,240	104
Total temporarily impaired	$ 17,287	$ 135	$ 64,821	$ 11,101	$ 82,108	$ 11,236

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2009						
U.S. Treasury securities	$ 992	$ 13	$ 0	$ 0	$ 992	$ 13
Residential mortgage-backed securities	58,792	1,075	851	3	59,643	1,078
Non-agency residential mortgage-backed securities	0	0	69,022	15,933	69,022	15,933
State and municipal securities	7,257	102	445	36	7,702	138
Total temporarily impaired	$ 67,041	$ 1,190	$ 70,318	$ 15,972	$ 137,359	$ 17,162

The number of securities with unrealized losses as of June 30, 2010 and December 31, 2009 is presented below.

	Less than 12 months	12 months or more	Total
June 30, 2010			
Mortgage-backed securities	10	1	11
Non-agency mortgage-backed securities	0	21	21
State and municipal securities	12	3	15
Total temporarily impaired	22	25	47
December 31, 2009			
U.S. Treasury securities	1	0	1
Mortgage-backed securities	18	4	22
Non-agency mortgage-backed securities	0	23	23
State and municipal securities	15	1	16
Total temporarily impaired	34	28	62

All of the following are considered to determine whether or not the impairment of these securities is other-than-temporary. Eighty two percent of the securities are backed by the U.S. Government, government agencies, government sponsored agencies or are A rated or better, except for certain non-local municipal securities. Mortgage-backed securities which are not issued by the U.S. Government or government sponsored agencies (non-agency mortgage-backed securities) met specific criteria set by the Asset Liability Management Committee at their time of purchase, including having the highest rating available by either Moody's or S&P. None of the securities have call provisions (with the exception of the municipal securities) and payments as originally agreed have been received. For the government, government-sponsored agency and municipal securities, management had no concerns of credit losses and there was nothing to indicate that full principal will not be received. Management considered the unrealized losses on these securities to be primarily interest rate driven and did not expect material losses given current market conditions unless the securities are sold, which at this time management does not have the intent to sell nor will it more likely than not be required to sell these securities before the recovery of their amortized cost basis.

12

As of June 30, 2010, the Company had $68.9 million of collateralized mortgage obligations which were not issued by the federal government or government sponsored agencies, but were rated AAA by S&P and/or Aaa by Moody's at the time of purchase. At December 31, 2009, the Company had $72.5 million of these collateralized mortgage obligations. Five of the 24 non-agency mortgage backed securities were still rated AAA/Aaa as of June 30, 2010, but 19 were downgraded by S&P, Fitch and/or Moody's, including 16 which were ranked below investment grade by one or more rating agencies. Since December 31, 2009, there have not been any downgrades on the five securities still rated AAA/Aaa and of the 19 that were below AAA/Aaa, four incurred further downgrades.

For these non-agency mortgage-backed securities, additional analysis is performed to determine if the impairment is temporary or other-than-temporary in which case impairment would need to be recorded for these securities. The Company performs an independent analysis of the cash flows of the individual securities based upon assumptions as to collateral defaults, prepayment speeds, expected losses and the severity of potential losses. Based upon the initial review, securities may be identified for further analysis computing the net present value using an appropriate discount rate (the current accounting yield) and comparing it to the book value of the security to determine if there is any other-than-temporary impairment that must be recorded. Based on this analysis of the non-agency mortgage-backed securities, the Company recorded an other-than-temporary impairment of $252,000 and $81,000, respectively, relating to four separate securities in the six-months and three-months ended June 30, 2010, which is equal to the credit loss, establishing a new, lower amortized cost basis. Because management did not have the intent to sell nor did management believe that it was more likely than not they would be required to sell these securities before the recovery of their new, lower amortized cost basis, management did not consider the remaining unrealized losses of the investment securities to be other-than-temporarily impaired at June 30, 2010.

The following table provides information about debt securities for which only a credit loss was recognized in income and other losses are recorded in other comprehensive income. The table represents the three months and six months ended June 30, 2010.

Three Months Ended June 30, 2010	Accumulated Credit Losses
Balance April 1, 2010	$ 396
Additions related to other-than-temporary impairment losses not previously recognized	81
Balance June 30, 2010	$ 477

Six Months Ended June 30, 2010	Accumulated Credit Losses
Balance January 1, 2010	$ 225
Additions related to other-than-temporary impairment losses not previously recognized	252
Balance June 30, 2010	$ 477

Information on securities with at least one rating below investment grade as of June 30, 2010 is presented below.

Description	CUSIP	Other Than Temporary Impairment	Par Value	June 30, 2010 Amortized Cost	June 30, 2010 Fair Value	Unrealized Gain/(Loss)	June 30, 2010 Lowest Credit Rating	1-Month Constant Default Rate	3-Month Constant Default Rate	6-Month Constant Default Rate	Credit Support
CWALT 2006-32CB A16	02147XAR8	No	$ 2,035	$ 1,939	$ 1,149	$ (790)	CCC	3.68	4.88	3.91	10.03
CWHL 2006-18 2A7	12543WAJ7	No	4,291	4,208	3,620	(588)	CCC	2.73	1.92	2.01	4.31
CWALT 2005-J10 1A7	12667G4N0	No	5,011	4,961	4,180	(781)	CCC	0.00	3.54	2.59	7.57
CWALT 2005-46CB A1	12667G6U2	No	4,411	4,205	3,101	(1,104)	CCC	2.00	1.85	2.00	4.65
CWALT 2005-J8 1A3	12667GJ20	No	6,182	5,927	5,184	(743)	Caa2	0.00	0.00	0.00	6.95
CHASE 2006-S3 1A5	16162XAE7	No	3,114	3,108	2,796	(312)	CCC	1.93	5.07	3.41	4.96
CHASE 2006-S2 2A5	16163BBA1	No	2,380	2,369	2,286	(83)	CCC	2.50	1.50	2.02	5.62
FHAMS 2006-FA1 1A3	32051GS63	No	3,578	3,481	3,064	(417)	CCC	5.50	4.59	4.62	3.19
GSR 2006-10F 1A1	36266WAC6	No	6,269	5,832	5,164	(668)	CCC	0.00	0.00	0.00	4.51
MANA 2007-F1 1A1	59023YAA2	No	3,301	3,236	2,714	(522)	CC	0.00	0.00	0.00	2.65
RALI 2006-QS4 A2	749228AB8	Yes	2,664	2,495	1,592	(903)	CC	14.55	7.62	8.17	0.00
RFMSI 2006-S5 A14	74957EAP2	Yes	4,047	3,927	3,261	(666)	CCC	5.06	3.77	3.73	3.27
RALI 2005-QS7 A5	761118AE8	No	5,327	5,064	4,052	(1,012)	CCC	0.88	5.95	5.83	10.64
RALI 2006-QS3	761118XS2	Yes	3,154	2,961	2,048	(913)	D	3.32	6.58	8.19	3.73

1A14											
RAST 2006-A14C 1A2	76114BAB4	Yes	1,498	1,259	902	(357)	D	12.60	5.13	5.69	0.00
TBW 2006-2 3A1	878048AG2	No	2,702	2,609	2,394	(215)	D	0.00	2.37	6.58	0.00
			$ 59,964	$ 57,581	$ 47,507	$ (10,074)					

All of these securities are super senior or senior tranche residential non-agency mortgage-backed securities. The credit support is the credit support percentage for a tranche from other subordinated tranches, which is the amount of principal in the subordinated tranches expressed as a percentage of the remaining principal in the super senior/senior tranche. The super senior/senior tranches receive the prepayments and the subordinate tranches absorb the losses. The super senior/senior tranches do not absorb losses until the subordinate tranches are gone.

14

The Company does not have a history of actively trading securities, but keeps the securities available for sale should liquidity or other needs develop that would warrant the sale of securities. While these securities are held in the available for sale portfolio, the current intent and ability is to hold them until a recovery in fair value or maturity.

NOTE 5. EMPLOYEE BENEFIT PLANS

Components of Net Periodic Benefit Cost

	Six Months Ended June 30,			
	Pension Benefits		SERP Benefits	
	2010	2009	2010	2009
Interest cost	$ 68	$ 70	$ 34	$ 37
Expected return on plan assets	(78)	(97)	(42)	(50)
Recognized net actuarial loss	50	47	28	23
Net pension expense	$ 40	$ 20	$ 20	$ 10

	Three Months Ended June 30,			
	Pension Benefits		SERP Benefits	
	2010	2009	2010	2009
Interest cost	$ 34	$ 35	$ 17	$ 19
Expected return on plan assets	(39)	(49)	(21)	(25)
Recognized net actuarial loss	25	23	14	12
Net pension expense	$ 20	$ 9	$ 10	$ 6

The Company previously disclosed in its financial statements for the year ended December 31, 2009 that it did not expect to contribute to its pension or SERP plans in 2010. No contributions were made to the pension plan and SERP plan as of June 30, 2010.

NOTE 6. NEW ACCOUNTING PRONOUNCEMENTS

In April 2010, the FASB amended previous guidance relating to acquired loans that have evidence of credit deterioration upon acquisition accounted for within a pool, not resulting in the removal of those loans from the pool even if modifications of those loans would otherwise be considered a troubled debt restructuring. Under the amendments, modifications of loans that are accounted for within a pool do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. This guidance is effective for modifications of acquired loans that have evidence of credit deterioration upon acquisition accounted for within a pool occurring in the first interim or annual period ending on or after July 15, 2010. The effect of adopting this new guidance is not expected to have any material effect on the Company’s operating results or financial condition.

NOTE 7. FAIR VALUE DISCLOSURES

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1	Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2	Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
Level 3	Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: Securities available for sale are valued primarily by a third party pricing service. The fair values of securities available for sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). These models utilize the market approach with standard inputs that include, but are not limited to benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. There were no transfers from or into Level 1, Level 2 or Level 3 during the first six months of 2010.

Impaired loans: Impaired loans with specific allocations of the allowance for loan losses are generally assessed against higher than normal discounted advance ratios of collateral as approved at the time of funding, with consideration given for any supplemental credit support from guarantors. Consideration is given for the type and nature of collateral, as well as the anticipated liquidation value to develop a discount for the advance ratios on each credit. Commercial real estate is generally discounted from its appraised value by 20-50% after various considerations including age of the appraisal, current net operating income realized, general market conditions where the property is located, type of property and potential buyer base. The appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant. Raw and finished inventory is discounted from its cost or book value by 35-65%, depending on the marketability of the goods. Finished goods are generally discounted by 30-60%, depending on the ease of marketability, cost of transportation or scope of use of the finished good. Work in process inventory is typically discounted by 50-100%, depending on the length of manufacturing time, types of components used in the completion process, and the breadth of the user base. Equipment is valued at a percentage of depreciated book value or recent appraised value, if available, and is typically discounted at 30-70% after various considerations including age and condition of the equipment, marketability, breadth of use, and whether the equipment includes unique components or add-ons. Marketable securities are discounted by 10-30%, depending on the type of investment, age of valuation report and general market conditions. This methodology is based on a market approach and typically results in a Level 3 classification of the inputs for determining fair value.

Mortgage servicing rights: As of June 30, 2010 the fair value of the Company's Level 3 servicing assets for residential mortgage loans was $1.8 million, some of which are not currently impaired and therefore carried at amortized cost. These residential mortgage loans have a weighted average interest rate of 5.51%, a weighted average maturity of 20 years and are secured by homes generally within the Company's market area of Northern Indiana. A valuation model is used to estimate fair value, which is based on an income approach. The inputs used include estimates of prepayment speeds, discount rate, cost to service, escrow account earnings, contractual servicing fee income, ancillary income, late fees, and float income. The most significant assumption used to value MSRs is prepayment rate. Prepayment rates are estimated based on published industry consensus prepayment rates. At June 30, 2010 the constant prepayment speed (PSA) used was 386 and the discount rate used was 9.5%.

Other real estate owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

Real estate mortgage loans held for sale: Real estate mortgage loans held for sale are carried at the lower of cost or fair value, as determined by outstanding commitments, from third party investors.

The table below presents the balances of assets measured at fair value on a recurring basis:

	June 30, 2010			
	Fair Value Measurements Using			Assets
Assets	Level 1	Level 2	Level 3	at Fair Value
U.S. Treasury securities	$ 1,033	$ 0	$ 0	$ 1,033
Residential mortgage-backed securities	0	293,487	0	293,487
Non-agency residential mortgage-backed securities	0	68,883	0	68,883
State and municipal securities	0	68,622	0	68,622
Total assets	$ 1,033	$ 430,992	$ 0	$ 432,025

17

	December 31, 2009			
	Fair Value Measurements Using			Assets
Assets	Level 1	Level 2	Level 3	at Fair Value
U.S. Treasury securities	$ 992	$ 0	$ 0	$ 992
U.S. Government agencies	0	4,610	0	4,610
Residential mortgage-backed securities	0	270,796	0	270,796
Non-agency residential mortgage-backed securities	0	72,495	0	72,495
State and municipal securities	0	61,135	0	61,135
Total assets	$ 992	$ 409,036	$ 0	$ 410,028

The table below presents the balances of assets measured at fair value on a nonrecurring basis:

	June 30, 2010			
	Fair Value Measurements Using			Assets
Assets	Level 1	Level 2	Level 3	at Fair Value
Impaired loans	$ 0	$ 0	$ 25,161	$ 25,161
Mortgage servicing rights	0	0	1,024	1,024
Total assets	$ 0	$ 0	$ 26,185	$ 26,185

	December 31, 2009			
	Fair Value Measurements Using			Assets
Assets	Level 1	Level 2	Level 3	at Fair Value
Impaired loans	$ 0	$ 0	$ 23,435	$ 23,435
Mortgage servicing rights	0	0	73	73
Other real estate owned	0	0	102	102
Total assets	$ 0	$ 0	$ 23,610	$ 23,610

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a gross carrying amount of $32.8 million, with a valuation allowance of $7.6 million, resulting in an additional provision for loan losses of $949,000 and $186,000, respectively, for the six months and three months ended June 30, 2010. In addition, $130,000 and $68,000, respectively, in impairment of mortgage servicing rights, measured using Level 3 inputs within the fair value hierarchy, was recognized during the six months and three months ended June 30, 2010.

The following table contains the estimated fair values and the related carrying values of the Company's financial instruments. Items which are not financial instruments are not included.

	June 30, 2010		December 31, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(in thousands)			
Financial Assets:				
Cash and cash equivalents	$ 56,869	$ 56,869	$ 55,983	$ 55,983
Securities available for sale	432,025	432,025	410,028	410,028
Real estate mortgages held for sale	1,472	1,487	1,521	1,540
Loans, net	2,020,363	2,011,177	1,979,937	1,986,457
Federal Home Loan Bank stock	9,849	N/A	9,849	N/A
Federal Reserve Bank stock	3,420	N/A	3,420	N/A
Accrued interest receivable	9,178	9,178	8,590	8,590
Financial Liabilities:				
Certificates of deposit	(1,064,621)	(1,073,694)	(866,763)	(870,727)
All other deposits	(1,066,510)	(1,066,510)	(984,362)	(984,362)
Securities sold under agreements to repurchase	(104,958)	(104,958)	(127,118)	(127,118)
Other short-term borrowings	(73,727)	(73,727)	(226,933)	(226,942)
Long-term borrowings	(40,041)	(42,015)	(40,042)	(41,353)
Subordinated debentures	(30,928)	(31,257)	(30,928)	(30,836)
Standby letters of credit	(345)	(345)	(284)	(284)
Accrued interest payable	(7,140)	(7,140)	(6,600)	(6,600)

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of June 30, 2010 and December 31, 2009. The estimated fair value for cash and cash equivalents, demand and savings deposits, variable rate loans, variable rate short term borrowings and accrued interest is considered to approximate cost. The fair value of Federal Home Loan Bank and Federal Reserve Bank stock is not determinable as there are restrictions on its transferability. The estimated fair value for fixed rate loans, certificates of deposit and fixed rate borrowings is based on discounted cash flows using current market rates applied to the estimated life. Real estate mortgages held for sale are based upon the actual contracted price for those loans sold but not yet delivered, or the current Federal Home Loan Mortgage Corporation price for normal delivery of mortgages with similar coupons and maturities at year-end. The fair value of subordinated debentures is based on the rates currently available to the Company with similar term and remaining maturity and credit spread. The fair value of off-balance sheet items is based on the current fees or cost that would be charged to enter into or terminate such arrangements. The estimated fair value of other financial instruments approximate cost and are not considered significant to this presentation.

NOTE 8. PREFERRED STOCK

On February 27, 2009, the Company entered into a Letter Agreement with the United States Department of the Treasury ("Treasury"), pursuant to which the Company issued (i) 56,044 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 396,538 shares of the Company's common stock, no par value (the "Common Stock"), for an aggregate purchase price of $56,044,000 in cash. This transaction was conducted in accordance with Treasury's Capital Purchase Program implemented under the Troubled Assets Relief Program ("TARP").

19

The Series A Preferred Stock qualified as Tier 1 capital and paid cumulative dividends at a rate of 5% per annum. The Series A Preferred Stock was non-voting except with respect to certain matters affecting the rights of the holders thereof. The Series A Preferred Stock was valued using a discounting of cash flows at a 12% discount rate based on an average implied cost of equity over 5 years.

The Warrant has a 10-year term and is immediately exercisable upon its issuance, with an exercise price, subject to anti-dilution adjustments, equal to $21.20 per share of the Common Stock (trailing 20-day Lakeland average closing price as of December 17, 2008, which was the last trading day prior to date of receipt of Treasury's preliminary approval for our participation in the Capital Purchase Program). The Warrant was valued using the Black Scholes model with the following assumptions: Market Price of $17.45; Exercise Price of $21.20; Risk-free interest rate of 3.02%; Expected Life of 10 years; Expected Dividend rate on common stock of 4.5759% and volatility of common stock price of 41.8046%. This resulted in a value of $4.4433 per share.

The total amount of funds received were allocated to the Series A Preferred Stock and Warrant based on their respective fair values to determine the amounts recorded for each component. The method used to amortize the resulting discount on the Series A Preferred Stock is accretion over the assumed life of five years using the effective yield.

During the first quarter of 2009, the Company invested $56.0 million of the Capital Purchase Program funds received in the Bank. This additional capital positively impacted the Bank's capital ratios and liquidity.

Subsequent to issue, the share count of the Warrant was adjusted to 198,269 due to a Qualified Equity Offering as more fully described in Note 9.

On June 9, 2010 the Company paid $56.0 million to redeem the 56,044 shares of Series A Preferred Stock issued and accreted the remaining unamortized discount on these shares. The Company did not repurchase the Warrant. Due to the redemption, all restrictions which had been imposed on the Company as a result of participating in the Capital Purchase Program, including restrictions on raising dividends and executive compensation, were terminated.

NOTE 9. COMMON STOCK

On November 18, 2009, the Company completed an underwritten public stock offering by issuing 3,500,000 shares of the Company's common stock at a public offering price of $17.00 per share, for aggregate gross proceeds of $59.5 million. The net proceeds to the Company after deducting underwriting discounts and commissions and estimated offering expenses were approximately $55.9 million.

On December 3, 2009, the Company was notified by the Treasury that, as a result of the Company's completion of our November 18, 2009 Qualified Equity Offering, the amount of the Warrant was reduced by 50% to 198,269 shares.

On December 15, 2009, the Company sold 125,431 shares of common stock pursuant to the underwriters' exercise of the over-allotment option, which the Company granted in connection with underwritten public stock offering. The Company sold the additional shares to the underwriters at the same public offering price of $17.00 per share agreed to for the initial closing on November 18, 2009. The aggregate net proceeds to the Company from the public offering, after deducting underwriting discounts and commissions and offering expenses, including the net proceeds of approximately $2.0 million from the sale of shares pursuant to the over-allotment option, were approximately $57.9 million.

NOTE 10. COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and changes in the funded status of pension plans which are also recognized as separate components of equity. Following is a summary of other comprehensive income for the three months and six months ended June 30, 2010 and 2009:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Net income	$ 6,219	$ 4,460	$ 12,240	$ 8,330
Other comprehensive income				
Change in securities available for sale:				
Unrealized holding gain on securities available for sale arising during the period	6,339	1,991	10,641	3,383
Reclassification adjustment for other-than temporary-impairment	81	0	252	0
Net securities gain activity during the period	6,420	1,991	10,893	3,383
Tax effect	(2,613)	(804)	(4,406)	(1,359)
Net of tax amount	3,807	1,187	6,487	2,024
Defined benefit pension plans:				
Net gain/(loss) on defined benefit pension plans	0	0	(35)	0
Amortization of net actuarial loss	39	35	78	70
Net gain /(loss) activity during the period	39	35	43	70
Tax effect	(15)	(14)	(17)	(29)
Net of tax amount	24	21	26	41
Total other comprehensive income, net of tax	3,831	1,208	6,513	2,065
Comprehensive income	$ 10,050	$ 5,668	$ 18,753	$ 10,395

The following table summarizes the changes within each classification of accumulated other comprehensive income for the six months ended June 30, 2010 and 2009:

	Balance at December 31, 2009	Current Period Change	Balance at June 30, 2010
Unrealized gain/(loss) on securities available for sale without other-than-temporary impairment	$ (2,814)	$ 6,570	$ 3,756
Unrealized loss on securities available for sale with other-than-temporary impairment	(1,606)	(83)	(1,689)
Total unrealized gain/(loss) on securities available for sale	(4,420)	6,487	2,067
Unrealized loss on defined benefit pension plans	(1,573)	26	(1,547)
Total	$ (5,993)	$ 6,513	$ 520

	Balance at December 31, 2008	Current Period Change	Balance at June 30, 2009
Unrealized loss on securities available for sale without other-than-temporary impairment	$ (10,210)	$ 2,024	$ (8,186)
Unrealized loss on defined benefit pension plans	(1,814)	41	(1,773)
Total	$ (12,024)	$ 2,065	$ (9,959)

NOTE 11. SUBSEQUENT EVENTS

There were no subsequent events that would have a material impact to the financial statements presented in this Form 10-Q.

NOTE 12. RECLASSIFICATIONS

Certain amounts appearing in the financial statements and notes thereto for prior periods have been reclassified to conform with the current presentation. The reclassification had no effect on net income or stockholders' equity as previously reported.

Part 1
LAKELAND FINANCIAL CORPORATION
ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
and
RESULTS OF OPERATIONS

June 30, 2010

OVERVIEW

Lakeland Financial Corporation is the holding company for Lake City Bank. The Company is headquartered in Warsaw, Indiana and operates 43 offices in 12 counties in Northern Indiana and a loan production office in Indianapolis, Indiana. The Company earned $12.2 million for the first six months of 2010, versus $8.3 million in the same period of 2009, an increase of 46.9%. Net income was positively impacted by a $9.6 million increase in net interest income and a $367,000 decrease in noninterest expense. Offsetting these positive impacts was an increase of $1.8 million in the provision for loan losses and a decrease of $1.4 million in noninterest income. Basic earnings per common share for the first six months of 2010 were $0.56 per share, versus $0.58 per share for the first six months of 2009. Diluted earnings per common share reflect the potential dilutive impact of stock options, stock awards and warrants. Diluted earnings per common share for the first six months of 2010 were $0.56 per share, versus $0.58 for the first six months of 2009. Basic and diluted earnings per share for the first six months of 2010 and 2009 were impacted by $3.2 million and $1.1 million, respectively, in dividends and accretion of discount on preferred stock. Earnings per share for the first six months of 2010 were also impacted by the Company's issuance of 3.6 million common shares during the fourth quarter of 2009.

Net income for the second quarter of 2010 was $6.2 million, an increase of 39.4% versus $4.5 million for the comparable period of 2009. The increase was driven by a $3.6 million increase in net interest income as well as a $728,000 decrease in noninterest expense. Offsetting these positive impacts was an increase of $814,000 in the provision for loan losses, as well as a decrease of $663,000 in noninterest income. Basic earnings per share for the second quarter of 2010 were $0.24 per share, versus $0.29 per share for the second quarter of 2009. Diluted earnings per share for the second quarter of 2010 were $0.24 per share, versus $0.29 per share for the second quarter of 2009. Basic and diluted earnings per share for the second quarter of 2010 and 2009 were impacted by $2.4 million and $800,000, respectively, in dividends and accretion of discount on preferred stock. Earnings per share for the second quarter of 2010 were also impacted by the Company's issuance of 3.6 million common shares during the fourth quarter of 2009.

Dividends and accretion of discount on preferred stock were higher during 2010 versus 2009 due largely to the Company's June 9, 2010 redemption of the 56,044 shares of preferred stock issued to the U.S. Treasury Department in February 2009 under the Capital Purchase Program. As a result of the redemption, the Company recognized a non-cash reduction in net income available to common shareholders of $1.8 million, which represents the remaining unamortized accretion of the discount on the preferred shares. This non-cash item impacted net income available to common shareholders and earnings per share.

RESULTS OF OPERATIONS

Net Interest Income

For the six-month period ended June 30, 2010, net interest income totaled $46.1 million, an increase of 26.2%, or $9.6 million, versus the first six months of 2009. This increase was primarily due to a 51 basis point increase in the Company's net interest margin to 3.80%, versus 3.29% for the first six months of 2009. In addition, average earning assets increased by $199.8 million, or 8.8%, to $2.480 billion in the first six months of 2010, versus the first six months of 2009. For the three-month period ended June 30, 2010, net interest income totaled $23.2 million, an increase of 18.5%, or $3.6 million, versus the second quarter of 2009. This increase was primarily due to a 30 basis point increase in the Company's net interest margin to 3.75%, versus 3.45% for the second quarter of 2009. In addition, average earning assets increased by $210.0 million, or 9.1%, to $2.515 billion in the second quarter of 2010, versus the second quarter of 2009.

Given the Company's mix of interest earning assets and interest bearing liabilities at June 30, 2010, the Company would generally be considered to have a relatively neutral balance sheet structure. The Company's balance sheet structure would normally be expected to produce a stable or declining net interest margin in a declining rate environment. As the Company's balance sheet has become more neutral in structure, management believes rate movements and other factors such as deposit mix, market deposit rate pricing and non-bank deposit products could have an impact on net interest margin. Over time, the Company's mix of deposits has shifted to more reliance on certificates of deposits, specifically public fund deposits and brokered deposits, and corporate and public fund money market and repurchase agreements, which generally carry a higher interest rate cost than other types of interest bearing deposits.

During the first six months of 2010, total interest and dividend income increased by $4.3 million, or 7.6%, to $61.1 million, versus $56.8 million during the first six months of 2009. This increase was primarily the result of an increase in average earning assets of $199.8 million, or 8.8%. The tax equivalent yield on average earning assets decreased six basis points to 5.0% for the six-month period ended June 30, 2010 versus the same period of 2009. During the second quarter of 2010, total interest and dividend income increased by $2.0 million, or 6.9%, to $30.8 million, versus $28.8 million during the second quarter of 2009. This increase was primarily the result of an increase in average earning assets of $210.0 million, or 9.1%. The tax equivalent yield on average earning assets decreased by 10 basis points to 5.0% for the second quarter of 2010 versus the same period of 2009.

During the first six months of 2010, loan interest income increased by $4.7 million, or 10.1%, to $51.3 million, versus $46.6 million during the first six months of 2009. The increase was driven by a $158.9 million, or 8.5%, increase in average daily loan balances. In addition the tax equivalent yield on loans increased to 5.1%, versus 5.0% in the first six months of 2009. During the second quarter of 2010, loan interest income increased by $2.2 million, or 9.2%, to $26.0 million, versus $23.8 million during the second quarter of 2009. The increase was driven by a $152.6 million, or 8.1%, increase in average daily loan balances. In addition the tax equivalent yield on loans increased to 5.1%, versus 5.0% in the second quarter of 2009.

The average daily securities balances for the first six months of 2010 increased $28.3 million, or 7.2%, to $420.8 million, versus $392.5 million for the same period of 2009. During the same periods, income from securities decreased by $409,000, or 4.1%, to $9.7 million versus $10.1 million during the first six months of 2009. The decrease was primarily the result of a 52 basis point decrease in the tax equivalent yield on securities, to 5.0%, versus 5.5% in the first six months of 2009. The average daily securities balances for the second quarter of 2010 increased $31.9 million, or 8.1%, to $427.6 million, versus $395.7 million for the same period of 2009. During the second quarter of 2010, income from securities was $4.8 million, a decrease of $216,000, or 4.3%, versus the second quarter of 2009. The decrease was primarily the result of a 55 basis point decrease in the tax equivalent yield on securities.

Despite the Company's change in deposit mix to include higher paying deposit types, total interest expense decreased $5.3 million, or 26.0%, to $15.0 million for the six-month period ended June 30, 2010, from $20.2 million for the comparable period in 2009. The decrease was primarily the result of a 56 basis point decrease in the Company's daily cost of funds to 1.3%, versus 1.9% for the same period of 2009. This decrease was generally caused by lower interest rates in the Company's market areas. Total interest expense decreased $1.6 million, or 17.6%, to $7.7 million for the second quarter of 2010, versus $9.3 million for the second quarter of 2009. The decrease was primarily the result of a 40 basis point decrease in the Company's daily cost of funds to 1.3%, from 1.7% for the same period of 2009.

On an average daily basis, total deposits (including demand deposits) increased $147.5 million, or 7.9%, to $2.028 billion for the six-month period ended June 30, 2010, versus $1.881 billion during the same period in 2009. The average daily balances for the second quarter of 2010 increased $274.5 million, or 14.8%, to $2.127 billion from $1.853 billion during the second quarter of 2009. On an average daily basis, noninterest bearing demand deposits were $246.9 million for the six-month period ended June 30, 2010, versus $220.0 million for the same period in 2009. The average daily noninterest bearing demand deposit balances for the second quarter of 2010 were $253.0 million, versus $222.2 million for the second quarter of 2009. On an average daily basis, interest bearing transaction accounts increased $124.6 million, or 23.2%, to $661.6 million for the six-month period ended June 30, 2010, versus the same period in 2009. Average daily interest bearing transaction accounts increased $182.5 million, or 34.6%, to $710.7 million for the second quarter of 2010, versus $528.1 million for the second quarter of 2009. When comparing the six months ended June 30, 2010 with the same period of 2009, the average daily balance of time deposits, which pay a higher rate of interest compared to demand deposit and transaction accounts, decreased $42.7 million, primarily as a result of decreases in brokered time deposits and public fund certificates of deposit. The rate paid on time deposit accounts decreased 104 basis points to 1.9% for the six-month period ended June 30, 2010, versus the same period in 2009. During the second quarter of 2010, the average daily balance of time deposits increased $18.0 million, and the rate paid decreased 89 basis points to 1.8%, versus the second quarter of 2009. Despite the low interest rate environment, the Company has been able to attract and retain retail deposit customers through offering innovative deposit products such as Rewards Checking and Savings. These products pay somewhat higher interest rates, but also encourage certain customer behaviors such as using debit cards and electronic statements, which have the effect of generating additional third-party fee income and reducing the Company's processing costs.

The Company's funding strategy is focused on leveraging its retail branch network to grow traditional retail deposits and on its presence with commercial customers and public fund entities in its Indiana markets. In addition, the Company has utilized out of market deposit programs such as brokered certificates of deposit and the Certificate of Deposit Account Registry Service (CDARS) program. Due to ongoing loan growth, the Company has expanded its funding strategy over time to include these out of market deposit programs. The Company believes that these deposit programs represent an appropriate tool in the overall liquidity and funding strategy. On an average daily basis, total brokered certificates of deposit decreased $49.4 million to $138.4 million for the six-month period ended June 30, 2010, versus $187.8 million for the same period in 2009. During the second quarter of 2010, average daily brokered certificates of deposit were $168.4 million, versus $146.9 million during the second quarter of 2009. On an average daily basis, total public fund certificates of deposit decreased $35.0 million to $176.8 million for the six-month period ended June 30, 2010, versus $211.9 million for the same period in 2009. During the second quarter of 2010, average daily public fund certificates of deposit were $197.7 million, versus $204.5 million during the second quarter of 2009. In addition, the Company had average public fund interest bearing transaction accounts of $78.6 million and $81.6 million, respectively, in the six months and three months ended June 30, 2010, versus $12.9 million and $12.6 million for the comparable periods of 2009. Availability of public fund deposits can be cyclical, primarily due to the timing differences between when real estate property taxes are collected versus when those tax revenues are spent, as well as the intense competition for these funds.

Average daily balances of borrowings were $285.6 million during the six months ended June 30, 2010, versus $313.4 million during the same period of 2009, and the rate paid on borrowings decreased 35 basis points to 1.1%. During the second quarter of 2010 the average daily balances of borrowings decreased $114.4 million to $228.0 million, versus $342.4 million for the same period of 2009, and the rate paid on borrowings increased nine basis points to 1.3%. The decrease in average borrowings during the second quarter of 2010 was driven by decreases of $94.9 million in borrowings under the Federal Reserve Bank's Term Auction Facility (TAF). The Company began utilizing TAF borrowings during the first quarter of 2009. Average daily borrowings under the facility were $6.9 million and $101.9 million, respectively, during the three months ended June 30, 2010 and 2009. During the first quarter of 2010, the Federal Reserve discontinued the TAF program and the Company's last borrowing matured on April 8, 2010. On an average daily basis, total deposits (including demand deposits) and purchased funds increased 5.5% and 7.3%, respectively, when comparing the six-month and three-month periods ended June 30, 2010 versus the same period in 2009.

As a result of the unprecedented instability in the financial markets during late 2008 and into 2009, the Company reviewed its liquidity plan and took several actions designed to provide for an appropriate funding strategy. These actions included: actively communicating with correspondent banks who provide federal fund lines to ensure availability of these funds; use of brokered certificate of deposits, which have been readily available to the Company at competitive rates; increased allocation of collateral at the Federal Reserve Bank for borrowings under their programs; maintenance of collateral levels at the FHLB for borrowings under their programs at advantageous rates; participation in the CDARS deposit program and an increased focus on aggressively priced and structured core deposit programs offered by the Company, such as Rewards Checking and Savings. The Company will continue to carefully monitor its liquidity planning and will make any necessary adjustments during this environment.

The following tables set forth consolidated information regarding average balances and rates:

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
(in thousands of dollars)

	Six Months Ended June 30, 2010			2009		
	Average Balance	Interest Income	Yield (1)	Average Balance	Interest Income	Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)(3)	$ 2,025,194	$ 51,295	5.11%	$ 1,862,355	$ 46,540	5.04%
Tax exempt (1)	1,970	54	5.49	5,922	129	4.40
Investments: (1)						
Available for sale	420,818	10,371	4.97	392,492	10,685	5.49
Short-term investments	30,119	30	0.20	17,737	14	0.16
Interest bearing deposits	1,994	11	1.11	1,813	14	1.56
Total earning assets	2,480,095	61,761	5.02%	2,280,319	57,383	5.08%
Nonearning assets:						
Cash and due from banks	46,190	0		39,616	0	
Premises and equipment	29,347	0		30,311	0	
Other nonearning assets	90,479	0		76,624	0	
Less allowance for loan losses	(35,527)	0		(20,846)	0	
Total assets	$ 2,610,584	$ 61,761		$ 2,406,024	$ 57,383	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2010 and 2009. The tax equivalent rate for tax exempt loans and tax exempt securities included the TEFRA adjustment applicable to nondeductible interest expenses.
(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the six months ended June 30, 2010 and 2009, are included as taxable loan interest income.
(3) Nonaccrual loans are included in the average balance of taxable loans.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (Cont.)
(in thousands of dollars)

	Six Months Ended June 30,					
	2010			2009		
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 103,646	$ 287	0.56%	$ 64,871	$ 6	0.02%
Interest bearing checking accounts	661,573	3,754	1.14	537,006	2,770	1.04
Time deposits:						
In denominations under $100,000	321,020	3,876	2.43	367,740	6,092	3.34
In denominations over $100,000	694,980	5,531	1.60	690,956	9,165	2.67
Miscellaneous short-term borrowings	214,613	437	0.41	238,799	573	0.48
Long-term borrowings and subordinated debentures	70,969	1,070	3.04	74,644	1,612	4.35
Total interest bearing liabilities	2,066,801	14,955	1.46%	1,974,016	20,218	2.07%
Noninterest bearing liabilities and stockholders' equity:						

Demand deposits		246,892		0			219,993		0	
Other liabilities		16,326		0			19,814		0	
Stockholders' equity		280,565		0			192,201		0	
Total liabilities and stockholders' equity	$	2,610,584	$	14,955		$	2,406,024	$	20,218	
Net interest differential - yield on average daily earning assets			$	46,806	3.80%			$	37,165	3.29%

28

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL
(in thousands of dollars)

	Three Months Ended June 30, 2010 Average Balance	2010 Interest Income	2010 Yield (1)	2009 Average Balance	2009 Interest Income	2009 Yield (1)
ASSETS						
Earning assets:						
Loans:						
Taxable (2)(3)	$ 2,042,428	$ 25,945	5.10%	$ 1,888,553	$ 23,751	5.04%
Tax exempt (1)	1,901	26	5.51	3,171	42	5.29
Investments: (1)						
Available for sale	427,573	5,170	4.85	395,711	5,327	5.40
Short-term investments	40,265	22	0.22	15,463	6	0.16
Interest bearing deposits	2,481	5	0.81	1,786	6	1.35
Total earning assets	2,514,648	31,168	4.97%	2,304,684	29,132	5.07%
Nonearning assets:						
Cash and due from banks	51,157	0		38,131	0	
Premises and equipment	29,252	0		30,267	0	
Other nonearning assets	90,258	0		75,705	0	
Less allowance for loan losses	(37,258)	0		(22,185)	0	
Total assets	$ 2,648,057	$ 31,168		$ 2,426,602	$ 29,132	

(1) Tax exempt income was converted to a fully taxable equivalent basis at a 35 percent tax rate for 2010 and 2009. The tax equivalent rate for tax exempt loans and tax exempt securities included the TEFRA adjustment applicable to nondeductible interest expenses.
(2) Loan fees, which are immaterial in relation to total taxable loan interest income for the three months ended June 30, 2010 and 2009, are included as taxable loan interest income.
(3) Nonaccrual loans are included in the average balance of taxable loans.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY;
INTEREST RATES AND INTEREST DIFFERENTIAL (Cont.)
(in thousands of dollars)

	Three Months Ended June 30,					
		2010			2009	
	Average Balance	Interest Expense	Yield	Average Balance	Interest Expense	Yield
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Savings deposits	$ 110,010	$ 163	0.59%	$ 66,889	$ 2	0.01%
Interest bearing checking accounts	710,683	2,077	1.17	528,144	1,357	1.03
Time deposits:						
In denominations under $100,000	317,414	1,860	2.35	368,980	2,927	3.18
In denominations over $100,000	736,111	2,833	1.54	666,519	3,992	2.40
Miscellaneous short-term borrowings	157,006	188	0.48	270,182	265	0.39
Long-term borrowings and subordinated debenture	70,969	539	3.05	72,233	749	4.17
Total interest bearing liabilities	2,102,193	7,660	1.47%	1,972,947	9,292	1.89%
Noninterest bearing liabilities and stockholders' equity:						
	253,030	0		222,244	0	

Demand deposits						
Other liabilities	16,441	0		20,587	0	
Stockholders' equity	276,393	0		210,824	0	
Total liabilities and stockholders' equity	$ 2,648,057	$ 7,660		$ 2,426,602	$ 9,292	
Net interest differential - yield on average daily earning assets		$ 23,508	3.75%		$ 19,840	3.45%

Provision for Loan Losses

Based on management's review of the adequacy of the allowance for loan losses, provisions for loan losses of $11.3 million and $5.8 million were recorded during the six-month and three-month periods ended June 30, 2010, versus provisions of $9.5 million and $4.9 million recorded during the same periods of 2009. Factors impacting the provision included the amount and status of classified and watch list credits, the level of charge-offs, management's overall view on current credit quality and the regional and national economic conditions impacting credit quality, the amount and status of impaired loans, the amount and status of past due accruing loans (90 days or more), and overall loan growth as discussed in more detail below in the analysis relating to the Company's financial condition.

Noninterest Income

Noninterest income categories for the six-month and three-month periods ended June 30, 2010 and 2009 are shown in the following table:

	Six Months Ended June 30,		
	2010	2009	Percent Change
Wealth advisory fees	$ 1,625	$ 1,466	10.8 %
Investment brokerage fees	1,016	890	14.2
Service charges on deposit accounts	4,060	4,020	1.0
Loan, insurance and service fees	1,994	1,644	21.3
Merchant card fee income	583	1,643	(64.5)
Other income	1,015	953	6.5
Mortgage banking income	165	976	(83.1)
Impairment on available-for-sale securities (includes total losses of $252, net of $0 recognized in other comprehensive income, pre-tax)	(252)	0	(100.0)
Total noninterest income	$ 10,206	$ 11,592	(12.0)%

	Three Months Ended June 30, 2010	2009	Percent Change
Wealth advisory fees	$ 833	$ 727	14.6 %
Investment brokerage fees	471	432	9.0
Service charges on deposit accounts	2,202	2,110	4.4
Loan, insurance and service fees	1,074	860	24.9
Merchant card fee income	303	840	(63.9)
Other income	483	437	10.5
Mortgage banking income	74	616	(88.0)
Impairment on available-for-sale securities (includes total losses of $81, net of $0 recognized in other comprehensive income, pre-tax)	(81)	0	(100.0)
Total noninterest income	$ 5,359	$ 6,022	(11.0)%

Noninterest income decreased $1.4 million and $663,000, respectively, for the six- month and three-month periods ended June 30, 2010, versus the same periods in 2009. The declines were driven in the six-month and three-month periods ended June 30, 2010 by decreases of $1.1 million and $537,000, respectively, in merchant card fee income related to a change in the processing of merchant credit card activities. Prior to the third quarter of 2009, transaction driven revenue and expenses related to this category were reported on a gross basis in merchant card fee income in noninterest income and credit card interchange fees in noninterest expense. Beginning in the second quarter of 2009, the Company began converting clients to a new third party processor for this activity. As a result, only net revenues with the new processor are being recognized in merchant card fee income in noninterest income. This change was driven by the agreement with the third party processor, and not due to any change in the Company's accounting policies. The Company also recognized non-cash, other-than-temporary impairment, equal to credit losses, on available-for-sale securities, all of which were related to residential mortgage-backed securities. In addition, mortgage banking income decreased by $811,000 and $542,000, respectively, in the six-month and three-month periods ended June 30, 2010 versus the same periods in 2009. Increases in mortgage rates during the first quarter of 2010 have led to fewer loans refinancing as well as a smaller pipeline of mortgage loan applications which, in turn, decrease the amount of mortgage income. Although mortgage rates declined toward the end of the second quarter, it is too early to tell if the lower rates will lead to increased mortgage loan activity during the remainder of 2010.

Noninterest Expense

Noninterest expense categories for the six-month and three-month periods ended June 30, 2010 and 2009 are shown in the following table:

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Percent Change
Salaries and employee benefits	$ 15,070	$ 13,189	14.3 %
Net occupancy expense	1,488	1,641	(9.3)
Equipment costs	1,051	1,017	3.3
Data processing fees and supplies	1,926	1,984	(2.9)
Credit card interchange	113	1,051	(89.2)
Other expense	6,825	7,958	(14.2)
Total noninterest expense	$ 26,473	$ 26,840	(1.4)%

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Percent Change
Salaries and employee benefits	$ 7,559	$ 7,089	6.6 %
Net occupancy expense	699	720	(2.9)
Equipment costs	522	517	1.0
Data processing fees and supplies	960	1,005	(4.5)
Credit card interchange	49	523	(90.6)
Other expense	3,636	4,299	(15.4)
Total noninterest expense	$ 13,425	$ 14,153	(5.1)%

Noninterest expense decreased $367,000 and $728,000, respectively, in the six-month and three-month periods ended June 30, 2010 versus the same periods of 2009. Other expense decreased during the six- month and three month periods ended June 30, 2010, primarily due to lower FDIC insurance premiums, compared to the same periods of 2009, as the Company was subject to special FDIC assessments in 2009. In addition, credit card interchange expense decreased due to the change in processing merchant credit card activities Salaries and employee benefits increased by $1.8 million and $470,000, respectively, in the six-month and three-month periods ended June 30, 2010 versus the same periods of 2009. These increases were significantly driven by higher performance based compensation accruals, which resulted from a combination of strong performance versus corporate objectives in the first six months of 2010 and lower performance versus these criteria in the first six months of 2009.

Income Tax Expense

Income tax expense increased $2.8 million, or 79.7%, for the first six months of 2010, compared to the same period in 2009. The combined state franchise tax expense and the federal income tax expense, as a percentage of income before income tax expense, increased to 34.1% during the first six months of 2010 compared to 29.7% during the same period of 2009. The combined tax expense increased to 33.4% in the second quarter of 2010, versus 31.1% during the same period of 2009. The changes were driven by fluctuations in the percentage of revenue being derived from tax-advantaged sources in the six-month and three-month periods of 2010, compared to the same periods in 2009.

CRITICAL ACCOUNTING POLICIES

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Some of the facts and circumstances which could affect these judgments include changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses, the valuation of mortgage servicing rights and the valuation and other than temporary impairment of investment securities. The Company's critical accounting policies are discussed in detail in the Annual Report for the year ended December 31, 2009 (incorporated by reference as part of the Company's 10-K filing).

FINANCIAL CONDITION

Total assets of the Company were $2.634 billion as of June 30, 2010, an increase of $62.0 million, or 2.4%, when compared to $2.572 billion as of December 31, 2009.

Total cash and cash equivalents increased by $886,000, or 1.6%, to $56.9 million at June 30, 2010 from $56.0 million at December 31, 2009.

Total securities available-for-sale increased by $22.0 million, or 5.4%, to $432.0 million at June 30, 2010 from $410.0 million at December 31, 2009. The increase was a result of a number of transactions in the securities portfolio. Securities purchases totaled $60.4 million. Offsetting this increase were securities paydowns totaling $42.6 million and maturities and calls of securities totaling $5.7 million. In addition, the fair market value of the securities portfolio increased by $10.9 million. The increase in fair market value was due to higher market values for securities which are backed directly or indirectly by the federal government. The investment portfolio is managed to limit the Company's exposure to risk by containing mostly mortgage-backed securities, other securities which are either directly or indirectly backed by the federal government or a local municipal government and collateralized mortgage obligations rated AAA by S&P and/or Aaa by Moody's at the time of purchase. As of June 30, 2010, the Company had $68.9 million of collateralized mortgage obligations which were not backed by the federal government, but were rated AAA by S&P and/or Aaa by Moody's at the time of purchase.

Five of the 24 non-agency collateralized mortgage obligations are still rated AAA/Aaa as of June 30, 2010, but 19 had been downgraded since the time of purchase by S&P, Fitch and/or Moody's, including 16 which were ranked below investment grade by one or more rating agencies. The Company performs an independent analysis of the cash flows of these securities based on assumptions as to collateral defaults, prepayment speeds, expected losses and the severity of potential losses. Based upon the initial analysis, securities may be identified for further analysis computing the net present value and comparing it to the book value to determine if there is any other-than-temporary impairment to be recorded. Based on the analyses as of June 30, 2010, the Company realized an additional $81,000 in the second quarter in other-than-temporary impairment, equal to projected credit losses, based on current cash flow analysis, on four of the 24 non-agency collateralized mortgage obligations.

Real estate mortgage loans held-for-sale were $1.5 million at June 30, 2010 and December 31, 2009. The balance of this asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. During the six months ended June 30, 2010, $25.7 million in real estate mortgages were originated for sale and $25.6 million in mortgages were sold.

Total loans, excluding real estate mortgage loans held-for-sale, increased by $45.7 million to $2.058 billion at June 30, 2010 from $2.012 billion at December 31, 2009. The portfolio breakdown at June 30, 2010 reflected 85% commercial and industrial, including commercial real estate and agri-business, 12% residential real estate and home equity and 3% consumer loans compared to 84% commercial and industrial, including commercial real estate and agri-business, 13% residential real estate and home equity and 3% consumer loans as of December 31, 2009. The Company did not participate in the subprime mortgage lending markets and therefore did not have direct exposure to this sector as a lender.

The Company has a high percentage of commercial and commercial real estate loans, most of which are extended to small or medium-sized businesses. Commercial loans represent higher dollar loans to fewer customers and therefore higher credit risk than other types of loans. Pricing is adjusted to manage the higher credit risk associated with these types of loans. The Company also generally requires new and renewed variable rate commercial loans to have floor rates. The majority of fixed rate residential mortgage loans, which represent increased interest rate risk, are sold in the secondary market, as well as some variable rate mortgage loans. The remainder of the variable rate mortgage loans and a small number of fixed rate mortgage loans are retained.

Loans are charged against the allowance for loan losses when management believes that the principal is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance is an amount that management believes will be adequate to absorb probable incurred credit losses relating to specifically identified loans based on an evaluation, as well as other probable incurred losses inherent in the loan portfolio. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans and current economic conditions that may affect the borrower's ability to repay. Management also considers trends in adversely classified loans based upon a monthly review of those credits. An appropriate level of general allowance is determined after considering the following factors: application of historical loss percentages, emerging market risk, commercial loan focus and large credit concentrations, new industry lending activity and current economic conditions. Federal regulations require insured institutions to classify their own assets on a regular basis. The regulations provide for three categories of classified loans – substandard, doubtful and loss. The regulations also contain a special mention category. Special mention is defined as loans that do not currently expose an insured institution to a sufficient degree of risk to warrant classification, but do possess credit deficiencies or potential weaknesses deserving management's close attention. The Company's policy is to establish a specific allowance for loan losses for any assets classified as substandard or doubtful. If an asset or portion thereof is classified as loss, the Company's policy is to either establish specified allowances for loan losses in the amount of 100% of the portion of the asset classified loss, or charge off such amount. At June 30, 2010, on the basis of management's review of the loan portfolio, the Company had loans totaling $172.6 million on the classified loan list versus $178.0 million on December 31, 2009. As of June 30, 2010, the Company had $66.8 million of assets classified special mention, $104.0 million classified as substandard, $0 classified as doubtful and $0 classified as loss as compared to $75.0 million, $100.6 million, $369,000 and $0 at December 31, 2009. In addition, at June 30, 2010 the Company had eight loans totaling $14.6 million accounted for as troubled debt restructurings – six mortgage loans totaling $1.1 million with total allocations of $71,000, a $6.2 million commercial credit with an allocation of $3.0 million and a $7.3 million commercial credit with an allocation of $814,000. The Company has no commitments to lend additional funds to any of the borrowers. At December 31, 2009, the Company had two relationships totaling $6.5 million accounted for as troubled debt restructurings – a $176,000 mortgage loan with an allocation of $35,000 and a $6.3 million commercial credit with an allocation of $2.5 million.

Allowance estimates are developed by management taking into account actual loss experience, adjusted for current economic conditions. The Company discusses this methodology with regulatory authorities. Allowance estimates are considered a prudent measurement of the risk in the Company's loan portfolio and are applied to individual loans based on loan type. In accordance with current accounting guidance, the allowance is provided for losses that have been incurred as of the balance sheet date and is based on past events and current economic conditions, and does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions.

Net charge-offs totaled $4.7 million in the second quarter of 2010, versus $1.3 million during both the second quarter of 2009 and the first quarter of 2010. Loan exposure to three borrowers represented $4.2 million, or 90%, of these charge offs. $2.2 million of the charge offs were related to an operating line of credit and term loan extended to a manufacturing company which terminated operations during the quarter. The Company has no additional exposure to this borrower. The second loss of $1.1 million was a real estate loan connected to a manufacturing business that terminated operations. The Company has remaining nonaccrual real estate loan exposure of $1.7 million to this borrower and expects that it will be transferred to other real estate in the third quarter of 2010 at the current carrying value. The third loss of $0.9 million was an operating line of credit related to a manufacturer that terminated operations. The Company has no additional exposure to this borrower. Loan exposure to the first borrower was current as of March 31, 2010 and the second and third loans were on nonaccrual as of that date.

36

The allowance for loan losses increased 16.5%, or $5.3 million, from $32.1 million at December 31, 2009 to $37.4 million at June 30, 2010. Pooled loan allocations increased $1.6 million from $10.2 million at December 31, 2009 to $11.8 million at June 30, 2010, which was primarily a result of the current level of charge-offs as well as management's overall view on current credit quality. Impaired loan allocations increased $1.9 million from $6.7 million at December 31, 2009 to $8.5 million at June 30, 2010 and other specifically reviewed loan allocations increased $1.3 million from $12.5 million at December 31, 2009 to $13.8 million at June 30, 2010. This increase was primarily due to the addition of two commercial credits to the impaired loans category as described below. The unallocated component of the allowance for loan losses increased $612,000 from $2.7 million at December 31, 2009 to $3.3 million at June 30, 2010, based on management's assessment of economic and other qualitative factors impacting the loan portfolio, particularly the ongoing economic challenges in the Company's market area. Management believed the allowance for loan losses at June 30, 2010 was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions do not improve, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require further increases in the provision for loan losses.

Total impaired loans increased by $9.2 million to $41.0 million at June 30, 2010 from $31.8 million at December 31, 2009. The increase in the impaired loans category was primarily due to the addition of two commercial credits totaling $10.6 million. One is engaged in manufacturing and the other in transportation. The increase in impaired loans was partially offset by $931,000 in paydowns received on one commercial relationship. Of the $41.0 million in impaired loans, $29.3 million were on nonaccrual status at June 30, 2010. A loan is impaired when full payment under the original loan terms is not expected. Impairment is evaluated in the aggregate for smaller-balance loans of similar nature such as residential mortgage, and consumer loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance may be allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. The following table summarizes nonperforming assets at June 30, 2010 and December 31, 2009.

	June 30, 2010	December 31, 2010
	(in thousands)	
NONPERFORMING ASSETS:		
Nonaccrual loans including nonaccrual troubled debt restructured loans	$ 30,192	$ 30,518
Loans past due over 90 days and still accruing	533	190
Total nonperforming loans	$ 30,725	$ 30,708
Other real estate	382	872
Repossessions	14	2
Total nonperforming assets	$ 31,121	$ 31,582
Impaired loans including troubled debt restructurings	$ 41,008	$ 31,838
Nonperforming loans to total loans	1.49%	1.53%
Nonperforming assets to total assets	1.18%	1.23%
Nonperforming troubled debt restructured loans (included in nonaccrual loans)	$ 6,219	$ 6,521
Performing troubled debt restructured loans	8,417	0
Total troubled debt restructured loans	$ 14,636	$ 6,521

37

Total nonperforming assets decreased by $461,000, or 1.5%, to $31.1 million during the six-month period ended June 30, 2010. The decrease was primarily due to the sale of a single piece of other real estate and the aforementioned charge-offs. Eight commercial relationships represented 79.5% of total nonperforming loans. Three of the eight relationships are each less than $2.0 million. A $6.9 million commercial relationship consisting of three loans represents the largest exposure in the nonperforming category. The borrower is engaged in real estate development. Borrower collateral, including real estate and the personal guarantees of its principals, support the credit. The Company took a $1.7 million charge-off related to this credit in the fourth quarter of 2009, and no charge-offs have been taken in 2010.

A $6.2 million credit to a manufacturer tied to the housing industry represented the second largest exposure in the nonperforming category. The credit is accounted for as a troubled debt restructuring. Borrower collateral including real estate, receivables, inventory and equipment support the credit, however, there are no guarantors. The Company took a $906,000 charge-off related to this credit in 2008, and no charge-offs were taken in 2009 or have been taken in 2010.

A commercial relationship consisting of two loans totaling $2.7 million represents the third largest exposure in the nonperforming category. The borrower is engaged in sales tied to the recreational vehicle industry as well as residential real estate development. Borrower collateral, including real estate and the personal guarantees of its principals, support the credit. The Company took $1.3 million in charge-offs related to this relationship during 2008, and no charge-offs were taken in 2009 or have been taken in 2010.

A $2.4 million loan to a real estate holding company represents the fourth largest exposure in the nonperforming category. The entity leased facilities used for automobile sales to an affiliated company, which is now experiencing difficulties. Borrower collateral and personal guarantees support the credit. The Company took a $253,000 charge-off related to this credit in the fourth quarter of 2009, and no charge-offs have been taken in 2010.

There can be no assurances that full repayment of the loans discussed above will result. Management does not foresee a rapid recovery from the challenging economic conditions in the Company’s markets as certain industries, including residential and commercial real estate development, recreational vehicle and mobile home manufacturing and other regional industries continue to experience general slow-downs and negative growth. The Company’s growth strategy has promoted diversification among industries as well as a continued focus on enforcement of a strong credit environment and an aggressive position on loan work-out situations. While the Company believes that the impact on the Company of these industry-specific issues affecting real estate development and recreational vehicle and mobile home manufacturers will be somewhat mitigated by the Company’s overall growth strategy, the economic recession impacting its entire geographic footprint will continue to present challenges. Additionally, the Company’s overall asset quality position can be influenced by a small number of credits due to the focus on commercial lending activity and the granularity inherent in this strategy.

Total deposits increased by $280.0 million, or 15.1%, to $2.131 billion at June 30, 2010 from $1.851 billion at December 31, 2009. The increase resulted from increases of $140.7 million in brokered deposits, $97.1 million in public fund certificates of deposit of $100,000 or more, $33.7 million in money market accounts, $26.3 million in savings accounts, $16.7 million in interest bearing transaction accounts, $5.4 million in demand deposits and $2.5 million in certificates of deposit of $100,000 and over. Offsetting these increases were decreases of $36.8 million in CDARS certificates of deposit and $5.6 million in other certificates of deposit.

Total short-term borrowings decreased by $175.4 million, or 49.5%, to $178.7 million at June 30, 2010 from $354.1 million at December 31, 2009. The decrease resulted primarily from decreases of $215.0 million in other borrowings, primarily from short-term advances from the Federal Home Loan Bank of Indianapolis as well as the discontinuance of the Federal Reserve Bank's Term Auction Facility. In addition, securities sold under agreements to repurchase decreased by $22.2 million. Offsetting these decreases were increases of $61.7 million in federal funds purchased.

Total equity decreased by $42.0 million, or 15.0%, to $238.1 million at June 30, 2010 from $280.0 million at December 31, 2009. The decrease in total equity resulted from the Company's June 2010 repayment of $56.0 million in preferred stock issued under the TARP Capital Purchase Program. Additional impacts to equity were the result of net income of $12.2 million, plus the decrease in the accumulated other comprehensive loss of $6.5 million, less dividends of $6.2 million, plus $530,000 for stock issued through options exercised (including tax benefit), minus $112,000 for net treasury stock purchased plus $970,000 in stock compensation expense . The stock compensation expense component of the increase was related to the implementation of two long term incentive stock plans. One plan became effective in March of 2009 and the other in January of 2010.

The FDIC's risk-based capital regulations require that all insured banking organizations maintain an 8.0% total risk-based capital ratio. The FDIC has also established definitions of "well capitalized" as a 5.0% Tier I leverage capital ratio, a 6.0% Tier I risk-based capital ratio and a 10.0% total risk-based capital ratio. All of the Bank's ratios continue to be above these "well capitalized" levels. The Federal Reserve also has established minimum regulatory capital requirements for bank holding companies. As of June 30, 2010, the Company had regulatory capital in excess of these minimum requirements with a Tier 1 leverage capital ratio, Tier 1 risk-based capital ratio and total risk-based capital ratio of 9.9%, 11.8% and 13.0%, respectively.

RECENT LEGISLATION IMPACTING THE FINANCIAL SERVICES INDUSTRY

On July 21 2010, sweeping financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things:

- Create a Financial Services Oversight Council to identify emerging systemic risks and improve interagency cooperation;

- Centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws;

- Establish strengthened capital standards for banks and bank holding companies, and disallow trust preferred securities from being included in a bank's Tier 1 capital determination (subject to a grandfather provision for existing trust preferred securities);

- Contain a series of provisions covering mortgage loan original standards affecting, among other things, originator compensation, minimum repayment standards and pre-payments;

- Require financial holding companies, such as the Company, to be well-capitalized and well-managed as of July 21, 2011. Bank holding companies and banks must also be both well-capitalized and well-managed in order to acquire banks located outside their home state;

- Grant the Federal Reserve the power to regulate debit card interchange fees;

- Implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions;

- Make permanent the $250 thousand limit for federal deposit insurance and increase the cash limit of Securities Investor Protection Corporation protection from $100 thousand to $250 thousand and provide unlimited federal deposit insurance until January 1, 2013 for non-interest bearing demand transaction accounts at all insured depository institutions;

- Repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts; and

- Increase the authority of the Federal Reserve to examine the Company and its nonbank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on the Company, its customers or the financial industry more generally. Provisions in the legislation that affect deposit insurance assessments, payment of interest on demand deposits and interchange fees could increase the costs associated with deposits as well as place limitations on certain revenues those deposits may generate. Provisions in the legislation that revoke the Tier 1 capital treatment of trust preferred securities and otherwise require revisions to the capital requirements of the Company and the Bank could require them to seek other sources of capital in the future.

FORWARD-LOOKING STATEMENTS

This document (including information incorporated by reference) contains, and future oral and written statements of the Company and its management may contain, forward-looking statements, within the meaning of such term in the Private Securities Litigation Reform Act of 1995, with respect to the financial condition, results of operations, plans, objectives, future performance and business of the Company. Forward-looking statements, which may be based upon beliefs, expectations and assumptions of the Company’s management and on information currently available to management, are generally identifiable by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “intend,” “estimat “may,” “will,” “would,” “could,” “should” or other similar expressions. Additionally, all statements in this document, includin forward-looking statements, speak only as of the date they are made, and the Company undertakes no obligation to update any statement in light of new information or future events.

The Company's ability to predict results or the actual effect of future plans or strategies is inherently uncertain. The factors, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries are detailed in the "Risk Factors" section included under Item 1a. of Part I of our Form 10-K. In addition to the risk factors described in that section, there are other factors that may impact any public company, including ours, which could have a material adverse effect on the operations and future prospects of the Company and its subsidiaries. These additional factors include, but are not limited to, the following:

- Legislative or regulatory changes or actions, including the "Dodd-Frank Wall Street Reform and Consumer Protection Act" and the regulations required to be promulgated there under, which may adversely affect the business of the Company and its subsidiaries.
- The costs, effects and outcomes of existing or future litigation.
- Changes in accounting policies and practices, as may be adopted by state and federal regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission and the Public Company Accounting Oversight Board.
- The ability of the Company to manage risks associated with the foregoing as well as anticipated.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk represents the Company's primary market risk exposure. The Company does not have a material exposure to foreign currency exchange risk, does not have any material amount of derivative financial instruments and does not maintain a trading portfolio. The board of directors annually reviews and approves the policy used to manage interest rate risk. The policy was last reviewed and approved in May 2010. The policy sets guidelines for balance sheet structure, which are designed to protect the Company from the impact that interest rate changes could have on net income, but does not necessarily indicate the effect on future net interest income. The Company, through its Asset/Liability Committee, manages interest rate risk by monitoring the computer simulated earnings impact of various rate scenarios and general market conditions. The Company then modifies its long-term risk parameters by attempting to generate the type of loans, investments, and deposits that currently fit the Company's needs, as determined by the Asset/Liability Committee. This computer simulation analysis measures the net interest income impact of various interest rate scenario changes during the next 12 months. If the change in net interest income is less than 3% of primary capital, the balance sheet structure is considered to be within acceptable risk levels. As of June 30, 2010, the Company's potential pretax exposure was within the Company's policy limit, and not significantly different from December 31, 2009.

ITEM 4 – CONTROLS AND PROCEDURES

As required by Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934, management has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) were effective as of June 30, 2010. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

During the quarter ended June 30, 2010, there were no changes to the Company's internal control over financial reporting that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

June 30, 2010

Part II - Other Information

Item 1. Legal proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries is a party other than ordinary routinelitigation incidental to their respective businesses.

Item 1A. Risk Factors

Recently enacted regulatory reforms could have a significant impact on our business, financial condition and results of operations.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”), which is perhaps the most significant financial reform since the Great Depression. While the provisions of the Act receiving the most public attention have generally been those more likely to affect larger institutions, the Act also contains many provisions which will affect smaller institutions such as ours in substantial and unpredictable ways. Consequently, compliance with the Act’s provisions may curtail our revenue opportunities, increase our operating costs, require us to hold higher levels of regulatory capital and/or liquidity or otherwise adversely affect our business or financial results in the future. Our management is actively reviewing the provisions of the Act and assessing its probable impact on our business, financial condition, and result of operations. However, because many aspects of the Act are subject to future rulemaking, it is difficult to precisely anticipate its overall financial impact on the Company and its subsidiary bank at this time.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information as of June 30, 2010 with respect to shares of common stock repurchased by the Company during the quarter then ended:

Issuer Purchases of Equity Securities(a)

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1-30	0	$ 0	0	$ 0
May 1-31	779	21.18	0	0
June 1-30	0	0	0	0
Total	779	$ 21.18	0	$ 0

(a) The shares purchased during the periods were credited to the deferred share accounts of non-employee directors under the Company's directors' deferred compensation plan. These shares were purchased in the ordinary course of business and consistent with past practice.

Item 3. Defaults Upon Senior Securities

None

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

44

LAKELAND FINANCIAL CORPORATION

FORM 10-Q

June 30, 2010

Part II - Other Information

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LAKELAND FINANCIAL CORPORATION
(Registrant)

Date: August 2, 2010	/s/ Michael L. Kubacki Michael L. Kubacki – President and Chief Executive Officer
Date: August 2, 2010	/s/ David M. Findlay David M. Findlay – Executive Vice President and Chief Financial Officer
Date: August 2, 2010	/s/ Teresa A. Bartman Teresa A. Bartman – Senior Vice President-Finance and Controller