HEARTLAND PAYMENT SYSTEMS INC
Form 10-K/A
May 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K/A

(Amendment No. 2)

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-32594

HEARTLAND PAYMENT SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**22-3755714**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

90 Nassau Street, Princeton, New Jersey 08542

(Address of principal executive offices) (Zip Code)

(609) 683-3831

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value	**New York Stock Exchange**

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

NONE

(title of Class)

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

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 x NO

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. x YES ¨ NO

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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. ¨

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ YES x NO

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common stock was last sold on the New York Stock Exchange on June 30, 2008 was approximately $674 million.

As of March 4, 2009, there were 37,442,292 shares of the registrant s common stock, $0.001 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

This Amendment No. 2 to Form 10-K on Form 10-K/A (the Amended Filing) amends and restates the Annual Report on Form 10-K for the year ended December 31, 2008, originally filed on March 16, 2009 and Amendment No. 1 to Form 10-K on Form 10-K/A filed on April 30, 2009 (collectively, the Original Filing), of Heartland Payment Systems, Inc. (the Company). The primary purpose of this amendment is to supplement the Original Filing in response to comments received from the Securities and Exchange Commission on April 1, 2009 and on April 27, 2009 in connection with its review of the Original Filing. The Original Filing was amended to revise: (i) the second paragraph under the subheading HPS Exchange of the Technology section of Item 1 to conform the paragraph to make it consistent with the other disclosures in the Original Filing, (ii) the first paragraph of Note 8 of the Notes to Consolidated Financial Statements to reflect the scope of management s reliance on the information provided by the independent valuation firms in deriving the relevant valuations used for financial reporting purposes in connection with asset acquisitions, (iii) the disclosure in the Management Annual Report on Internal Control over Financial Reporting in Item 9A, Controls and Procedures, to include a statement that the independent registered public accounting firm that audited our financial statements has issued an attestation report on our internal control over financial reporting, (iv) Note 22 to Consolidated Financial Statements (Subsequent Events) to reflect material events that have occurred since December 31, 2008, (v) the total compensation of Sanford Brown in the Summary Compensation Table to reflect the correct amount, and (vi) the Exhibit Index to include references to (A) the Amended and Restated Credit Agreement dated as of May 30, 2008, among the Company, the Lenders party thereto from time to time, and JPMorgan Chase Bank, N.A., as Administrative Agent as Exhibit 10.43, (B) the Membership Interest and Asset Purchase Agreement dated May 2, 2008 among the Company, Heartland Acquisition, LLC, Alliance Data Network Services LLC, ADS Alliance Data Systems, Inc. and Alliance Data Systems Corporation as Exhibit 10.44 and (C) the Form of Employee Incentive Stock Option Agreement Under 2008 Equity Incentive Plan as Exhibit 10.45.

In accordance with Rule 12b-15 under the Exchange Act of 1934, as amended, each item of the Original Filing that is amended by this Amended Filing is also restated in its entirety, and this Amended Filing is accompanied by currently dated certifications on Exhibits 31.1 and 32.1 by the Company s Chief Executive Officer and Exhibits 31.2 and 32.2. by the Company s Chief Financial Officer. Except as described above, this Amended Filing does not amend, update, or change any items, financial statements, or other disclosures in the Original Filing, and does not reflect events occurring after the date of the Original Filing. Information not affected by the changes described above is unchanged and reflects the disclosures made at the time of the Original Filing. Accordingly, this Amended Filing should be read in conjunction with the Original Filing and our other reports filed with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including any amendments to those filings.

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Heartland Payment Systems, Inc.

Annual Report on Form 10-K/A

For the Year Ended

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FORWARD LOOKING STATEMENTS

Unless the context requires otherwise, references in this report to the Company, we, us, and our refer to Heartland Payment Systems, Inc. and our subsidiaries.

Some of the information in this Annual Report on Form 10-K may contain forward-looking statements that are based on our management s beliefs and assumptions and on information currently available to our management. Forward-looking statements include the information concerning our possible or assumed future results of operations, the impact of the systems breach of our processing system, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by the use of forward-looking terminology such as the words believe, expect, anticipate, intend, plan, estimate or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in the forward-looking statements. You should understand that many important factors, in addition to those discussed elsewhere in this report, could cause our results to differ materially from those expressed in the forward-looking statements. Certain of these factors are described in Item 1A. Risk Factors and include, without limitation, the significantly unfavorable economic conditions facing the United States, the results and effects of the systems breach of our processing system including the outcome of our investigation, the extent of cardholder information compromised and the consequences to our business, including the effects on sales and costs in connection with the system breach, our competitive environment, the business cycles and credit risks of our merchants, chargeback liability, merchant attrition, problems with our bank sponsor, our reliance on other bank card payment processors, our inability to pass increased interchange fees along to our merchants, economic conditions, system failures and government regulation.

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PART I

ITEM 1. BUSINESS

Overview of Our Company

Delaware Corporation

We were incorporated in Delaware in June 2000. Our headquarters are located at 90 Nassau Street, Princeton, NJ 08542, and our telephone number is (609) 683-3831.

Bank Card Payment Processing

Our primary business is to provide bank card payment processing services to merchants in the United States and Canada. This involves facilitating the exchange of information and funds between merchants and cardholders financial institutions, providing end-to-end electronic payment processing services to merchants, including merchant set-up and training, transaction authorization and electronic draft capture, clearing and settlement, merchant accounting, merchant assistance and support and risk management. Our merchant customers primarily fall into two categories: our core small and mid-sized merchants (referred to as Small and Midsized Enterprises, or SME) and large national merchants, primarily in the petroleum industry. We also provide additional services to our merchants, such as payroll processing, gift and loyalty programs, paper check processing, and we sell and rent point-of-sale devices and supplies.

At December 31, 2008, we provided our bank card payment processing services to approximately 168,850 active SME bank card merchants located across the United States. This represents a 9.1% increase over the 154,750 active SME bank card merchants at December 31, 2007. At December 31, 2008, we provided bank card payment processing services to approximately 82 large national merchants with approximately 55,761 locations. Our total bank card processing volume for the year ended December 31, 2008 was $66.9 billion, a 28.9% increase from the $51.9 billion processed during the year ended December 31, 2007. Bank card processing volume for 2008 includes $8.7 billion for large national merchants acquired with Network Services. Additionally, we provided bank card processing services to approximately 5,600 merchants in Canada.

On January 20, 2009, we announced the discovery of a criminal breach of our payment systems environment (referred to as the Processing System Intrusion in this document) that apparently had occurred during some portion of 2008. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by Heartland during the transaction authorization process. Such data is not required to be encrypted while in transit under current payment card industry guidelines. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). However, the cardholder information that we process does not include addresses or Social Security numbers. Also, we believe that no unencrypted PIN data was captured. We believe the breach has been contained and did not extend beyond 2008. Our investigation of the Processing System Intrusion is ongoing. See Processing System Intrusion for more detail.

While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claims as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact our results of operations, financial condition and cash flow.

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According to The Nilson Report, in 2007 we were the 6th largest card acquirer in the United States ranked by purchase volume, which consists of both credit and debit Visa and MasterCard transactions. This ranking represented 2.4% of the total bank card processing market. In 2008, 2007 and 2006, our bank card processing volume was $66.9 billion, $51.9 billion and $43.3 billion, respectively.

In May 2008, we acquired the net assets of the Network Services Business unit (Network Services) of Alliance Data Network Services LLC (Alliance), for a cash payment of $92.5 million. The acquisition was financed through a combination of cash on hand and our credit facilities. Network Services provides processing of credit and debit cards to large national merchants, primarily in the petroleum industry. Network Services settled 604 million transactions representing over $17 billion of total annual Visa and MasterCard processing volume in 2007, and 600 million transactions representing $16.7 billion of bank card processing volume in 2008. In addition to settling Visa and MasterCard transactions, Network Services processes a wide range of payment transactions for its predominantly petroleum customer base, including providing approximately 2.6 billion transaction authorizations through its front-end card processing systems (primarily for Visa and MasterCard) in 2007. Network Services has added $8.7 billion to our bank card processing volume on 317 million transactions from the date we acquired it through December 31, 2008. Additionally, Network Services generated revenues on 1.6 billion transactions it authorized through its front-end card processing systems from the date we acquired it through December 31, 2008.

In March 2008, we acquired a majority interest in Collective Point of Sale Solutions Ltd. (CPOS) for a net cash payment of $10.1 million. CPOS is a Canadian provider of payment processing services and secure point-of-sale solutions. This acquisition added approximately 5,100 Canadian merchants to our customer base and provides us an entrance into the Canadian credit and debit card processing market. We are now able to service merchants that have locations in both the United States and Canada.

Our bank card processing revenue is recurring in nature. We typically enter into three-year service contracts with our SME merchants that, in order to qualify for the agreed-upon pricing, require the achievement of agreed bank card processing volume minimums from our merchants. Our SME gross bank card processing revenue is largely driven by Visa and MasterCard volume processed by merchants with whom we have processing contracts; as such, we also generally benefit from consumers increasing use of bank cards in place of cash and checks, and sales growth (if any) experienced by our retained bank card merchants. Most of our SME revenue is from gross processing fees, which are primarily a combination of a percentage of the dollar amount of each Visa and MasterCard transaction we process plus a flat fee per transaction. We make mandatory payments of interchange fees to card issuing banks through Visa and MasterCard and dues and assessment fees to Visa and MasterCard, and we retain the remainder of the revenue. For example, the allocation of funds resulting from a $100 transaction is depicted below.

Our bank card processing revenue from our large national merchants is also recurring in nature. In contrast to SME merchants, our processing revenues from large national merchants generally consist of a flat fee per transaction and thus are driven primarily by the number of transactions we process (whether settled, or only authorized), not bank card processing volume.

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In December 2007, we signed a sales and servicing program agreement (OnePoint) with American Express Travel Related Services Company, Inc. (American Express) under which we will sign up and service new merchants on behalf of American Express. Under the terms of the program, we will act as American Express s agent in: (a) providing solicitation services by signing merchants directly with American Express; and (b) providing transactional support services on behalf of American Express. OnePoint became available to our sales organization effective January 1, 2009. Under OnePoint, we will provide processing, settlement, customer support and reporting to merchants, in effect consolidating a merchant s American Express card acceptance into the services we currently provide for their Visa and Master Card transactions. OnePoint also is open to our existing bank card merchants who do not currently accept American Express cards and who desire to add American Express card acceptance, so that we become their single point of contact for card processing.

In June 2008, we signed an agreement with DFS Services, LLC (formerly known as Discover Financial Services, LLC and referred to as Discover in this document) to offer bank card merchants a streamlined process that enables them to accept Discover Network cards on our processing platform. We plan to offer our new and existing customers an integrated processing solution that includes card acceptance pricing, funding, statement processing and customer service on one platform. Previously, to accept Discover Network cards, our merchants had to deal with two separate platforms - one for Discover and one for all other cards. Merchants who sign up for our program will, in turn, be able to offer their customers the added benefit of Discover Network card acceptance with greater ease. We expect this program to be available in the second quarter of 2009. Additionally, we will purchase the current Discover Network merchants that process through Heartland and convert them to the streamlined process mentioned previously.

Under our new agreement with Discover, which is expected to be implemented in the second quarter of 2009, our revenue model will be similar to Visa and MasterCard. The terms of the new American Express agreement have a compensation model which provides us a percentage-based residual on the American Express volume we process, plus fees for every transaction we process.

We sell and market our bank card payment processing services through a nationwide direct sales force of 1,725 sales professionals. Through this sales force we establish a local sales and servicing presence, which we believe provides for enhanced referral opportunities and helps mitigate merchant attrition. We compensate our sales force solely through commissions, based upon the performance of their merchant accounts. We believe that our sales force and our experience and knowledge in providing payment processing services gives us the ability to effectively evaluate and manage the payment processing needs and risks that are unique to these merchants. In 2008, our sales force generated over 63,500 bank card merchant applications and installed over 55,000 new bank card merchants. In 2007, our sales force generated over 62,500 bank card merchant applications and installed over 57,000 new bank card merchants.

We focus our sales efforts on low-risk bank card merchants and have developed systems and procedures designed to minimize our exposure to potential merchant losses. In 2008, 2007 and 2006, we experienced losses of 0.88 basis points (0.0088%), 0.54 basis points (0.0054%) and 0.45 basis points (0.0045%) of SME merchant bank card processing volume, respectively. We have developed significant expertise in industries that we believe present relatively low risks as the customers are generally present and the products or services are generally delivered at the time the transaction is processed. These industries include restaurants, brick and mortar retailers, convenience and liquor stores, automotive sales, repair shops and gas stations, professional service providers, lodging establishments and other. As of December 31, 2008, approximately 28.8% of our SME bank card merchants were restaurants, approximately 19.4% were brick and mortar retailers, approximately 10.9% were convenience and liquor stores, approximately 9.1% were automotive sales, repair shops and gas stations, approximately 9.0% were professional service providers and approximately 3.6% were lodging establishments. The Processing System Intrusion was the result of the insertion of malicious software into our processing system, and we believe that it was not the result of any failure of our sales efforts or systems and procedures described in this paragraph.

Since our inception, we have developed a number of proprietary Internet-based systems to increase our operating efficiencies and distribute our processing and merchant data to our three main constituencies: our sales force, our merchant base and our customer service staff. In 2001, we began providing authorization and data capture services to our SME bank card merchants through our own front-end processing system, HPS Exchange. In 2006, we began providing clearing, settlement and merchant accounting services through our own internally developed back-end processing system, Passport, to substantially all of our SME bank card merchants. Passport enables us to customize these services to the needs of our Relationship Managers and merchants. Currently, we are further developing HPS Exchange and Passport to process the large national merchants which we acquired with Network Services.

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During the years ended December 31, 2008, 2007 and 2006, approximately 83%, 75% and 64%, respectively, of our SME merchant transactions were processed through HPS Exchange, which has decreased our operating costs per transaction. At December 31, 2008 and 2007, approximately 98% of total SME merchants were processing on Passport. At December 31, 2008, our internally developed systems are providing substantially all aspects of a merchant s processing needs, excluding Network Services.

Payroll Processing Services

Through our wholly-owned subsidiary, Heartland Payroll Company, we operate a full-service nationwide payroll processing service, including check printing, direct deposit, related federal, state and local tax deposits and providing accounting documentation. At December 31, 2008, 2007 and 2006, we processed payroll for 7,738, 6,209 customers and 4,216 customers, respectively.

Our nationwide direct sales force also sells our payroll processing services solely on a commission basis. Beginning in 2006, we began providing additional training regarding our payroll processing products and increased the focus of our sales force on selling these products. As a result, in 2008, 2007 and 2006, we installed 4,406, 4,395 and 3,140 new payroll processing customers, respectively, compared to 1,117 new installs in 2005.

Other Products and Services

Other products and services which we offer, such as Electronic Check Processing Services and Micropayment and Campus Solutions, are discussed in Our Services and Products.

Processing System Intrusion

In late October of 2008, we were alerted by Visa of suspicious activity surrounding certain cardholder accounts that appeared to certain card issuers to have been subjected to fraudulent activity shortly after those cards were used to make legitimate transactions that we processed. Our IT team worked with the major card brands (i.e., Visa, MasterCard, American Express, and Discover) (collectively, the Card Brands) to try to match the suspicious transactions with our processing activities, and we engaged multiple forensic auditors to investigate our payment card processing system. Ultimately, on January 12, 2009, informations that one of those auditors had provided our team with led us to the discovery of suspicious files, and on January 13, 2009, we discovered the malicious software that apparently had created those files. We promptly reported this discovery to law enforcement authorities and the Card Brands, and we continue to cooperate with the Card Brands and the criminal investigations relating to the Processing System Intrusion.

On January 20, 2009, we publicly announced the Processing System Intrusion. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by us during the transaction authorization process. Such data is not required to be encrypted while in transit under current payment card industry guidelines. We had received confirmation of our compliance with the Payment Card Initiative Data Security Standard (PCI-DSS) from a third-party assessor each year since the standard was announced, including most recently in April 2008. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). However, the cardholder information that we process does not include addresses or Social Security numbers. Also, we believe that no unencrypted PIN data was captured. We believe the breach has been contained and did not extend beyond 2008. Our investigation of the Processing System Intrusion is ongoing.

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To date, we have had several lawsuits filed against us and we expect additional lawsuits will be filed. These include lawsuits which assert claims against us by cardholders (including various putative class actions seeking in the aggregate to represent all cardholders in the United States whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion), and banks that issued payment cards to cardholders whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion (including various putative class actions seeking to represent all financial institutions that issued payment cards to cardholders whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion), seeking damages allegedly arising out of the Processing System Intrusion and other related relief. The actions generally assert various common-law claims such as claims for negligence and breach of contract, as well as, in some cases, statutory claims such as violation of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The putative cardholder class actions seek various forms of relief including damages, injunctive relief, multiple or punitive damages, attorney s fees and costs. The putative financial institution class actions seek compensatory damages, including recovery of the cost of issuance of replacement cards and losses by reason of unauthorized transactions, as well as injunctive relief, attorney s fees and costs. In addition, we have been advised by the SEC that it has commenced an informal inquiry and we have been advised by the United States Attorney for the District of New Jersey that it has commenced an investigation, in each case to determine whether there have been any violations of the federal securities laws in connection with our disclosure of the Processing Systems Intrusion and the alleged trading in our securities by certain of our employees, including certain executive officers. A putative class action has been commenced against us and certain of our executive officers alleging violations of the federal securities laws in connection with our disclosures relative to the Processing System Intrusion and our computer system security and the alleged trading in our securities by four of our officers. The plaintiff in the putative federal securities law class action seeks to represent all purchasers of our securities between August 5, 2008 and February 23, 2009 and seeks to recover losses such purchasers allegedly incurred by reason of their purchases, as well as related costs and expenses. We also have been contacted by the Federal Financial Institutions Examination Council and informed that it will be making inquiries into the Processing System Intrusion, and the Federal Trade Commission, by letter dated February 19, 2009, has requested that we provide information about our information security practices. Additionally, we have received written or telephonic inquiries relating to the Processing System Intrusion from a number of state Attorneys General s offices, including a Civil Investigative Demand from the Louisiana Department of Justice Office of the Attorney General, the Canadian Privacy Commission, and other government officials. We are cooperating with the government officials in response to each of these inquiries and investigations. We expect that additional lawsuits may be filed against us relating to the Processing System Intrusion and that additional inquiries from governmental agencies may be received or investigations by government agencies may be commenced.

Although we intend to defend the lawsuits, investigations and inquiries described above vigorously, we cannot predict the outcome of such lawsuits, investigations and inquiries. Apart from damages claimed in such lawsuits and/or in other lawsuits relating to the Processing System Intrusion that may be filed, we may be subject to fines or other obligations as a result of the government inquiries and investigations described above and/or other governmental inquiries or investigations relating to the Processing System Intrusion, and the Card Brands are also expected to assert claims seeking to impose fines, penalties, and/or other assessments against us or our sponsor banks (who would seek indemnification from us pursuant to our agreements with them) based upon the Processing System Intrusion. In that regard, we have been advised by Visa Inc. that based on Visa s investigation of the Processing System Intrusion, Visa believes we are in violation of the Visa operating regulations and that, based on that belief, Visa has removed us from Visa published list of PCI-DSS compliant service providers until such time as we are re-certified as PCI-DSS compliant and the assessor s report attesting to such re-certification has been reviewed and approved by Visa, intends to seek to impose fines on our sponsor banks, which fines (if successfully imposed) our sponsor banks could in turn seek to recover from us, intends to place us in a probationary status during the two years following our re-certification as being PCI-DSS compliant, during which time our failure to comply with the probationary requirements set forth by Visa or with the Visa operating regulations may result in Visa seeking to impose further risk conditions on us, including but not limited to our disconnection from VisaNet or our disqualification from the Visa payment system, and intends to treat some or all of the Visa accounts that Visa considers to have been placed at risk of compromise in the Processing System Intrusion as being eligible for Visa s Account Data Compromise Recovery and Data Compromise Recovery Solution processes, which processes could result in Visa s seeking to recover from our sponsor banks (and our sponsor banks in turn seeking to recover from us) amounts in respect of fraud losses and operating expenses that Visa believes Visa issuers to have incurred by reason of the Processing System Intrusion.

While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claims as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact our results of operations, financial condition and cash flow. It is also possible that the publicity surrounding the Processing System Intrusion and the efforts of our competitors to capitalize on the Processing System Intrusion could have a material adverse impact on our ability to obtain new merchant customers and retain existing merchant customers which, in turn, could have a material adverse impact on our results of operations and financial condition.

Although we have insurance that we believe may cover some of the costs and losses that we may incur in connection with the above-described pending and potential lawsuits, inquiries, investigations and claims, we cannot now confirm that such coverage will, in fact, be provided or the extent of such coverage, if it is provided.

It is also possible that the publicity surrounding the Processing System Intrusion and the efforts of our competitors to capitalize on the Processing System Intrusion could have a material adverse impact on our ability to obtain new merchant customers and retain existing merchant customers which, in turn, could have a material adverse impact on our results of operations and financial condition.

Payment Processing Industry Overview

The payment processing industry provides merchants with credit, debit, gift and loyalty card and other payment processing services, along with related information services. The industry continues to grow as a result of wider merchant acceptance, increased consumer use of bank cards and advances in payment processing and telecommunications technology. According to The Nilson Report, total expenditures for all card type transactions by U.S. consumers were $3.3 trillion in 2007, and are expected to grow to $4.8 trillion by 2012.

From 2002 to 2007, the compound annual growth rate of card payments was 7%, and this rate is expected to increase to 8% for 2008 to 2012. The proliferation of bank cards has made the acceptance of bank card payments a virtual necessity for many businesses, regardless of size, in order to remain competitive. This use of bank cards, enhanced technology initiatives, efficiencies derived from economies of scale and the availability of more sophisticated products and services to all market segments has led to a highly competitive and specialized industry.

Segmentation of Merchant Service Providers

The payment processing industry is dominated by a small number of large, fully-integrated payment processors that sell directly to, and handle the processing needs of, the nation s largest merchants. Large national merchants (i.e., those with multiple locations and high volumes of bank card transactions) typically demand and receive the full range of payment processing services at low per-transaction costs.

Payment processing services are generally sold to the SME merchant market segment through banks and Independent Sales Organizations that generally procure most of the payment processing services they offer from large payment processors. It is difficult, however, for banks and Independent Sales Organizations to customize payment processing services for the SME merchant on a cost-effective basis or to provide sophisticated value-added services. Accordingly, services to the SME merchant market segment historically have been characterized by basic payment processing without the availability of the more customized and sophisticated processing, information-based services or customer service that is offered to large merchants. The continued growth in bank card transactions is expected to cause SME merchants to increasingly value sophisticated payment processing and information services similar to those provided to large merchants.

The following table sets forth the typical range of services provided directly (in contrast to using outsourced providers) by fully integrated transaction processors, traditional Independent Sales Organizations and us.

(a) HPS Exchange: 84% of our bank card merchants
Passport: 98% of our bank card merchants

We believe that the card-based payment processing industry will continue to benefit from the following trends:

Growth in Card Transactions

The proliferation in the uses and types of cards, including in particular debit and prepaid cards, the rapid growth of the Internet, significant technological advances in payment processing and financial incentives offered by issuers have contributed greatly to wider merchant acceptance and increased consumer use of such cards. The following chart illustrates the growth for card transactions for the periods indicated.

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Source: The Nilson Report. Card purchase volume includes VISA / MasterCard (debit and credit), American Express, Discover and Diners Club.

Note: Percentages inside bar represent year-over-year growth.

According to The Nilson Report and the New York State Forum for Information Resource Management, sources of increased bank card payment volume include:

- increasing acceptance of electronic payments by merchants who previously did not do so, such as quick service restaurants, government agencies and businesses that provide goods and services to other businesses;

- increasing consumer acceptance of alternative forms of electronic payments, as demonstrated by the dramatic growth of debit cards, electronic benefit transfer, and prepaid and gift cards; and

- continued displacement of checks with the use of cards and other methods of payment, including electronic, at the point of sale, as shown below.

Source: The Nilson Report

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Technology

At present, many large payment processors provide customer service and applications via legacy systems that are difficult and costly to alter or otherwise customize. In contrast to these systems, recent advances in scalable and networked computer systems, and relational database management systems, provide payment processors with the opportunity to deploy less costly technology that has improved flexibility and responsiveness. In addition, the use of fiber optic cables and advanced switching technology in telecommunications networks and competition among long-distance carriers, and the dramatic increase in merchants use of the Internet to process their transactions, further enhance the ability of payment processors to provide faster and more reliable service at lower per-transaction costs than previously possible.

Advances in personal computers and point-of-sale terminal technology, including integrated cash registers and networked systems, have increasingly allowed access to a greater array of sophisticated services at the point of sale and have contributed to the demand for such services. These trends have created the opportunity for payment processors to leverage technology by developing business management and other software application products and services.

Consolidation

The payment processing industry has undergone significant consolidation. The costs to convert from paper to electronic processing, merchant requirements for improved customer service, the risk of merchant fraud, and the demand for additional customer applications have made it difficult for community and regional banks to remain competitive in the merchant acquiring industry. Many of these providers are unwilling or unable to invest the capital required to meet these evolving demands, and have steadily exited the payment processing business or otherwise found partners to provide payment processing for their customers. Despite this consolidation, the industry remains fragmented with respect to the number of entities selling payment processing services, particularly to SME merchants.

Our Competitive Strengths

We believe our competitive strengths related to Bank Card Payment Processing include the following:

Large, Experienced, Efficient, Direct Sales Force

While many of our competitors rely on Independent Sales Organizations that often generate merchant accounts for multiple payment processing companies simultaneously, we market our services throughout the United States through our direct sales team of 1,725 Relationship Managers, Account Managers and sales managers who work exclusively for us. Our Relationship Managers have local merchant relationships and industry-specific knowledge that allow them to effectively compete for merchants. Our Relationship Managers are compensated solely on commissions, receiving signing bonuses and ongoing residual commissions for generating new merchant accounts. These commissions are based upon the gross margin we estimate that we will receive from their merchants, calculated by deducting interchange fees, dues, assessments and fees and all of our costs incurred in underwriting, processing, servicing and managing the risk of the account from gross processing revenue. Our Relationship Managers have considerable latitude in pricing a new account, but we believe that the shared economics motivate them to sign attractively priced contracts with merchants generating significant bank card processing volume. The residual commissions our Relationship Managers receive from their merchant accounts give them an incentive to maintain a continuing dialogue and servicing presence with their merchants; these relationships are also supported by our 293 Account Managers, who are focused on installing new merchants and responding to any ongoing servicing needs. We believe that our compensation structure is atypical in our industry and contributes to building profitable, long-term relationships with our merchants. Our sales compensation structure and marketing activities focus on recruiting and supporting our direct sales force, and we believe that the significant growth we have achieved in our merchant portfolio and bank card processing volume are directly attributable to these efforts.

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Recurring and Predictable Revenue

We generate recurring revenue through our payment processing services. Our revenue is recurring in nature because we typically enter into three-year service contracts that require minimum volume commitments from our merchants to qualify for the agreed-upon pricing. Our recurring revenue grows as the number of transactions or dollar volume processed for a merchant increases or as our merchant count increases. In 2008, approximately 87% of our bank card processing volume came from merchants we installed in 2007 and earlier.

Internal Growth

While many of our competitors in the payment processing industry had relied on acquisitions to expand their operations and improve their profitability, from 2001 through 2007 we grew our business primarily through internal expansion by generating new merchant contracts submitted by our own direct sales force. Every merchant we processed during that time was originally underwritten by our staff, and we have substantial experience responding to their processing needs and the risks associated with them. We believe this both enhances our merchant retention and reduces our risks. We believe that internally generated merchant contracts generally are of a higher quality and generally are more predictable than contracts acquired from third parties, and the costs associated with such contracts are lower than the costs associated with contracts generally acquired from third parties.

While we continue to pursue internal growth, we were able to take advantage of acquisition opportunities in 2008 and expand into other markets that we previously did not have the technical capabilities to support. See Pursue Strategic Acquisitions and Our Services and Products later in this section for descriptions of these acquisitions.

Strong Position and Substantial Experience in Our Target Markets

As of December 31, 2008, we were providing payment processing services to approximately 168,850 active SMEs located across the United States. We believe our understanding of the needs of SMEs and the risks inherent in doing business with them, combined with our efficient direct sales force, provides us with a competitive advantage over larger service providers that access this market segment indirectly. We also believe that we have a competitive advantage over service providers of a similar or smaller size that may lack our extensive experience and resources and which do not benefit from the economies of scale that we have achieved.

Industry Expertise

Historically, we have focused our sales efforts on SME merchants who have certain key attributes and on industries in which we believe our direct sales model is most effective and the risks associated with bank card processing are relatively low. These attributes include owners who are typically on location, interact with customers in person, value a local sales and servicing presence and often consult with trade associations and other civic groups to help make purchasing decisions.

To further promote our products and services, we have entered into sponsoring arrangements with various trade associations, with an emphasis on state restaurant and hospitality groups. We believe that these sponsorships have enabled us to gain exposure and credibility within the restaurant industry and have provided us with opportunities to market our products to new merchants. In December 2008, the restaurant industry represented approximately 37.5% of our SME bank card processing volume and 52.1% of our SME transactions. In December 2007 and December 2006, the restaurant industry represented approximately 38.8% and 40.3% of our bank card processing volume and 53.3% and 54.8% of our transactions, respectively. We believe that the restaurant industry will remain an area of focus, though its growth will likely approximate the growth in the overall portfolio. Restaurants represent an attractive segment for us: according to a report by the National Restaurant Association, restaurant industry sales are expected to reach approximately $566 billion in 2009, which would represent a 2.5% increase over projected industry sales for 2008 and the eighteenth consecutive year of growth. The projected restaurant industry growth for 2009 is in spite of a challenging economy and this steady growth profile, combined with the industry s low seasonality, makes restaurant merchant bank card processing volume very stable and predictable. In addition, the incidence of chargebacks is very low among

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restaurants, as the service typically is provided before the card is used. Our industry focus not only differentiates us from other payment processors, but also allows us to forge relationships with key trade associations that attract merchants to our business. Our industry focus also allows us to better understand a merchant s needs and tailor our services accordingly.

Although we have historically focused significant sales and marketing efforts on the restaurant industry, our SME merchant base also includes a broad range of brick and mortar retailers, lodging establishments, automotive repair shops, convenience and liquor stores and professional service providers. See Our Merchant Base for detail on December 2008 bank card processing volume by merchant category.

Our historical focus on SME merchants has diversified our merchant portfolio and we believe has reduced the risks associated with revenue concentration. In 2008, no single SME merchant represented more than 0.56% of our total bank card processing volume. In 2007 and 2006, no single merchant represented more than 0.44% and 0.26% of our total bank card processing volume, respectively.

Our May 2008 acquisition of Network Services has further diversified our total merchant portfolio adding a substantial base of large national merchants, primarily in the petroleum industry.

Merchant Focused Culture

We have built a corporate culture and established practices that we believe improve the quality of services and products we provide to our merchants. This culture spans from our sales force, which maintains a local market presence to provide rapid, personalized customer service, through our service center which is segmented into regionalized teams to optimize responsiveness, and to our technology organization, which has developed a customer management interface and information system that alerts our Relationship Managers to any problems a merchant has reported and provides them with detailed information on the merchants in their portfolio. Additionally, we believe that we are one of the few companies that discloses and adheres to our pricing policies to merchants. Visa and MasterCard alter their interchange and other fees once or twice per year; we believe that we are one of the few companies that does not use such adjustments to increase our own margins. We think this is the best approach to building long-term merchant relationships. During 2006, we developed and endorsed The Merchant Bill of Rights, an advocacy initiative that details ten principles we believe should characterize all merchants processing relationships. The Merchant Bill of Rights allows our sales team to differentiate our approach to bank card processing from alternative approaches, and we believe that a focus on these principles by our merchants will enhance our merchant relationships. We believe that our culture and practices allow us to maintain strong merchant relationships and differentiate ourselves from our competitors in obtaining new merchants.

Scalable Operating Structure

Our scalable operating structure allows us to expand our operations without proportionally increasing our fixed and semi-fixed support costs. In addition, our technology platform, including both HPS Exchange and Passport, was designed with the flexibility to support significant growth and drive economies of scale with relatively low incremental costs. Most of our operating costs are related to the number of individuals we employ. We have in the past used, and expect in the future to use, technology to leverage our personnel, which should cause our personnel costs to increase at a slower rate than our bank card processing volume.

Advanced Technology

We employ information technology systems which use the Internet to improve management reporting, enrollment processes, customer service, sales management, productivity, merchant reporting and problem resolution.

In 2001, we began providing authorization and data capture services to our merchants through our internally-developed front-end processing system, HPS Exchange. This system incorporates real time reporting tools through, and interactive point-of-sale database maintenance via, the Internet. These tools enable merchants, and our employees, to change the messages on credit card receipts and to view sale and return transactions entered into the point-of-sale device with a few second delay on any computer linked to the Internet. During the years ended December 31, 2008, 2007 and 2006, approximately 83%, 75% and 64%, respectively, of our SME transactions were processed through HPS Exchange.

In 2005, we began providing clearing, settlement and merchant accounting services through our own internally developed back-end processing system, Passport. Passport enables us to customize these services to the needs of our Relationship Managers and merchants. We completed converting substantially all of our SME bank card merchants to Passport during the second quarter of 2006. At December 31, 2008 and 2007, approximately 98% of total SME bank card merchants were processing on Passport. At December 31, 2008 and 2007, our internally developed systems have been providing substantially all aspects of a merchant s processing needs for most of our SME merchants.

HPS Exchange, Passport and our other technology efforts have contributed to a reduction of our per-transaction processing costs and to a reduction of our costs of services as a percentage of our revenue. Many existing merchants will remain on TSYS Acquiring Solutions (TSYS) systems and those of our other third-party processors for front-end services for the duration of their relationship with us. However, we intend to install 85% to 95% of our new merchants on HPS Exchange, and to convert to HPS Exchange as many merchants on third party front ends as possible. Our Internet-based systems allow all of our merchant relationships to be documented and monitored in real time, which maximizes management information and customer service responsiveness. We believe that these systems help attract both new merchants and Relationship Managers and provide us with a competitive advantage over many of our competitors who rely on less flexible legacy systems.

Comprehensive Underwriting and Risk Management System

Through our experience in assessing risks associated with providing payment processing services to small- and medium-size merchants, we have developed procedures and systems that provide risk management and fraud prevention solutions designed to minimize losses. Our underwriting processes help us to evaluate merchant applications and balance the risks of accepting a merchant against the benefit of the bank card processing volume we anticipate the merchant will generate. We believe our systems and procedures enable us to identify potentially fraudulent activity and other questionable business practices quickly, thereby minimizing both our losses and those of our merchants. As evidence of our ability to manage these risks, we experienced losses of no more than 0.88 basis points of SME bank card processing volume for each of the years ended December 31, 2008, 2007 and 2006, which we believe is significantly lower than industry norms. The risks discussed in this paragraph are not the types of fraudulent card activity that has apparently resulted from the Processing System Intrusion.

Proven Management Team

We have a strong senior management team, each with at least a decade of financial services and payment processing experience. Our Chief Executive Officer, Robert O. Carr, was a founding member of the Electronic Transactions Association, the leading trade association of the bank card acquiring industry. Our management team has developed extensive contacts in the industry and with banks and value-added resellers. Our sales leaders have all sold merchant services for us prior to assuming management roles, and many have been with us throughout most of our first decade of existence. We believe that the strength and experience of our management team has helped us to attract additional sales professionals and add additional merchants, thereby contributing significantly to our growth.

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Our Strategy

Our current growth strategy is to increase our market share as a provider of payment processing services to merchants in the United States and Canada. We believe that the increasing use of bank cards, combined with our sales and marketing approaches, will continue to present us with significant growth opportunities. Additionally, we intend to continue growing our payroll processing business, and enhance our other products such as Electronic Check Processing, Micro Payments and Campus Solutions. Key elements of our strategy include:

Expand Our Direct Sales Force

Unlike many of our competitors who rely on Independent Sales Organizations or salaried salespeople and telemarketers, we have built a direct, commission-only sales force. We have grown our sales force from 952 Relationship Managers as of December 31, 2006, to 1,117 and 1,166 Relationship Managers as of December 31, 2007 and 2008, respectively. We anticipate continued growth in our sales force in the next few years in order to increase our share of our target markets, and have targeted achieving a level of 2,000 Relationship Managers within the next three to four years. Our sales model divides the United States into four primary markets overseen by Executive Directors of Sales, and further into 17 primary geographic regions overseen by Regional Directors. The Regional Directors are primarily responsible for hiring Relationship Managers and increasing the number of installed merchants in their territory. Our Regional Directors compensation is directly tied to the compensation of the Relationship Managers in their territory, providing a significant incentive for them to grow the number and productivity of Relationship Managers in their territory.

Further Penetrate Existing Target Markets and Enter Into New Markets

We believe that we have an opportunity to grow our business by further penetrating the SME market through our direct sales force and alliances with local trade organizations, banks and value-added resellers. During 2007, according to The Nilson Report, we processed approximately 2.4% of the dollar volume of all Visa and MasterCard transactions in the United States, up from approximately 2.3% in 2006, 2.2% in 2005, 1.8% in 2004 and 1.4% in 2003. In December 2008, the restaurant industry represented approximately 37.5% of our bank card processing volume and 52.1% of our transactions. Our bank card merchant base also includes a wide range of merchants, including brick and mortar retailers, lodging establishments, automotive repair shops, convenience and liquor stores and professional service providers. We believe that our sales model, combined with our community-based strategy that involves our Relationship Managers building relationships with various trade groups and other associations in their territory, will enable our Relationship Managers to continuously add new merchants. We intend to further expand our bank card processing sales efforts into new target markets with relatively low risk characteristics, including markets that have not traditionally accepted electronic payment methods. These markets include governments, schools and the business-to-business market. In addition, the scale economies we have achieved by converting to our own platforms now allows us to profitably compete for the business of larger merchants, and we are now targeting merchants with annual processing volumes of up to $1 billion, compared to our prior maximum of $50-$100 million in processing volume.

Expand Our Services and Product Offerings

In recent years, we have focused on offering a broad set of payment-related products to our customers. In addition to payroll processing services (see Our Services and Products Payroll Services for a description of these services), our current product offerings include check processing services that allow merchants to computerize paper checks, and prepaid, gift and loyalty card product solutions. In 2006, we added electronic check services (see Our Services and Products Electronic Check Processing Services for a description of these services) and micropayment systems (see Our Services and Products Micropayment Systems for a description of these services) to our products. In 2007, we added Campus Solutions (see Our Services and Products Campus Solutions for a description of these services) to our products. In 2008, we added Collective Point of Sale Solutions Ltd., Network Services and Chockstone, Inc. (see Our Services and Products Large National Merchant Bank Card processing, Collective Point of Sale Solutions Ltd., and Chockstone for more information).

We also distribute products that will help our merchants reduce their costs and grow their businesses, such as age verification services that track driver s license data to verify an individual s age and identity. We may develop new products and services internally, enter into arrangements with third-party providers of these products or selectively acquire new technology and products. Many of these new service offerings are designed to work on the same point-of-sale devices that are currently in use, enabling merchants to purchase a greater volume of their services from us and eliminating their need to purchase additional hardware. We believe that these new products and services will enable us to leverage our existing infrastructure and create opportunities to cross-sell our products and services among our various merchant bases, as well as enhance merchant retention and increase processing revenue.

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Leverage Our Technology

We intend to continue to leverage our technology to increase our operating efficiencies and provide real-time processing and account data to our merchants, Relationship Managers, Account Managers and customer service staff. Since our inception, we have been developing Internet-based systems to improve and streamline our information systems, including detailed customer-use reporting, management reporting, enrollment, customer service, sales management and risk management reporting tools. We are seeking to develop a significant initiative that will allow merchants to integrate their payment processing data into any of the major small business accounting software packages. We have also made significant investments in our payment processing capabilities, which we believe will allow us to offer a differentiated payment processing product that is faster and less expensive than many competing products.

Enhance Merchant Retention

By providing our merchants with a consistently high level of service and support, we strive to enhance merchant retention. While increased bank card use helps maintain our stable and recurring revenue base, we recognize that our ability to maintain strong merchant relationships is important to our continued growth. We believe that our practice of fully disclosing our pricing policies to our merchants creates goodwill. For example, in 2003, we believe we were one of the few companies that passed along to small- and medium-sized customers a reduction in debit interchange fees that resulted from the settlement of the so-called Wal-Mart lawsuit against Visa and MasterCard. During 2006, we developed and endorsed The Merchant Bill of Rights, an advocacy initiative that details ten principles we believe should characterize all merchants processing relationships. The Merchant Bill of Rights allows our sales team to differentiate our approach to bank card processing from alternative approaches, and we believe that a focus on these principles by our merchants will enhance our merchant relationships.

As discussed in Sales, we have built a group of Account Managers who are teamed with Relationship Managers and handle field servicing responsibilities. We have developed a customer management interface that alerts our Relationship Managers and Account Managers to any problems an SME merchant has reported and provides them with detailed information on the merchants in their portfolio. In addition, we believe that the development of a more flexible back-end processing capability, such as Passport provides, will allow us to tailor our services to the needs of our sales force and merchants, which we believe will further enhance merchant retention. Passport will also allow us to enhance the information available to our merchants, and to offer new services to them.

Pursue Strategic Acquisitions

Although we intend to continue to pursue growth through the efforts of our direct sales force, we may also expand our merchant base or gain access to other target markets by acquiring complementary businesses, products or technologies, including other providers of payment processing. Our 2006 acquisition of Debitek, Inc. and 2007 acquisition of General Meters Corp, are examples of expanding by acquiring complementary businesses. In 2008, we acquired Collective Point of Sale Solutions Ltd., a Canadian provider of payment processing services and secure point-of-sale solutions that provided us with an entrance into the Canadian credit and debit card processing market. We are now able to service merchants that have locations in both the United States and Canada. In 2008, we also acquired the Network Services unit of Alliance Data Systems that handles a wide range of payment transactions for its predominantly petroleum customer base. Our latest acquisition of Chockstone in 2008 provided for expansion into the loyalty marketing and gift card solutions market.

Our Services and Products

SME Merchant Bank Card Payment Processing

We derive the majority of our SME processing revenues from fee income relating to Visa and MasterCard payment processing, which is primarily comprised of a percentage of the dollar amount of each transaction we process, as well as a flat fee per transaction. The percentage we charge is typically a fixed margin over interchange, which is the percentage set by Visa and MasterCard depending on the type of card used and the way the transaction is handled by the merchant. On average, the gross revenue we generate from processing a Visa or MasterCard transaction equals approximately $2.47 for every $100 we process. We also receive fees from American Express, Discover, and JCB for facilitating their transactions with our SME merchants. The terms of our new American Express agreement have a compensation model which provides us percentage-based residual on the American Express volume we process, plus fees for every transaction we process. Under our new agreement with Discover, which is expected to be implemented in the second quarter of 2009, our revenue model will be similar to Visa and MasterCard.

We receive revenues as compensation for providing bank card payment processing services to merchants, including merchant set-up and training, transaction authorization and electronic draft capture, clearing and settlement, merchant accounting, merchant support and chargeback resolution. In 2005, we began providing clearing, settlement and accounting services through Passport, our own internally developed back-end processing system. Passport enables us to customize these services to the needs of our Relationship Managers and merchants. At December 31, 2008 and 2007, approximately 98% of our SME bank card merchants were processing on Passport. In addition, we sell and rent point-of-sale devices and supplies and provide additional services to our merchants, such as gift and loyalty programs, paper check authorization and chargeback processing. These payment-related services and products are described in more detail below:

Merchant Set-up and Training After we establish a contract with a merchant, we create the software configuration that is downloaded to the merchant s existing, newly purchased or rented point-of-sale terminal, cash register or computer. This configuration includes the merchant identification number, which allows the merchant to accept Visa and MasterCard as well as any other cards, such as American Express, Discover and JCB, provided for in the contract. The configuration might also accommodate check verification, gift and loyalty programs and allow the terminal or computer to communicate with a pin-pad or other device. Once the download has been completed by the Relationship Manager or Account Manager, we conduct a training session on use of the system. We also offer our merchants flexible low-cost financing options for point-of-sale terminals, including installment sale and monthly rental programs.

Authorization and Draft Capture We provide electronic payment authorization and draft capture services for all major bank cards. Authorization generally involves approving a cardholder s purchase at the point of sale after verifying that the bank card is not lost or stolen and that the purchase amount is within the cardholder s credit or account limit. The electronic authorization process for a bank card transaction begins when the merchant swipes the card through its point-of-sale terminal and enters the dollar amount of the purchase. After capturing the data, the point-of-sale terminal transmits the authorization request through HPS Exchange or the third-party processor to the card-issuing bank for authorization. The transaction is approved or declined by the card-issuing bank and the response is transmitted back through HPS Exchange or the third-party processor to the merchant. At the end of each day, and, in certain cases, more frequently, the merchant will batch out a group of authorized transactions, transmitting them through us to Visa and MasterCard for payment.

We introduced HPS Exchange, our internally developed front-end processing system, in August 2001. During the years ended December 31, 2008, 2007 and 2006, approximately 83%, 75% and 64%, respectively, of our SME transactions were processed through HPS Exchange. The remainder of our front-end processing is outsourced to third-party processors, primarily TSYS Acquiring Solutions, but also including First Data Corporation, Chase Paymentech Solutions and Global Payments Inc. Although we will continue to install new SME merchants on TSYS and other third-party processors systems, we anticipate that the percentage of SME transactions that are outsourced to third-party processors will decline as we install a high percentage of new merchants on HPS Exchange, and convert merchants on third party systems to HPS Exchange.

Clearing and Settlement Clearing and settlement processes, along with Merchant Accounting, represent the back-end of a transaction. Once a transaction has been batched out for payment, the payment processor transfers the merchant data to Visa or MasterCard who then collect funds from the card issuing banks. This is typically referred to as clearing. After a transaction has been cleared, the transaction is settled by Visa or MasterCard by payment of funds to the payment processor s sponsor bank the next day. The payment processor creates an electronic payment file in ACH format for that day s cleared activity and sends the ACH file to its sponsor bank. The ACH payments system generates a credit to the merchants bank accounts for the value of the file. The merchant thereby receives payment for the value of the purchased goods or services, generally two business days after the sale. Under the terms of the new Agreement with American Express and Discover, the process will be substantially similar to the Visa and MasterCard process, and the merchant will receive one deposit for all cards accepted, in contrast to the existing arrangement, where an acceptor of Visa and MasterCard, American Express and Discover will receive three deposits.

Passport, our internally developed back-end system, enables us to customize these services to the needs of our merchants and Relationship Managers. For example, Passport enables us to provide Next Day Funding to our SME merchants who have banking relationships with certain banks. In January 2007 we commenced Next Day Funding for merchants who maintain a deposit relationship with TD BankNorth (acquired Commerce Bank, N.A.), in July 2007 we commenced Next Day Funding for merchants who maintain a deposit relationship with Bremer Bank, in December 2007 we commenced Next Day Funding for merchants who maintain a deposit relationship with Heartland Bank (an unrelated third party), in September 2008, we commenced Next Day Funding for merchants who maintain a deposit relationship with Central Pacific Bank, and in December 2008, we commenced Next Day Funding for merchants who maintain a deposit relationship with Gateway Bank. Under Next Day Funding, these merchants are paid for their transactions one day earlier than possible when we were processing on a third party back-end platform.

Merchant Accounting Utilizing Passport, we organize our SME merchants transaction data into various files for merchant accounting and billing purposes. We send our SME merchants detailed monthly statements itemizing daily deposits and fees, and summarizing activity by bank card type. These detailed statements allow our SME merchants to monitor sales performance, control expenses, disseminate information and track profitability. We also provide information related to exception item processing and various other items of information, such as volume, discounts, chargebacks, interchange qualification levels and funds held for reserves to help them track their account activity. SME merchants may access this archived information through our customer service representatives or online through our internet-based customer service reporting system.

Merchant Support Services We provide merchants with ongoing service and support for their processing needs. Customer service and support includes answering billing questions, responding to requests for supplies, resolving failed payment transactions, troubleshooting and repair of equipment, educating merchants on Visa and MasterCard compliance and assisting merchants with pricing changes and purchases of additional products and services. We maintain a toll-free help-line 24 hours a day, seven days a week, which is staffed by our customer service representatives and during 2008 answered an average of approximately 110,000 customer calls per month. The information access and retrieval capabilities of our intranet-based systems provide our customer service representatives prompt access to merchant account information and call history. This data allows them to quickly respond to inquiries relating to fees, charges and funding of accounts, as well as technical issues.

Chargeback Services In the event of a billing dispute between a cardholder and a merchant, we assist the merchant in investigating and resolving the dispute as quickly and accurately as possible with card issuers or the bank card networks, which determine the outcome of the dispute. In most cases, before we process a debit to a merchant s account for the chargeback, we offer the merchant the opportunity to demonstrate to the bank card network or the card issuer that the transaction was valid. If the merchant is unable to demonstrate that the transaction was valid and the dispute is resolved by the bank card network or the card issuer in favor of the cardholder, the transaction is charged back to the merchant. After a merchant incurs three chargebacks in a year, we typically charge our merchants a $25 fee for each subsequent chargeback they incur.

Large National Merchant Bank Card Payment Processing

In May 2008, we acquired Network Services from Alliance Data Systems Corporation. Network Services is a provider of payment processing solutions, serving large national merchants in a variety of industries such as petroleum, convenience store, parking and retail. Services include payment processing, prepaid services, POS terminal, helpdesk services and merchant bank card services. This acquisition provides us with a substantial portfolio of merchants in the petroleum industry segment. In addition to Visa and MasterCard transactions, Network Services handles a wide range of payment transactions for its predominantly petroleum customer base. Network Services continues to process authorizations of large national merchants transactions through Alliance Data Systems Corporation and processes settlement of large national merchant transactions through Fifth Third Bank.

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Our bank card processing revenue from large national merchants is recurring in nature. In contrast to SME merchants, our processing revenues from large national merchants generally consist of a flat fee per transaction and thus are primarily driven by the number of transactions we process (whether settled, or only authorized), not processing volume.

Authorization and Draft Capture Network Services provides electronic payment authorization and draft capture for all major bank cards, client private label cards and fleet cards. Authorization generally involves approving a cardholder s purchase at the point of sale after verifying that the card is not lost or stolen and that the purchase amount is within the cardholder s credit or account limit. The electronic authorization process for a card transaction begins when the merchant swipes the card through its point-of-sale terminal and enters the dollar amount of the purchase. Network Services offers two front-end processing hosts, VAPS and NWS. After capturing the data, the point-of-sale terminal transmits the authorization request through the VAPS or NWS hosts or the third-party processor to the card-issuing entity for authorization. The transaction is approved or declined by the card-issuing entity and the response is transmitted back through the VAPS/NWS host or the third-party processor to the merchant. At the end of each day, and, in certain cases, more frequently, the merchant will batch out a group of authorized transactions, transmitting them through us to Visa and MasterCard for payment.

VAPS and NWS provide distinct functionality and processing options for our large corporate customers. These hosts provide efficient transaction payment processing and real-time authorizations using fully redundant routing paths. Our merchants can rely on quick response times and high availability. We maintain two redundant data centers for our large national merchant transaction processing. If one site fails, the other site is capable of supporting 100% of the workload so this assures uninterrupted transaction processing. Each data center maintains direct connections to Visa, MasterCard, Discover, Fiserv and American Express. The Fiserv connection is our gateway for debit and EBT processing.

Clearing and Settlement Clearing and settlement processes represent the back-end of a transaction. Once a transaction has been batched out for payment, we transfer the completed transaction detail file to Fifth Third Bank, which is our outsourced processor for clearing and settlement. During the clearing process, the transaction detail is split out and sent to Visa or MasterCard who then collect funds from the card issuing banks. After a transaction has been cleared, the transaction is settled by Visa or MasterCard by payment of funds to our sponsor bank, Sun Trust, the next day. HPS then creates an electronic payment file in ACH format for that day s cleared activity and sends the ACH file to its sponsor bank. The ACH payments system generates a credit to the merchants bank accounts for the value of the file.

We provide deposit information to our large national merchants each day via our Internet-based settlement reporting system. Deposits are broken out by card type and show gross sales, less chargebacks, interchange, and miscellaneous adjustments.

Merchant Boarding The Merchant Support area supports new site setup requests, changes to existing locations, and any deletions. In addition, we provide large national merchants with a web-based system, Prometheus, that allows merchants to manage their sites data in the mainframe database after their initial setup has been completed. The benefits of Prometheus include reducing complexity, decreasing delay in boarding, allowing merchants to control their data entry, and minimizing the learning curve and data entry. The only requirements are Windows and a user ID. Boarding merchants using Prometheus access allows direct connect into Prometheus through a TCP/IP connection.

Merchant Reporting We provide three types of reporting options to large national merchants.

Data Warehouse Merchants interested in flexible reporting alternatives have been satisfied with our Data Warehouse. A data warehouse is an architecture that consists of various technologies, which include relational and multi-dimensional databases, file servers, extraction and transformation programs, user query and reporting tools, and more. Other than a suitable web browser, no additional software is required to access Data Warehouse. Users can access Data Warehouse from any location anywhere and at any time from any PC that has access to the Internet.

Doc Web Provides multiple reports with multiple filtering options. There is no investment in new hardware or software required to view reports only a Web browser that supports HTML. Availability for filtered reports for quick adaptation to changing market conditions is available to merchants 24 hours a day, seven days a week.

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Direct Settlement Reporting   Direct is a java based application that links the merchant directly with the settlement processing systems for viewing transaction and chargeback data.

Help Desk Services   The Help Desk manages merchant trouble ticket initiation, escalation and resolution. The Help Desk also provides vendor and technician support, password resets, completes supply orders, and special projects.

Our Help Desk s operating philosophy focuses on providing the highest level of quality support to our customers. To provide this high level of support, we train our Help Desk agents to focus on resolving the caller s issue or concern during the first call. As a result, our agents are not limited by restrictive and unproductive talk time limits so that they can focus on delivering a working solution to the caller. Our merchant Help Desk is open 24 hours a day, seven days a week with full Help Desk support.

The Help Desk provides three possible levels of support on all point-of-sale (POS) solutions that are certified to process on our network:

1st level support includes full support of all of the POS functions, downloading of the POS, and replacement of the POS (when applicable), as well as all of the support functions provided at 2nd and 3rd level.

2nd level support includes full support of the communication between the POS and the HPS network and minor support of the POS functions, mostly limited to those functions related to communication or network identification, as well as any support provided at 3rd level.

3rd level support includes research and analysis of data being sent by the POS to the HPS network.

Chargeback Services   Visa, MasterCard and Discover chargebacks for large national merchants are sent to Fifth Third Bank as part of the daily interchange confirmation files from the card networks. Fifth Third provides a number of reports that help the merchant manage chargebacks. All merchants utilizing settlement services have access to these reports. Fifth Third Bank processes chargebacks in compliance with card network rules, determines the validity of the chargeback, and to the extent possible, resolves the chargeback without involving the merchant. Merchants are notified of chargebacks and requested to submit any information regarding the transaction within 15 days to Fifth Third Bank to facilitate resolution of the chargeback. During this time, the merchant is not debited for a chargeback. If Fifth Third Bank does not receive the required information within the timeframe allowed, the merchant will be debited for the chargeback.

Collective Point of Sale Solutions Ltd.

In March 2008, we acquired a majority interest in Collective Point of Sale Solutions Ltd. (CPOS), a Canadian provider of bank card payment processing services and secure point-of-sale solutions. This acquisition provides us with an entrance into the Canadian credit and debit bank card processing market. We are now able to service merchants that have locations in both the United States and Canada. CPOS employs call center and field sales personnel to sign new processing relationships.

Payroll Processing Services

Through our wholly-owned subsidiary, Heartland Payroll Company, we operate a full-service nationwide payroll processing service. Our payroll services include check printing, direct deposit, related federal, state and local tax deposits and providing accounting documentation. In addition, we offer a   PayAdvantage   card, which provides employees the opportunity to have all, or a portion, of their payroll deposited to a Visa debit card account. In order to improve operating efficiencies and ease-of-use for our customers and to decrease our own processing costs, we offer electronic and paperless payroll processing that allows an employer to submit its periodic payroll information to us via the Internet or through a personal computer-based, direct-connect option. If a customer chooses either of these online options, all reports and interactions between the employer and us can be managed electronically, eliminating the need for cumbersome paperwork. Approximately 50% of our payroll customers currently submit their information electronically. However, if a customer chooses not to submit their payroll data online, they may submit such information via phone or facsimile. Regardless of input method, clients can choose to have Heartland print and ship their payroll package or to receive this information electronically. As of December 31, 2008, 2007 and 2006, we provided payroll processing services to 7,738, 6,209 and 4,216 customers, respectively.

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Electronic Check Processing Services

We offer electronic check processing services, which we refer to as Express Funds, to merchants. Express Funds allows our merchants to quickly and easily scan all of their checks at their place of business, using a scanner sold or rented by us, to capture the image of the front and back of the check, store those images, and transmit the image to us for clearing through banking channels. Our merchants do not have to change their local banking arrangements. We clear checks on their behalf, and deposit collected funds at their own bank as soon as the next banking day. Express Funds also performs security checks and ensures that the image file is balanced before it is sent to us. Merchants often benefit from checks clearing faster and receiving a return notification earlier. The merchant no longer has to manually prepare a deposit slip, photocopy checks, balance all deposits by store, lane, and cashier, or go to the bank to make the deposit. We also offer a late deposit deadline and comprehensive reporting on the status of all checks and deposits. We are currently enhancing this product to automatically post check activity to the merchant s small business accounting software, which we believe would represent significant improvement in work simplification, particularly for merchants with multiple deposits.

Micropayments

We began providing payment solutions within the small value transaction market in 2006. We also manufacture and sell electronic cash systems utilizing smart (chip) card and off-line magnetic stripe card technology. Our electronic cash systems serve coin-operated vending machines and cash registers within closed-loop environments, such as corporate and university food cafeterias and penitentiaries, and in multi-vendor/multi-application environments. These systems offer consumers convenient ways to either purchase or reload electronic cash cards, ways to spend the value on the card for small value purchases in both attended and unattended point of sale locations, and offer merchants financial settlement between the value (electronic cash card) issuer and the vendor/merchant who accepts the card as payment. We believe that there is increasing consumer demand for, and merchant interest in, card-based solutions for small denomination transactions, and expect to make additional investments in the future in developing solutions in this area.

Campus Solutions

We initiated our campus solutions product in 2007. Our campus solutions product establishes an open network payments solution for a campus to efficiently process electronic transactions. In addition to providing processing and tracking of electronic payments transactions, personal identification and door access (including security), and data accumulation, our campus solutions are combined with our Give Something Back Network to offer convenient financial services to the students, faculty, staff and community merchants of an educational institution. The Give Something Back Network provides an Internet and phone accessible debit account to store funds. Our campus solution product uses improved technology to replace traditional plastic identification cards with a Give Something Back Network OneCard and a contactless cell phone tag. These cards and tags can be used to access meal plans, enter buildings, and make cashless payments at campus stores, vending machines, laundry machines, copiers, and at participating merchants in the community. We also manufacture some of the equipment used in our campus solutions products.

In October 2007, we acquired the assets, business and campus customers of General Meters Corporation, a provider of multi-purpose card systems for college and university campuses. This acquisition provides us with a ready customer base of colleges and universities for our campus solutions product, as well as some of the software and systems required for a complete campus solutions product line.

Chockstone, Inc.

In November 2008, we acquired Chockstone, Inc., a provider of gift card programs and loyalty solutions with the necessary software needed to service the business. Our acquisition of this premier niche provider expands our ability to equip businesses nationwide with enhanced gift card and loyalty programs. Chockstone delivers its processing services to merchant locations through real-time communications with the merchant point-of-sale, enabling us to leverage existing installations across our merchant base. Chockstone historically focused on larger, national brands, including Subway® Restaurants and Ticketmaster Entertainment Inc.

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Sales

We sell and market our products and services to our SME merchants exclusively through our sales force. As of December 31, 2008, we employed 1,725 Relationship Managers, Account Managers and sales managers in 50 states plus the District of Columbia. We have implemented a geographic sales model that divides the United States into four primary markets overseen by Executive Directors of Sales subdivided into seventeen regions overseen by Regional Directors, who are primarily responsible for hiring Relationship Managers and increasing the number of installed merchants in their territory. Regional Directors may manage their territories through Division Managers and Territory Managers. Division Managers do not sell our products and services. Instead, their sole responsibility is to hire, train and manage Relationship Managers in their territory. In contrast, Territory Managers are Relationship Managers who are also responsible for hiring and training a small number of Relationship Managers in their territory. Our Relationship Managers employ a community-based strategy that involves cold calling, obtaining referrals from existing merchants and building relationships with various trade groups, banks and value-added resellers to create sales opportunities.

The following graphic sets forth the number of Relationship Managers, Account Managers, sales managers and other sales persons we employed by state as of December 31, 2008. Additionally, CPOS employs nine salespersons in Canada.

Our compensation structure is designed to motivate our Relationship Managers to establish profitable long-term relationships with low-risk merchants and create a predictable and recurring revenue stream. Compensation for Relationship Managers is entirely commission-based, as a percentage of the financial value of new merchant accounts installed, which are measured in terms of the gross margin we estimate we will receive from the merchant accounts installed, calculated by deducting interchange fees, dues, assessments and fees and all of our costs incurred in underwriting, processing and servicing an account from gross processing revenues. Relationship Managers are permitted to price accounts as they deem appropriate, subject to minimum and maximum gross margin guidelines. The expected volume, pricing and other relevant details are entered into an online margin calculator, which calculates the estimated annual gross margin on the account.

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We pay our Relationship Managers, Territory Managers, Division Managers, and Regional Directors a percentage of the gross margin we derive from the payments we process for the SME merchant accounts they generate and service. Typically, when a new merchant account is signed at an acceptable estimated gross margin level, the Relationship Manager will be paid a signing bonus equal to 50% of the first 12 months estimated gross margin. The Relationship Manager will also receive 15% of the gross margin generated from the merchant each month as residual commissions for as long as the merchant remains our customer, and in situations where there is no Account Manager assigned to the merchant account, 5% of gross margin is paid for the Relationship Manager s continued servicing of the account. In addition, the Division Manager will receive an amount equal to 25% of the amount paid to the Relationship Manager, and the Regional Director will receive an amount equal to 25% of the amount paid to the Division Manager. For example, if a merchant account has $1,000 of estimated annual gross margin for the first twelve months and estimated monthly gross margin of $83.33, our sales force would be compensated as follows:

Signing Bonus		
Estimated Gross Margin for first 12 months	$ 1,000	
Signing bonus paid to:		
Relationship Manager	$ 500	50.0%
Division Manager	$ 125	12.5%
Regional Director	$ 31	3.125%
Residual Commission:		
Estimated monthly Gross Margin	$ 83.33	
Monthly residual commission paid to:		
Relationship Manager	$ 12.50	15.00%
Division Manager	$ 3.12	3.75%
Regional Director	$ 0.78	0.94%

In certain cases, no signing bonus will be paid to a Relationship Manager, but the residual commission is 30% (excluding the 5% servicing fee) of the ongoing monthly gross margin generated by such merchant.

When a Relationship Manager has established merchant relationships that generate the equivalent of $10,000 of monthly gross margin, he or she will be deemed to have a vested equity interest (known as portfolio equity), and will be guaranteed the owned portion (all but the 5% servicing portion) of the ongoing monthly gross margin generated by such merchants for as long as the merchant processes with us. See Management s Discussion And Analysis of Financial Condition And Results of Operations Critical Accounting Policies Accrued Buyout Liability for more information regarding portfolio equity. At the end of the first 12 months of processing for a new merchant, we compare the actual gross margin generated from that merchant with the estimated gross margin used to calculate the signing bonus. If the merchant was more profitable than expected, we increase the signing bonus amount paid to the Relationship Manager. However, if the merchant was less profitable than anticipated, the Relationship Manager must return a pro-rata portion of his or her signing bonus to us. See Management s Discussion And Analysis of Financial Condition And Results of Operations Critical Accounting Policies Capitalized Customer Acquisition Costs for more information regarding signing bonuses.

In 2007, we established the Executive Director of Sales position to provide additional infrastructure and senior sales management support. We have four specific Executive Director territories in the United States (South East, North East, South West/Central, and West Coast / Pacific Northwest). The Executive Directors have responsibility for executing our sales strategies, and recruiting and training new sales professionals in their respective territories. We compensate our Executive Directors on a commission-only basis. Commission levels are based on the year-over-year growth rates achieved in terms of installed gross margin.

Since late 2004, we have built a group of Account Managers who are teamed with one or more Relationship Managers to handle the new merchant installation requirements, as well as other servicing responsibilities, for those Relationship Managers. The majority of the Account Manager s compensation represents a shift of the 5% servicing portion associated with the merchants he or she is servicing and is paid to

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the Account Manager. We believe that the creation of the Account Manager role allows the Relationship Managers to leverage his or her sales efforts, while allowing us to offer merchants two local relationship contacts including an Account Manager who is more attuned to the merchants service needs. At December 31, 2008 and 2007, we had 293 and 240 Account Managers, respectively.

In late 2008, we established a small team of sales professionals to directly solicit mid-market and large national accounts. At the end of 2008, this team consisted of one Senior Director of National Accounts and three national account sales representatives. The national account sales representatives include two individuals who previously held Relationship Manager positions and one individual from Network Services. The former Relationship Managers are on a commission plan that includes Signing Bonus compensation and relationship management compensation. Signing Bonuses are determined after calculating the cost and internal support requirements to support each large national account s custom needs, which is then deducted from the traditional gross margin calculations before commissions are paid. The individual from Network Services maintained the salary and bonus compensation structure that was in place at the time of the Network Services acquisition for the balance of 2008, but will convert to the commission plan that includes Signing Bonus compensation and relationship management compensation.

In addition to our commission-based compensation structure, we use various sales contests to reward strong sales performance. Sales compensation in connection with these contests includes stock options, trips and incentive points. In 2007, we implemented a points based incentive program. Under this program, we award our salespersons and sales managers specific point values for achieving exemplary year-over-year sales growth in installed gross margin and for achieving targets for multi-product sales. These points are redeemable for custom rewards, such as travel, personal goods, and business tools. We also award stock options to our sales persons and sales managers who achieve significant, targeted growth in the realized gross margin in their territory. During the years ended December 31, 2008, 2007 and 2006, our Board of Directors authorized and issued options to purchase an aggregate of 60,424, 49,233 and 112,878 shares of our common stock, respectively, to some of our sales persons and sales managers as part of these contests. Options granted in connection with these contests in 2008 represented 2.2% of the total options awarded, in 2007 represented 15.6% of the total options awarded, and in 2006 represented 53.1% of the options awarded.

Marketing

Our marketing efforts have historically focused on industry verticals and marketing partnerships. We focus our marketing efforts on industries in which we believe our direct sales model is most effective and on merchants with certain key attributes. These attributes include owners who are typically on location, interact with customers, value a local sales presence, and consult with trade associations and other civic groups to make purchasing decisions. We also determine which additional markets to enter into based on the following criteria:

- average potential customer revenue;
- number of locations to be serviced;
- underwriting risk; and
- required technological upgrades.

We have focused significantly on the hospitality industry and, in particular, independent restaurants. The number of independent restaurants to which we provide our products and services were 48,600 as of December 31, 2008 and 46,700 as of December 31, 2007. In December 2008, the restaurant industry represented approximately 37.5% of our SME bank card processing volume and 52.1% of our SME transactions. In December 2007 and December 2006, the restaurant industry represented approximately 38.8% and 40.3% of our bank card processing volume and 53.3% and 54.8% of our transactions, respectively. In addition to restaurants, our merchant base includes brick and mortar retailers, lodging establishments, automotive repair shops, convenience and liquor stores, and professional service providers.

We have historically had success in marketing our products and services through relationships with key trade associations, agent banks and value-added resellers.

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Trade Associations

As of December 31, 2008, we had preferred partner agreements with 150 trade associations, the majority of which are in the hospitality industry. Of these partnerships, 34 are state restaurant associations and another 37 are state lodging associations. Our agreements with trade associations typically include our commitment to be a member of the association, a sponsor of the association s events and an advertiser in the association s publications. In exchange for an association s recommendation of our products and services to their members, upon the installation of a new merchant that is a member of the association we pay to the trade association a portion of the signing bonus or residual payments that otherwise would be paid to the Relationship Manager responsible for that merchant. In 2008, several associations have migrated from that revenue sharing model to a business development model, under which we act as a distributor for our association partner by selling their association memberships to our prospective merchants.

Agent Banks

Many community banks find it difficult to provide their merchant servicing personnel with the training and support they need to serve their customer base, and to assume transaction risk. As a result, some of these banks enter into arrangements with payment processors to service their merchant portfolios. As of December 31, 2008, we currently provided these services to over 311 community banks in the United States. In exchange for a bank s endorsement of our products and services, upon the installation of a new merchant referred by the bank we typically pay the bank a portion of the signing bonus or residual payment that otherwise would be paid to the Relationship Manager responsible for that merchant.

Additionally, we have entered into arrangements with Heartland Bank (St. Louis, MO), Bremer Bank (St. Paul, MN), Central Pacific Bank (Honolulu, HI) and Gateway Bank (Chapel Hill, NC) providing for the conversion, in some cases, of their existing merchant processing customers onto our processing systems. In each case, these relationships are cross-referral, so that we and the banks benefit from these arrangements by gaining access to new customers. The banks retain existing deposit relationships and add new deposit relationships as new merchants are signed up. Merchants who maintain deposit relationships with these banks gain Next Day Funding for their bank card transaction processing. Under Next Day Funding, these merchants are paid for their transactions one day earlier than is typically available.

Value-Added Resellers and Third-Party Software Providers

In order to further market our products and services, we enter into arrangements with value-added resellers and third-party software developers. Value-added resellers typically sell complementary products and services such as hardware and software applications and point-of-sale hardware, software and communication network services to merchants in markets similar to ours. Our agreements with value-added resellers provide that, in exchange for their endorsement of our products and services and upon the installation of a new merchant referred by them we will pay the value-added reseller a portion of the signing bonus and residual payment that otherwise would be paid to the Relationship Manager responsible for that merchant. As we continue to expand our product offerings, we intend to introduce capabilities that will allow our systems to be compatible with those of our value-added resellers and other third-party software developers, enabling them to embed our payment modules within their systems. As of December 31, 2008, we had arrangements with over 1,400 value-added resellers and referral services providers, including agreements with many third-party developers in the hospitality industry. From time to time, we have also entered into direct alliances with original equipment manufacturers and vendors.

In 2008, in addition to the above-focused marketing efforts, we continued to enhance the visibility of The Merchant Bill of Rights, an advocacy initiative that educates business owners about the complexities and costs of card acceptance. In launching and endorsing The Merchant Bill of Rights in 2006, we committed to supporting full disclosure regarding pricing and the existence of any transaction middlemen, and for provision of dedicated customer support and high levels of security and fraud monitoring. This initiative has been very well received in the merchant community, and many organizations have endorsed its principles. We believe we are uniquely positioned to commit to such high customer service standards, and that our focus on this approach will continue fostering success at establishing a payment processing brand that is not easily duplicated by competitors using indirect sales models, or who do not match our focus.

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Relationships with Sponsors and Processors

In order to provide payment processing services for Visa and MasterCard transactions, we must be sponsored by a financial institution that is a principal member of the Visa and MasterCard networks. The sponsor bank must register us with Visa as an Independent Sales Organization and with MasterCard as a Member Service Provider. We also contract with third-party processors to provide critical payment processing services.

Sponsor Banks

Our primary sponsor bank for SME merchant processing is KeyBank, National Association, referred to as KeyBank in this document. We currently have an agreement with KeyBank to sponsor us for membership in the Visa and MasterCard networks. Under this agreement, KeyBank settles bank card transactions for our SME merchants, and also funds our merchants the portion of our daily interchange expenses that we do not fund from our own cash. Either KeyBank or we can terminate the agreement if the other party materially breaches the agreement, including non-payment of fees due for processing our monthly settlement of transactions. The agreement may also be terminated if the other party enters bankruptcy or files for bankruptcy, if either party is required to discontinue performing its services under the agreement based upon a final order of a state or federal court or regulatory body or if there is a change in the majority ownership of the other party. KeyBank may terminate the agreement with us if we breach the by-laws and regulations of Visa or MasterCard, if either our registration or KeyBank s membership with Visa or MasterCard terminates, if any federal or state regulatory authority requests that the agreement be terminated or that KeyBank terminate its services or if applicable laws or regulations change to prevent KeyBank from performing its services under the agreement. Upon termination of the agreement for any reason, we will have 180 days to convert to another sponsor bank. Although we expect that we would be able to secure a new sponsor bank, the cost of entering into a new sponsorship agreement may be different than under our current agreement with KeyBank. The agreement, which we entered into with KeyBank on April 1, 1999, expires in March 2012. As a result of the Processing System Intrusion, Visa and/or MasterCard may determine that we have failed to comply with their operating regulations. If such a determination is made, it may provide KeyBank with a basis to terminate its agreement with us. If our agreement is terminated for this reason, it could be difficult for us to find another sponsor bank. Visa has advised us that based on Visa s investigation of the Processing System Intrusion, Visa believes we are in violation of the Visa operating regulations.

In 2007, we entered into a second sponsor bank agreement, this one with Heartland Bank, which is based in Saint Louis, Missouri. Heartland Bank is not related to, or associated with Heartland Payment Systems. Our agreement with Heartland Bank involves substantially the same terms as apply with KeyBank and it expires in September 2010.

In 2008, the acquisition of Network Services resulted in the addition of World Financial Network National Bank (WFNNB) as the sponsor bank for Network Services large national merchant processing. In August 2008, we entered into a sponsorship agreement with SunTrust Bank. In February 2009, we transferred the required BINs and ICAs from WFNNB to SunTrust Bank to replace World Financial Network National Bank as our sponsor bank for Network Services large national merchant processing. Our agreement with SunTrust Bank expires in June 2012.

We may enter into additional sponsor bank relationships in the future.

Third-Party Processors

We have agreements with several third-party processors to provide to us on a non-exclusive basis payment processing and transmittal, transaction authorization and data capture services, and access to various reporting tools. These third-party processors include Fifth Third Bank, Alliance Data Systems Corporation, TSYS, First Data Corporation, Chase Paymentech Solutions and Global Payments, Inc. Our agreements with third-party processors require us to submit a minimum monthly number of transactions or volume for processing. If we submit a number of transactions or volume that is lower than the minimum, we are required to pay them the fees that they would have received if we had submitted the required minimum number or volume of transactions. The majority of our agreements with third-party processors may be terminated by the third-party processors if we materially breach certain sections of the agreements, including our failure to pay fees due, and we do not cure the breach within 30 days, if our registration with Visa or MasterCard terminates, or if we enter bankruptcy or file for bankruptcy.

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Our Merchant Base

Our merchant customers primarily fall into two categories; our core small and mid-sized merchants (referred to as Small and Midsized Enterprises, or SME) and large national merchants, primarily in the petroleum industry. At December 31, 2008, we provided our bank card payment processing services to approximately 168,850 active SME bank card merchants located across the United States. This represents a 9.1% increase over the 154,750 active SME bank card merchants at December 31, 2007. At December 31, 2008, we provided bank card payment processing services to approximately 82 large national merchants with approximately 55,761 locations.

SME Merchant Base

While restaurants represent a significant portion of our SME merchant base, we also provide payment processing services to a wide variety of merchants, with a focus on those merchants whose typical customer is present when using a bank card to pay for products or services. We define SME merchants as generating annual Visa and MasterCard bank card processing volume between $50,000 and $5,000,000. With the added functionality and costs benefits that our back-end processing system, Passport, affords us, we have begun marketing to merchants with processing volume above $5,000,000.

The following chart summarizes our SME processing volume by merchant category for the month of December 2008, compared to the months of December 2007 and December 2006.

Processing Volume by Merchant Category

December 2008

	Month of December		
	2008	**2007**	**2006**
Restaurants	37.5%	38.8%	40.3%
Retail	18.9%	20.1%	21.2%
Convenience, Fast Food & Liquor	10.6%	9.7%	9.2%
Automotive	8.8%	9.1%	8.6%
Professional Services	5.7%	4.7%	4.1%
Lodging	4.8%	4.9%	4.9%
Other	13.7%	12.7%	11.7%
Total SME processing volume	**$ 4.8 billion**	**$ 4.7 billion**	**$ 4.1 billion**

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No single SME merchant accounted for more than 0.56% of our total SME bank card processing volume in 2008, and during 2008, our top 25 merchants represented only 3.1% of our bank card processing volume and 2.5% of our gross processing revenue. In 2007 and 2006, no single merchant represented more than 0.44% and 0.26% of our total bank card processing volume, respectively. In both 2007 and 2006 our top 25 merchants represented only 2.7% and 2.6%, respectively, of our bank card processing volume and 2.5% and 2.3%, respectively, of our gross processing revenue.

In December 2008, SME merchants in California represented 12.3%, in New York represented 6.6%, in Texas represented 5.3%, in Florida represented 4.5%, in New Jersey represented 4.4%, and in Colorado represented 4.1% of our SME bank card processing volume. No other state represented more than 4% of our total bank card processing volume. Our geographic concentration tends to reflect the states with the highest economic activity, as well as certain states where we have historically maintained a stronger sales force, including North Carolina and Minnesota. This merchant and geographic diversification makes us less sensitive to changing economic conditions in any particular industry or region. We believe that the loss of any single merchant would not have a material adverse effect on our financial condition or results of operations.

Generally, our agreements with SME merchants are for three years and automatically renew for additional one-year periods unless otherwise terminated. Our sponsor bank is also a party to these agreements. The merchants are obligated to pay for all chargebacks, fines, assessments, and fees associated with their account, and in some cases, annual fees. Our sponsor bank may terminate a merchant agreement for any reason on 30 days notice, and the merchant may terminate the agreement at any time without notice, subject to the payment of any applicable early termination fees. Typically, the agreement may also be terminated immediately upon a breach by the merchant of any of its terms. The agreement may not be assigned by the merchant without the prior written consent of the sponsor bank and us.

Large National Merchants

At December 31, 2008, we provided bank card payment processing services to approximately 82 large national merchants with approximately 55,761 locations. Our large national merchant portfolio was acquired in the May 2008 acquisition of Network Services.

Network Services provides processing of credit and debit cards to large national merchants, primarily in the petroleum industry. For the month of December 2008, approximately 85% of Network Services large national merchant processing volume was in the petroleum industry. In addition to settling Visa and MasterCard transactions, Network Services processes a wide range of payment transactions, including providing approximately 1.6 billion transaction authorizations through its front-end card processing systems (primarily for Visa and MasterCard) from the date we acquired it through December 31, 2008. Network Services has added $8.7 billion to our bank card processing volume on 317 million transactions from the date we acquired it through December 31, 2008.

Risk Management

We believe that we have significant experience in assessing the risks associated with providing payment processing services to small- and medium-sized merchants. These risks include the limited operating history of many of the small- and medium-sized merchants we serve and the risk that these merchants could be subject to a higher rate of insolvency, which could adversely affect us financially. We apply varying levels of scrutiny in our application evaluation and underwriting of prospective merchant accounts, ranging from basic due diligence for merchants with a low risk profile to a more thorough and detailed review for higher risk merchants.

Merchant attrition is expected in the payment processing industry in the ordinary course of business. During 2008, 2007, and 2006, we experienced average annual attrition of 17.3%, 12.6%, and 11.1% respectively of our SME bank card processing volume. Much of our attrition is related to business closures, which accelerated in 2008 due to weak economic conditions, and in 2008 our volume attrition was significantly impacted by overall contraction in same stores sales. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview General for a discussion of same store sales.

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As a result of our exposure to potential liability for merchant fraud, chargebacks, reject and other losses created by our merchant services business, we view our risk management and fraud avoidance practices as integral to our operations and overall success. We believe that the risks associated with our merchant base are generally not significant as our merchants consist primarily of companies conducting card-present transactions and whose chargeback levels are generally not significant as a percentage of their sales volume. As a result of their low risk profile, we can employ underwriting and set-up procedures that are less extensive than if these merchants had higher risk profiles and can typically ensure that these merchants will be approved and set up on our systems within 24 hours of our receiving their application.

However, for our merchants conducting card-not-present transactions, which we view as having a higher risk profile, we employ an extended underwriting and due diligence period and special account monitoring procedures. The underwriting process for these merchants applications may take three to five days while we evaluate the applicants financials, previous processing history and credit reports/OFAC (Office of Foreign Assets Control).

Effective risk management helps us minimize merchant losses for the mutual benefit of our merchants and ourselves. Our risk management procedures also help protect us from fraud perpetrated by our merchants. We believe our knowledge and experience in dealing with attempted fraud has resulted in our development and implementation of effective risk management and fraud prevention systems and procedures for the types of fraud discussed in this section. In 2008, 2007 and 2006, we experienced losses of no more than 0.88 basis points of our SME bank card processing volume.

We employ the following systems and procedures to minimize our exposure to merchant and transaction fraud:

Underwriting

Our Relationship Managers send new applications for low-risk merchants to their regional service team for scoring and account set up. Higher-risk applications are routed to our underwriting department for review and screening. Our underwriting department s review of these applications serves as the basis for our decision whether to accept or reject a merchant account. The review also provides the criteria for establishing cash deposit or letter of credit requirements, processing limits, average transaction amounts and pricing, which assist us in monitoring merchant transactions for those accounts that exceed those pre-determined thresholds. The criteria set by our underwriting department also assist our risk management staff in advising merchants with respect to identifying and avoiding fraudulent transactions. Depending upon their experience level, our underwriting staff has the authority to render judgment on new applications or to take additional actions such as adjusting processing limits supported by obtained processing history, analyzing average charge per transaction information or defining cash deposit/letter of credit, reserves, and delayed funding requirements for new and existing merchants. Our underwriting department prepares accounts that are risk sensitive for our credit committee review. The Credit Committee consists of a Manager of Underwriting, Manager of Risk Review and Director of Core Support Group. Merchant accounts that exceed certain committee thresholds are reviewed by either our CEO, COO, CFO or Chief Portfolio Officer. Our sponsor bank also reviews and approves our merchant underwriting policies and procedures to ensure compliance with Visa and MasterCard operating rules and regulations.

Merchant Monitoring

We employ several levels of merchant account monitoring to help us identify suspicious transactions and trends. Daily merchant activity is obtained from two sources, HPS Exchange (where the information is downloaded from HPS Exchange to our monitoring systems) and TSYS (where the information is downloaded from our third-party processors onto TSYS risk system and then accessed by us on the Internet), and is sorted into a number of customized reports by our systems. Our risk management team reviews any unusual activity highlighted by these reports, such as larger than normal transactions or credits, and monitors other parameters that are helpful in identifying suspicious activity. We have a daily window of 10:00 a.m. to 6:00 p.m. Eastern time to decide if any transactions should be held for further review, which provides us time to interview a merchant or issuing bank to determine the validity of suspicious transactions. We have also developed a fraud management system for HPS Exchange that is fully integrated with our internal customer relationship management software and has detailed review capabilities to further streamline our monitoring of those transactions. We also place merchants who require special monitoring on alert status and assign special account identifiers to our Internet merchants to designate these accounts for special monitoring.

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Investigation and Loss Prevention

If a merchant exceeds any parameters established by our underwriting and/or risk management staff or violates regulations established by the applicable bank card network or the terms of our merchant agreement, one of our investigators will identify the incident and take appropriate action to reduce our exposure to loss and the exposure of our merchant. This action may include requesting additional transaction information, withholding or diverting funds, verifying delivery of merchandise or even deactivating the merchant account. Additionally, Account Manages or Relationship Manager may be instructed to retrieve equipment.

Collateral

We require some of our merchants to establish cash deposits or letters of credit that we use to offset against liabilities we may incur. We hold such cash deposits or letters of credit for as long as we are exposed to a loss resulting from a merchant s payment processing activity. In addition, we maintain a 5-day delayed deposit policy on transactions processed by our Internet merchants and newly established merchants who have not previously processed bank cards to allow for additional risk monitoring. We also place a hold on batches containing questionable transactions, diverting the funds to a separate account pending review. As of December 31, 2008, these cash deposits, delayed and held batches, and letters of credit totaled approximately $16.3 million.

Technology

We have developed a number of systems that are designed to improve the effectiveness of our sales force, customer service and the management of our business. In 2008, 2007 and 2006 we spent $5.9 million, $4.2 million and $2.5 million, respectively, on capitalized software development costs. Many of the following systems are accessible over the Internet through www.e-hps.com. Each of these systems is regularly updated, with new releases of software scheduled every six weeks:

Portfolio Manager

Portfolio Manager is designed to allow each of our Relationship Managers to manage many aspects of his or her business, including portfolio monitoring and management, compensation review, training and professional development and the ability to communicate with others within our company. Portfolio Manager consists of a set of merchant relationship management tools. These tools include detailed merchant data, such as historical bank card processing volume, updates on merchant contracts that will soon expire, losses, merchants who may have attrited and data that can be used by our Relationship Managers to assist merchants in understanding interchange fee structures and the risks associated with certain types of transactions. Portfolio Manager also includes an estimated gross margin calculator and a merchant profitability analysis that allows Relationship Managers to optimize gross margin generated from a new SME merchant account. In addition, Portfolio Manager provides our Relationship Managers with the ability to view their residual commission stream from their merchant portfolio, track their productivity and compare their sales statistics with those of other Relationship Managers.

Merchant Center

Merchant Center is designed to improve our merchants efficiency, cash management and dispute resolution by providing them with real-time access to their transaction data, including clearinghouse records, deposits and transactions. Merchant Center can replace paper merchant statements and provide automated customer self-service. Approximately 53% of our SME merchants, as of December 31, 2008, had signed up for this product. Affiliate Manager also provides similar information tools to our strategic relationships, such as trade associations, banks and value-added resellers.

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Client Manager

Information regarding all of our interactions with our SME merchants and all of their documents and transaction records are immediately available to our customer service department and management through Client Manager. Each new account is entered into this database during the initial application and underwriting process, and all documents regarding a merchant are scanned into the database. Subsequently, all of a merchant s transactions and statements, and records of all calls to our customer service representatives as well as their resolution, are maintained in the database. Client Manager is also the tool by which we make any pricing adjustments and manage any equipment-related transactions. Integrating many of our customer management tools into one database provides service center employees with the same information regarding a merchant, which enables us to provide consistent, rapid problem resolution and optimal customer service. We believe that reliance on the system has allowed considerable productivity gains in recent years.

HPS Exchange

Our front-end system, HPS Exchange, provides us greater control of the electronic transaction process, allows us to offer our merchants (through our Relationship Managers) a differentiated product offering, and offers economies of scale that we expect will increase our long-term profitability.

On January 20, 2009, we publicly announced the discovery of the Processing System Intrusion, which apparently had occurred during some portion of 2008. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by us during the transaction authorization process. Such data is not required to be encrypted while in transit under current payment card industry guidelines. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). However, the cardholder information that we process does not include addresses or Social Security numbers. Also, we believe that no unencrypted PIN data was captured. We believe the breach has been contained and did not extend beyond 2008. Our investigation of the Processing System Intrusion is ongoing. We have taken a number of steps, since discovering the Processing System Intrusion, to further enhance the security of our computer system.

During 2008, approximately 83% of the transactions of our SME merchants were processed on HPS Exchange, and 87% of all merchant accounts established in 2008 were placed on the system. When a merchant uses HPS Exchange on certain hardware platforms, the resulting authorization speed for dial-up transactions can be six seconds or less, which we believe is faster than industry norms for comparable terminals. This increased speed not only benefits the merchant but also reduces the telecommunications costs we incur in connection with a transaction.

HPS Exchange enables us to provide more customized solutions to SME merchants, target larger merchants that demand customized front-end solutions and take advantage of new terminal hardware platforms as they become available. HPS Exchange is customized for each merchant and will allow us to provide our merchants with differentiated value-added features, including the following:

Merchant/Cardholder Selected Debit or Credit. Merchants have the ability to convert a Visa Check or Master Money card to a pin-based debit transaction, which is typically less expensive for the merchant.

Real-Time Transaction Monitoring. Using their personal computers, merchants using Merchant Manager can observe open batches of payment transactions at any of their locations, allowing early detection of problem transactions, such as abnormally large tickets or credits, and changes in business volume.

Cash Back on Debit. Merchants have the ability to offer a cash-back option to their customers for pin-based debit transactions.

On-line Download Maintenance. On-line Download Maintenance is an Internet interface to a merchant s point-of-sale terminal download system that allows a merchant to change the

parameters that control how its point-of-sale terminal functions as opposed to having to call the service center to request such changes. This enables a merchant to more easily change its receipt message each day and assists a merchant in preventing employee fraud by setting parameters that restrict the actions that can be taken by various employees.

While we will continue to utilize third-party front-end systems, we plan to continue incorporating additional functionality into HPS Exchange and to install an increasing percentage of new merchants onto HPS Exchange.

We believe that we are one of the first payment processors to develop all of our systems to take advantage of recent technological advancements in network and distributed computing, such as relational databases and Internet technologies. This offers significant benefits to us in terms of cost, data manipulation and distribution, flexibility and scalability. We further believe that these systems help attract both new merchants and Relationship Managers and provide us with a competitive advantage over many of our competitors who rely on less flexible legacy systems. With more widespread availability and usage of the internet, increasing numbers of merchants are using the web as a transport medium. In December 2008, 39% of all transactions processed through HPS Exchange were transmitted through the Internet. These transactions represent a significantly lower overall cost to HPS, since no dial up costs are incurred.

Passport

Our internally-designed back-end processing system, Passport, provides us with significant cost savings and results in greater economies of scale, by replacing third party processors per-transaction charges with more of a fixed-cost structure. This structure allows per-transaction savings as increasing numbers of transactions are processed on Passport. In addition, our conversion to Passport provides us with the opportunity over time to offer our merchants significantly greater amounts of information regarding their processing characteristics, in more usable formats and to offer our services to larger merchants. In July 2005, we commenced converting bank card merchants to Passport, and we completed the conversion of substantially all of our SME bank card merchants to Passport in the second quarter of 2006. At December 31, 2008 and 2007, approximately 98%, respectively, of our SME merchants were processing on Passport.

Network Services Technology

We operate Network Services platforms in two geographically dispersed data centers that are the focal point for hosting all Network Services transaction processing and network activity. We establish system service level thresholds based on our large national merchants requirements. System availability of 99.5% uptime is our standard large national merchant metric. To achieve this standard, transactions are mirrored between data centers and each center has the capacity to handle our full merchant transaction load. This ensures uninterrupted transaction processing during maintenance windows and other times processing may not be available.

Authorization We rout authorization and capture transactions through Access Engine, where it is assigned to one of two payment engines: VAPS and NWS. After routing a transaction to the appropriate payment engine, it is then sent to Auth Engine which passes the transaction to the card networks for authorization.

Settlement For those large national merchants whose NWS and VAPS authorized transactions we settle, we have a contract with Fifth Third Bank to process settlement. A file of transactions is created and sent to Fifth Third Bank, which sends the transactions to the Card Brands. The Card Brands collect settlement funds from the card issuing banks, forward those funds to Fifth Third Bank, which then sends the funds to the sponsor bank to ultimately pay the large national merchants.

Network Security

In the course of our operations, we compile and maintain a large database of information relating to our merchants and their transactions. We have placed significant emphasis on maintaining a high level of security in order to attempt to protect the information of our merchants and their customers. We maintain current updates of network and operating system security releases and virus definitions, and have engaged a third party to regularly test our systems for vulnerability to unauthorized access. Further, we encrypt the cardholder numbers that are stored in our databases using triple-DES protocols, which represent the highest commercially available standard for encryption.

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Our internal network configuration provides multiple layers of security to isolate our databases from unauthorized access and implements detailed security rules to limit access to all critical systems. In November 2003, we were certified by Visa as having successfully completed their Cardholder Information Security Program (CISP) review of our payment processing and Internet-based reporting systems. In 2004, the Visa CISP requirements were combined with security guidelines of the other card networks into a comprehensive Payment Card Initiative Data Security Standard (PCI-DSS). We received confirmation of our compliance with PCI-DSS from a third party assessor in April 2008. Notwithstanding our implementation and utilization of the network security measures described in this section, we suffered the Processing System Intrusion described elsewhere in this annual report. We have been advised by Visa that, based on Visa s investigation of the Processing System Intrusion Visa believes we are in violation of the Visa Operating Regulations and that, based on that belief, Visa has removed us from Visa s published list of PCI-DSS compliant service providers until such time as we are re-certified as PCI-DSS compliant and the assessor s report attesting to such re-certification has been reviewed and approved by Visa, and intends to place us in a probationary status during the two years following our re-certification as being PCI-DSS compliant, during which time our failure to comply with the probationary requirements set forth by Visa or with the Visa operating regulations may result in Visa seeking to impose further risk conditions on us, including but not limited to our disconnection from VisaNet or our disqualification from the Visa payment system.

Visa, Star, NYCE and other debit card networks have established security guidelines for PIN-based debit transaction processing that is based upon ANSI standards that are published as the ASC X9 TG-3 PIN Security Compliance Guideline. We have regularly scheduled Security Review of our Key Management Procedures against this standard that is performed by an external auditor.

We also have engaged external auditors to perform an annual SAS-70 review and publish our Report on Controls Placed in Operation and Tests of Operating Effectiveness. In addition, we have undertaken an independent Cyber-Risk Assessment.

Disaster Recovery and Back-up Systems

We have implemented a disaster recovery plan for HPS Exchange to ensure business continuity in the event of a system failure. As part of this plan, we have established an alternate processing site in Houston, Texas that has the same functionality as our primary data center in Allen, Texas. In the event of a failure at our Allen data center, we would switch our processing immediately to the Houston data center. During 2008, we leveraged this alternate processing site and extended its use for business continuity for our back-end platform, Passport.

We also rely on connections to the systems of our third-party front-end and back-end processing providers. In many cases, they have installed or developed communications circuits with backup connectivity to overcome telecommunications problems. In addition, our service center has installed redundant power sources and our administrative systems are backed up and archived daily.

Competition

The payment processing industry is highly competitive. We compete with other providers of payment processing services on the basis of the following factors:

- quality of service;
- reliability of service;
- ability to evaluate, undertake and manage risk;
- speed in approving merchant applications; and
- price.

We compete with both small and large companies in providing payment processing and related services to a wide range of merchants. Our competitors sell their services either through a direct sales force, generally concentrating on larger accounts, or through Independent Sales

Organizations, telemarketers or banks, generally concentrating on smaller accounts.

There are a number of large payment processors, including First Data Corporation, Bank of America Corporation, Global Payments Inc., Fifth Third Bank, Chase Paymentech Solutions and Elavon, Inc., a subsidiary of U.S. Bancorp, that serve a broad market spectrum from large to small merchants; further, certain of these provide banking, ATM and other payment-related services and systems in addition to bank card payment processing. There are also a large number of smaller payment processors that provide various services to small- and medium-sized merchants.

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Some of our competitors have substantially greater capital resources than we have and operate as subsidiaries of financial institutions or bank holding companies, which may allow them on a consolidated basis to own and conduct depository and other banking activities that we do not have the regulatory authority to own or conduct. Since they are affiliated with financial institutions or banks, these competitors do not incur the costs associated with being sponsored by a bank for registration with card networks and they can settle transactions quickly for their own merchants. We do not, however, currently contemplate acquiring or merging with a financial institution in order to increase our competitiveness. We believe that our specific direct sales focus on SME merchants, in addition to our understanding of the needs and risks associated with providing payment processing services to those merchants, gives us a competitive advantage over larger competitors, which do not have our focus, and over competitors of a similar or smaller size that may lack our experience and sales resources. With our acquisition of Network Services, we are also expanding into national accounts.

Intellectual Property

We own or are pursuing several patents with the United States Patent and Trademark Office. In addition, we own various trademarks and have applied for numerous others. In connection with our acquisition of the Network Services business of Alliance Data Systems Corporation and Chockstone, Inc., we acquired rights to certain patents and trademarks. Most of our services and products are based on proprietary software that is updated to meet merchant needs and remain competitive. Protecting our rights to our proprietary software is critical, as it allows us to offer distinctive services and products to merchants, which differentiates us from our competitors.

Employees

As of December 31, 2008, we employed 2,979 full- and part-time personnel, including 702 customer service, risk management, financial and operations support and underwriting employees, 226 systems and technology employees, 96 payroll services employees, 71 electronic cash systems employees, 159 accounting and administration employees and 1,725 sales and marketing employees. None of our employees are represented by a labor union, and we have experienced no work stoppages. We consider our employee relations to be good.

WHERE YOU CAN GET ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy our reports or other filings made with the SEC at the SEC s Public Reference Room, located at 100 F Street, N.W., Washington, DC 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. You can also access these reports and other filings electronically on the SEC s web site, www.sec.gov.

In addition, certain of our SEC filings, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, can be viewed and printed from the investor information section of our website at www.heartlandpaymentsystems.com, as soon as reasonably practicable after filing with the SEC. Certain materials relating to our corporate governance, including our senior financial officers code of ethics, are also available in the investor relations section of our website.

The information on the websites listed above, is not and should not be considered part of this Annual Report on Form 10-K and is not incorporated by reference in this document. These websites are, and are only intended to be, inactive textual references.

In June 2008, we submitted to the New York Stock Exchange the CEO certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual without qualification.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should consider carefully the following risks and other information contained in this Annual Report on Form 10-K and other SEC filings before you decide whether to buy our common stock. If any of the events contemplated by the following discussion of risks should occur, our business, results of operations and financial condition could suffer significantly. As a result, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

Risks Relating to Our Business

Unauthorized disclosure of merchant and cardholder data, whether through breach of our computer systems (such as the Processing System Intrusion) or otherwise, could expose us to liability and protracted and costly litigation.

On January 20, 2009, we announced the Processing System Intrusion, which apparently had occurred during some portion of 2008. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by us during the transaction authorization process. Such data is not required to be encrypted while in transit under current payment card industry guidelines. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). Although, we have taken a number of steps to contain the Processing System Intrusion and to further enhance the security of our computer system. Nevertheless, there can be no assurance that we will not suffer an additional security breach in the future.

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The Processing System Intrusion has resulted in numerous lawsuits having been filed against us and will likely result in additional lawsuits against us in the future. Several government agencies have either made inquiries to us or initiated investigations of us related to Processing System Intrusion. For more information concerning these lawsuits and government inquiries and investigations, see Item 3. Legal Proceedings. We expect that the Card Brands will assert claims seeking to impose fines, penalties, and/or other assessments against us or our sponsor banks (who would seek indemnification from us pursuant to our agreements with them) based upon the Processing System Intrusion. By these claims, we expect the Card Brands to seek to recover from us, or from our sponsor banks (who would in turn seek to recover from us), assessments in respect of fraud losses and operating expenses (including card reissuance costs and non-ordinary-course account monitoring expenses) that the Card Brands believe either themselves or their issuers to have incurred by reason of the Processing System Intrusion, as well as fines and/or penalties by reason of our alleged failure to comply with the Card Brands operating regulations. The amounts of the claims we expect to be asserted by the Card Brands and amounts we may be required to pay as a result of, or in order to defend, the lawsuits, Card Brand claims, and government investigations and inquiries described above is likely to be substantial. It is possible that the amounts required to resolve and defend the claims by the Card Brands and these lawsuits and government inquiries and investigations could exceed our ability to pay such amounts from our cash flow and we may be required to seek financing to make such payments. Given the current state of the financial markets and the impact the Processing System Intrusion may have on our business and financial condition, we cannot provide any assurance that we will be able to obtain such financing on reasonable terms or at all.

We collect and store sensitive data about merchants, including names, addresses, social security numbers, driver s license numbers and checking account numbers. In addition, we maintain a database of cardholder data relating to specific transactions, including bank card numbers, in order to process the transactions and for fraud prevention. Any loss of cardholder data by us or our merchants could result in significant fines and sanctions by Visa, MasterCard or governmental bodies, which could have a material adverse effect upon our financial position and/or results of operations. In addition, a significant breach could result in our being prohibited from processing transactions for Visa and MasterCard.

Our computer systems have been, and could in the future, be subject to penetration by hackers and our encryption of data may not prevent unauthorized use. In this event, we may be subject to liability, including claims for unauthorized purchases with misappropriated bank card information, impersonation or other similar fraud claims. We could also be subject to liability for claims relating to misuse of personal information, such as unauthorized marketing purposes. These claims also could result in protracted and costly litigation. In addition, we could be subject to penalties or sanctions from the Visa and MasterCard networks.

Although we generally require that our agreements with our service providers who have access to merchant and customer data include confidentiality obligations that restrict these parties from using or disclosing any customer or merchant data except as necessary to perform their services under the applicable agreements, we cannot assure you that these contractual measures will prevent the unauthorized use or disclosure of data. In addition, our agreements with financial institutions require us to take certain protective measures to ensure the confidentiality of merchant and consumer data. Any failure to adequately enforce these protective measures could result in protracted and costly litigation.

If we fail to comply with the applicable requirements of the Visa and MasterCard bank card networks, Visa or MasterCard could seek to fine us, suspend us or terminate our registrations. Fines could have an adverse effect on our operating results and financial condition, and if these registrations are terminated, we will not be able to conduct our business.

If we are unable to comply with Visa and MasterCard bank card network requirements, Visa or MasterCard could seek to fine us, suspend us or terminate our registrations. On occasion, we have received notices of non-compliance and fines, which have typically related to excessive chargebacks by a merchant or data security failures on the part of a merchant. If we are unable to recover fines from our merchants, we would experience a financial loss. The termination of our registration, or any changes in the Visa or MasterCard rules that would impair our registration, could require us to stop providing Visa and MasterCard payment processing services, which would make it impossible for us to conduct our business.

We have been advised by Visa that, based on Visa s investigation of the Processing System Intrusion, Visa believes we are in violation of the Visa operating regulations and that, based on that belief, Visa has removed us from Visa s published list of PCI-DSS compliant service providers until such time as we are re-certified as PCI-DSS compliant and the assessor s report attesting to such re-certification has been reviewed and approved by Visa, intends to seek to impose fines on our sponsor banks, which fines (if successfully imposed) our sponsor banks could in turn seek to recover from us, intends to place us in a probationary status during the two years following our re-certification as being PCI-DSS compliant, during which time our failure to comply with the probationary requirements set forth by Visa or with the Visa operating regulations may result in Visa seeking to impose further risk conditions on us, including but not limited to our disconnection from VisaNet or our disqualification from the Visa payment system, and intends to treat some or all of the Visa accounts that Visa considers to have been placed at risk of compromise in the Processing System Intrusion as being eligible for Visa s Account Data Compromise Recovery and Data Compromise Recovery Solution processes, which processes could result in Visa s seeking to recover from our sponsor banks (and our sponsor banks in turn seeking to recover from us) amounts in respect of fraud losses and operating expenses that Visa believes Visa issuers to have incurred by reason of the Processing System Intrusion.

We are subject to the business cycles and credit risk of our merchants, which could negatively impact our financial results.

A recessionary economic environment could have a negative impact on our merchants, which could, in turn, negatively impact our financial results, particularly if the recessionary environment disproportionately affects some of the market segments that represent a larger portion of our bank card processing volume, like restaurants. If our merchants make fewer sales of their products and services, we will have fewer transactions to process, resulting in lower revenue. In addition, we have a certain amount of fixed and semi-fixed costs, including rent, processing contractual minimums and salaries, which could limit our ability to quickly adjust costs and respond to changes in our business and the economy.

In a recessionary environment our merchants could also experience a higher rate of business closures, which could adversely affect our business and financial condition. During the recession prior to the current recession, we experienced a slowdown in the rate of same-store sales growth and an increase in business closures. During the current recession, we have for the first time experienced a reduction in same-store sales when compared to last year, and we could experience a higher rate of merchant closures. In the event of a closure of a merchant, we are unlikely to receive our fees for any transactions processed by that merchant in its final month of operation.

While we service a broad range of merchants, restaurants represent a significant portion of our merchant base. The failure rate of restaurants is typically high, which increases our merchant attrition and reject losses. A reduction in consumer spending, particularly at restaurants, would further increase our rate of merchant attrition and reject losses.

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The payment processing industry is highly competitive and we compete with certain firms that are larger and that have greater financial resources. Such competition could increase, which would adversely influence our prices to merchants, and as a result, our operating margins.

The market for payment processing services is highly competitive. Other providers of payment processing services have established a sizable market share in the small- and medium-size merchant processing sector. Maintaining our historic growth will depend on a combination of the continued growth in electronic payment transactions and our ability to increase our market share. The current recession could cause future growth in electronic payment transactions to slow compared to historical rates of growth and the Processing System Intrusion could negatively impact our ability to increase our market share. According to The Nilson Report, we accounted for approximately 2.4% of the 2.1 trillion of total purchase volume (which we refer to as bank card processing volume) processed by all bank card acquirers in 2007. This competition may influence the prices we are able to charge. If the competition causes us to reduce the prices we charge, we will have to aggressively control our costs in order to maintain acceptable profit margins. In addition, some of our competitors are financial institutions, subsidiaries of financial institutions or well-established payment processing companies, including First Data Corporation, Bank of America Corporation, Global Payments, Inc., Fifth Third Bank, Chase Paymentech Solutions and Elavon, Inc., a subsidiary of U.S. Bancorp. Our competitors that are financial institutions or subsidiaries of financial institutions do not incur the costs associated with being sponsored by a bank for registration with the card networks and can settle transactions more quickly for their merchants than we can for ours. These competitors have substantially greater financial, technology, management and marketing resources than we have. This may allow our competitors to offer more attractive fees to our current and prospective merchants, or other products or services that we do not offer. This could result in a loss of customers, greater difficulty attracting new customers, and a reduction in the price we can charge for our services.

We have faced, and will in the future face, chargeback liability when our merchants refuse or cannot reimburse chargebacks resolved in favor of their customers, and reject losses when our merchants go out of business. We cannot accurately anticipate these liabilities, which may adversely affect our results of operations and financial condition.

In the event a billing dispute between a cardholder and a merchant is not resolved in favor of the merchant, the transaction is normally charged back to the merchant and the purchase price is credited or otherwise refunded to the cardholder. If we or our clearing banks are unable to collect such amounts from the merchant s account, or if the merchant refuses or is unable, due to closure, bankruptcy or other reasons, to reimburse us for the chargeback, we bear the loss for the amount of the refund paid to the cardholder. The risk of chargebacks is typically greater with those merchants that promise future delivery of goods and services rather than delivering goods or rendering services at the time of payment. We may experience significant losses from chargebacks in the future. Any increase in chargebacks not paid by our merchants may adversely affect our financial condition and results of operations.

Reject losses arise from the fact that we collect our fees from our SME merchants on the first day after the monthly billing period. This results in the build-up of a substantial receivable from our customers, which significantly exceeds the receivables of any of our competitors which assess their fees on a daily basis. If a merchant has gone out of business during the billing period, we may be unable to collect such fees. In addition, if our sponsor bank is unable, due to system disruption or other failure, to collect our fees from our merchants, we would face a substantial loss.

We incurred charges relating to chargebacks and reject losses of $5.3 million, $2.8 million and $1.9 million in the years ended December 31, 2008, 2007 and 2006, respectively.

We have faced, and will in the future face, merchant fraud, which could have an adverse effect on our operating results and financial condition.

We have potential liability for fraudulent bank card transactions initiated by merchants. Merchant fraud occurs when a merchant knowingly uses a stolen or counterfeit bank card or card number to record a false sales transaction, processes an invalid bank card or intentionally fails to deliver the merchandise or services sold in an otherwise valid transaction. Examples of merchant fraud we have faced include a manager of a franchised motel who applied for a merchant account that proved to be a second account for that motel, and processed duplicate charges in his office, and an antique repair service owner who continued accepting deposits on cards for repairs, but stopped doing the repairs. We have established systems and procedures designed to detect and reduce the impact of merchant fraud, but we cannot assure you that these measures are or will be effective. It is possible that incidents of fraud could increase in the future. Failure to effectively manage risk and prevent fraud would increase our chargeback liability. Increases in chargebacks could have an adverse effect on our operating results and financial condition.

Our actual losses and costs to mitigate the Processing System Intrusion could be a material amount, which could have a material adverse effect on our operating results, financial condition and cash flow.

While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claim as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs could be material and could adversely impact our results of operations, financial condition and cash flow.

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If publicity surrounding the Processing System Intrusion and the efforts of our competitors to capitalize on the Processing System Intrusion have a material adverse impact on our ability to obtain new customers and retain existing customers, our results of operations, financial condition and cash flow would experience a material adverse impact.

The Processing System Intrusion has resulted in significant negative publicity and we believe that our competitors are using the occurrence of the Processing System Intrusion and the attendant negative publicity to compete against us for merchants. It is possible that publicity surrounding the Processing System Intrusion and the efforts of our competitors to capitalize on the Processing System Intrusion could have a material adverse impact on our ability to obtain new merchant customers and retain existing merchant customers which, in turn, could have a material adverse impact on our results of operations, financial condition and cash flow.

Increased merchant attrition that we cannot offset with increased bank card processing volume or new accounts would cause our revenues to decline.

We experience attrition in merchant bank card processing volume resulting from several factors, including business closures, transfers of merchants accounts to our competitors and account closures that we initiate due to heightened credit risks relating to, or contract breaches by, merchants, and when applicable same store sales contraction. During 2008, 2007, and 2006, we experienced average annual attrition of 17.3%, 12.6%, and 11.1% respectively. Substantially all of our processing contracts may be terminated by either party on relatively short notice. We cannot predict the level of attrition in the future, and it could increase. Increased attrition in merchant bank card processing volume may have an adverse effect on our financial condition and results of operations. If we are unable to establish accounts with new merchants or otherwise increase our bank card processing volume in order to counter the effect of this attrition, our revenues will decline.

We rely on sponsor banks, which have substantial discretion with respect to certain elements of our business practices, in order to process bank card transactions. If these sponsorships are terminated and we are unable to secure new bank sponsors, we will not be able to conduct our business.

Substantially all of our revenue is derived from Visa and MasterCard bank card transactions. Because we are not a bank, we are not eligible for membership in the Visa and MasterCard networks and are, therefore, unable to directly access the bank card networks, which are required to process Visa and MasterCard transactions. Visa and MasterCard operating regulations require us to be sponsored by a bank in order to process bank card transactions. We are currently registered with Visa and MasterCard through KeyBank, which has maintained that registration since 1999, Heartland Bank, which has been a sponsor since December 2007, and SunTrust Bank, which has been a sponsor since August 2008 (but only started processing in February 2009). If our sponsorships are terminated and we are unable to secure another bank sponsor or sponsors, we will not be able to process Visa and MasterCard transactions. Furthermore, our agreements with KeyBank and Heartland Bank give them substantial discretion in approving certain aspects of our business practices, including our solicitation, application and qualification procedures for merchants, the terms of our agreements with merchants and our customer service levels. Our sponsor banks discretionary actions under these agreements could be detrimental to our operations. It is possible that our sponsor banks could claim that the Processing System Intrusion gives them the right to terminate our agreements with them.

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Current or future bank card network rules and practices could adversely affect our business.

We are registered with the Visa and MasterCard networks through our bank sponsor as an Independent Sales Organization with Visa and a Member Service Provider with MasterCard. We are currently a sales agent for Discover and American Express. Under the new American Express agreement we will remain a sales agent however, under the new Discover agreement we will be registered as an Acquirer. The rules of the bank card networks are set by their boards, which may be strongly influenced by member banks and, in the case of Discover and American Express, by the card issuers, and some of those banks and issuers are our competitors with respect to these processing services. Many banks directly or indirectly sell processing services to merchants in direct competition with us. These banks could attempt, by virtue of their membership in the network, to alter the networks rules or policies to the detriment of non-members like us. The bank card networks or issuers who maintain our registrations or arrangements or the current bank card network or issuer rules allowing us to market and provide payment processing services may not remain in effect. The termination of our registration or our status as an Independent Sales Organization or Member Service Provider, or any changes in card network or issuer rules that limit our ability to provide payment processing services, could have an adverse effect on our bank card processing volumes, revenues or operating costs. In addition, if we were precluded from processing Visa and MasterCard bank card transactions, we would lose substantially all of our revenues.

Our systems and our third-party providers systems may fail due to factors beyond our control, which could interrupt our service, cause us to lose business and increase our costs.

We depend on the efficient and uninterrupted operation of our computer network systems, software, data center and telecommunications networks, as well as the systems of third parties. Our systems and operations or those of our third-party providers could be exposed to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, unauthorized entry and computer viruses. Our property and business interruption insurance may not be adequate to compensate us for all losses or failures that may occur. Defects in our systems or those of third parties, errors or delays in the processing of payment transactions, telecommunications failures or other difficulties could result in:

- loss of revenues;
- loss of merchants, although our contracts with merchants do not expressly provide a right to terminate for business interruptions;
- loss of merchant and cardholder data;
- harm to our business or reputation;
- exposure to fraud losses or other liabilities;
- negative publicity;
- additional operating and development costs; and/or
- diversion of technical and other resources.

Adverse conditions in markets in which we obtain a substantial amount of our bank card processing volume, such as our largest SME merchant markets of California, New York, Texas, Florida, Colorado, and New Jersey, could negatively affect our results of operations.

Adverse economic or other conditions in California, New York, Texas, Florida, Colorado, and New Jersey would negatively affect our revenue and could materially and adversely affect our results of operations. In December 2008, SME merchants in California represented 12.3%, in New

York represented 6.6%, in Texas represented 5.3%, in Florida represented 4.5%, in New Jersey represented 4.4%, and in Colorado represented 4.1% of our SME bank card processing volume. As a result of this geographic concentration of our merchants in these markets, we are exposed to the risks of downturns in these local economies and to other local conditions, which could adversely affect the operating results of our merchants in these markets. No other state represented more than 4% of our SME bank card processing volume in December 2008.

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If we lose key personnel or are unable to attract additional qualified personnel as we grow, our business could be adversely affected.

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operations, the rapidly changing payment processing industry and the selected markets in which we offer our services. It is possible that the loss of the services of one or a combination of our senior executives or key managers, particularly Robert O. Carr, our Chief Executive Officer, would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage and retain other qualified middle management and technical and clerical personnel as we grow. We may not continue to attract or retain such personnel.

If we are unable to attract and retain qualified sales people, our business and financial results may suffer.

Unlike many of our competitors who rely on Independent Sales Organizations or salaried salespeople and telemarketers, we rely on a direct sales force whose compensation is entirely commission-based. Through our direct sales force of approximately 1,166 Relationship Managers, we seek to increase the number of merchants using our products and services. We intend to significantly increase the size of our sales force. Our success partially depends on the skill and experience of our sales force. If we are unable to retain and attract sufficiently experienced and capable Relationship Managers, our business and financial results may suffer.

If we cannot pass increases in bank card network interchange fees along to our merchants, our operating margins will be reduced.

We pay interchange fees and other network fees set by the bank card networks to the card issuing bank for each transaction we process involving their bank cards. From time to time, the bank card networks increase the interchange fees and other network fees that they charge payment processors and the sponsoring banks. At its sole discretion, our sponsoring bank has the right to pass any increases in interchange fees on to us and it has consistently done so in the past. We are allowed to, and in the past we have been able to, pass these fee increases along to our merchants through corresponding increases in our processing fees. However, if we are unable to do so in the future, our operating margins will be reduced.

Any acquisitions or portfolio buyouts that we make could disrupt our business and harm our financial condition.

We expect to evaluate potential strategic acquisitions of complementary businesses, products or technologies. We may not be able to successfully finance or integrate any businesses, products or technologies that we acquire. Furthermore, the integration of any acquisition may divert management s time and resources from our core business and disrupt our operations. We may spend time and money on projects that do not increase our revenue. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders. While we from time to time evaluate potential acquisitions of businesses, products and technologies, and anticipate continuing to make these evaluations, we have no present understandings, commitments or agreements with respect to any acquisitions.

We also regularly buy out the residual commissions of our Relationship Managers and sales managers, at multiples that typically amount to 2 to 2 $^{1}/2$ years of such commissions. If the merchants included in the portfolios we purchase do not generate sufficient incremental margin after the purchase, we will not achieve a positive return on the cash expended.

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Governmental regulations designed to protect or limit access to consumer information could adversely affect our ability to effectively provide our services to merchants.

Governmental bodies in the United States and abroad have adopted, or are considering the adoption of, laws and regulations restricting the transfer of, and safeguarding, non-public personal information. For example, in the United States, all financial institutions must undertake certain steps to ensure the privacy and security of consumer financial information. While our operations are subject to certain provisions of these privacy laws, we have limited our use of consumer information solely to providing services to other businesses and financial institutions. We limit sharing of non-public personal information to that necessary to complete the transactions on behalf of the consumer and the merchant and to that permitted by federal and state laws. In connection with providing services to the merchants and financial institutions that use our services, we are required by regulations and contracts with our merchants to provide assurances regarding the confidentiality and security of non-public consumer information. These contracts require periodic audits by independent companies regarding our compliance with industry standards and best practices established by regulatory guidelines. The compliance standards relate to our infrastructure, components, and operational procedures designed to safeguard the confidentiality and security of non-public consumer personal information shared by our clients with us. Our ability to maintain compliance with these standards and satisfy these audits will affect our ability to attract and maintain business in the future. The cost of such systems and procedures may increase in the future and could adversely affect our ability to compete effectively with other similarly situated service providers.

Our operating results are subject to seasonality, which could result in fluctuations in our quarterly net income.

We have experienced in the past, and expect to continue to experience, seasonal fluctuations in our revenues as a result of consumer spending patterns. Historically our revenues have been strongest in our second and third quarters, and weakest in our first quarter.

We may become subject to additional U.S., state or local taxes that cannot be passed through to our merchants, which could negatively affect our results of operations.

Companies in the payment processing industry, including us, may become subject to taxation in various tax jurisdictions on our net income or revenues. Application of these taxes is an emerging issue in our industry and taxing jurisdictions have not yet adopted uniform positions on this topic. If we are required to pay additional taxes and are unable to pass the tax expense through to our merchants, our costs would increase and our net income would be reduced.

We may need to raise additional funds to finance our future capital needs, which may prevent us from growing our business.

We may need to raise additional funds to finance our future capital needs, including funding costs associated with the Processing System Intrusion, completing the build out of our new service center, developing new products and technology, and operating expenses. We may need additional financing earlier than we anticipate if we:

- experience material costs to mitigate the impacts of, and resolve the claims originating from, the Processing System Intrusion;
- expand faster than our internally generated cash flow can support;
- purchase portfolio equity (the portion of our commissions that we have committed to our sales force for as long as the merchant processes with us, which we may buy out at an agreed multiple) from a large number of Relationship Managers or sales managers;
- add new merchant accounts faster than expected;
- need to reduce pricing in response to competition;

- repurchase our common stock; or

- acquire complementary products, businesses or technologies.

If we raise additional funds through the sale of equity securities, these transactions may dilute the value of our outstanding common stock. We may also decide to issue securities, including debt securities that have rights, preferences and privileges senior to our common stock. We may be unable to raise additional funds on terms favorable to us or at all. If financing is not available or is not available on acceptable terms, we may be unable to fund our future needs. This may prevent us from increasing our market share, capitalizing on new business opportunities or remaining competitive in our industry.

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Risks Related to Our Company

Borrowings under our Amended and Restated Credit Agreement could adversely affect our financial condition, and the related debt service obligations may adversely affect our cash flow and ability to invest in and grow our businesses.

We funded our acquisition of Network Services by borrowing under our Amended and Restated Credit Agreement. The interest rates on this debt are floating based on the LIBOR rate; accordingly, if the LIBOR rate increases, our interest expense would be higher. We intend to fulfill our total debt service obligations primarily from cash generated by our operations. Such funds will not be available to use in future operations, or investing in our businesses. This may adversely impact our ability to expand our businesses or make other investments.

If we are unable to meet our debt obligations, we could be forced to restructure or refinance our obligations, to seek additional equity financing or to sell assets, which we may not be able to do on satisfactory terms or at all. As a result, we could default on those obligations and in the event of such default, our lenders could accelerate our debt or take other actions that could restrict our operations. If we incur significant costs to defend, or are required to book a significant reserve for, claims arising out of the Processing System Intrusion, such costs or reserve could cause us to violate certain of the financial covenants in our Amended and Restated Credit Agreement.

Future sales of our common stock, or the perception in the public markets that these sales may occur, could depress our stock price.

Sales of substantial amounts of our common stock in the public market, or the perception in the public markets that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. At December 31, 2008, we had 37,675,543 shares of our common stock outstanding. In addition, as of December 31, 2008, we had outstanding options to purchase a total of 5,308,173 shares under our 2008 Incentive Stock Option Plan and our 2000 Incentive Stock Option Plan, of which 2,358,443 were vested. Assuming the exercise of all outstanding options to acquire our common stock, our current stockholders would own on a fully-diluted basis 87.7% of the outstanding shares of our common stock, and the number of shares of our common stock available to trade could cause the market price of our common stock to decline. In addition to the adverse effect a price decline could have on holders of our common stock, such a decline could impede our ability to raise capital or to make acquisitions through the issuance of additional shares of our common stock or other equity securities.

Provisions in our charter documents and Delaware law could discourage a takeover that our shareholders may consider favorable or could cause current management to become entrenched and difficult to replace.

Provisions in our amended and restated certificate of incorporation, in our bylaws and under Delaware law could make it more difficult for other companies to acquire us, even if doing so would benefit our stockholders. Our amended and restated certificate of incorporation and bylaws contain the following provisions, among others, which may inhibit an acquisition of our company by a third party:

- advance notification procedures for matters to be brought before stockholder meetings;

- a limitation on who may call stockholder meetings;
- a prohibition on stockholder action by written consent; and
- the ability of our Board of Directors to issue up to 10 million shares of preferred stock without a stockholder vote.

If any shares of preferred stock are issued that contain an extraordinary dividend or special voting power, a change in control could be impeded.

We are also subject to provisions of Delaware law that prohibit us from engaging in any business combination with any interested stockholder, meaning, generally, that a stockholder who beneficially owns more than 15% of our stock cannot acquire us for a period of three years from the date this person became an interested stockholder unless various conditions are met, such as approval of the transaction by our Board of Directors. Any of these restrictions could have the effect of delaying or preventing a change in control.

We may be unable or we may decide not to pay dividends on our common stock at a level anticipated by shareholders, which could depress our stock price.

The payment of dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend on, among other factors, our earnings, stockholders equity, cash position and financial condition. No assurance can be given that we will be able to or will choose to pay any dividends in the foreseeable future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

At December 31, 2008, we owned one facility and leased eleven facilities which we use for operational, sales and administrative purposes.

Our principal executive offices are located in approximately 9,300 square feet of leased office space on Nassau Street in Princeton, New Jersey. The Nassau Street lease expires in May 2013.

We own 35 acres of land in Jeffersonville, Indiana, on which we completed constructing 96,000 square feet of office space for the first phase of our new service center, which opened for operation in December 2007, and 30,000 square feet of space for our equipment deployment area, which opened in December 2008. We are currently building an additional 95,000 square feet of multi-use space on the site of our Jeffersonville service center.

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We lease the following facilities as of December 31, 2008:

Location	Square Feet	Expiration
Alpharetta, Georgia	3,008	November 30, 2010
Chattanooga, Tennessee	9,461	January 31, 2009
Cleveland, Ohio	17,696	June 30, 2012 for 15,940 square feet. 1,756 square feet of the total are on a month-to-month commitment.
Colorado Springs, Colorado	10,431	December 31, 2009
Jeffersonville, Indiana	27,040	between March 31, 2009 and April 30, 2009
Johnson City, Tennessee	45,000	October 22, 2010
Phoenix, Arizona	1,284	March 31, 2010
Plano, Texas	49,015	May 31, 2015
Portland, Oregon	14,203	September 30, 2010
West Windsor Township, New Jersey	5,288	May 31, 2013
Woodbridge, Ontario, Canada	2,205	February 28, 2010

Each of these leases is renewable. The Chattanooga, TN lease was extended to June 30, 2014. The leased facility in Jeffersonville, IN is being replaced by our new service center.

We believe that our facilities are suitable and adequate for our current business operations and, if necessary, could be replaced with little disruption to our company. We periodically review our space requirements and may acquire new space to meet our business needs or consolidate and dispose of or sublet facilities which are no longer required.

ITEM 3. LEGAL PROCEEDINGS

Processing System Intrusion Legal Proceedings

To date, we have had several lawsuits filed against us and we expect additional lawsuits will be filed. These include lawsuits which assert claims against us by cardholders (including various putative class actions seeking in the aggregate to represent all cardholders in the United States whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion) and banks that issued payment cards to cardholders whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion (including various putative class actions seeking to represent all financial institutions that issued payment cards to cardholders whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion), seeking damages allegedly arising out of the Processing System Intrusion and other related relief. The actions generally assert various common-law claims such as claims for negligence and breach of contract, as well as, in some cases, statutory claims such as violation of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The putative cardholder class actions seek various forms of relief including damages, injunctive relief, multiple or punitive damages, attorney s fees and costs. The putative financial institution class actions seek compensatory damages, including recovery of the cost of issuance of replacement cards and losses by reason of unauthorized transactions, as well as injunctive relief, attorney s fees and costs. We have filed a motion with the Judicial Panel on Multidistrict Litigation seeking to have these cases consolidated for pre-trial proceedings before the United States District Court for the Southern District of Texas.

The putative consumer class acting and putative financial institution class actions filed against us through March 13, 2009 are described below.

Putative Consumer Class Actions:

Name of the Court	Date Filed	Principal Parties

United States District Court for the District of New Jersey	January 23, 2009	*Sansom and Engel v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00335
United States District Court for the Northern District of Florida	January 26, 2009	*Read v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00035
United States District Court for the District of Arizona	January 29, 2009	*Swenka v. Heartland Payment Systems, Inc. et al.*, 2:09-cv-00179
United States District Court for the District of Kansas	January 29, 2009	*Barrett v. Heartland Payment Systems, Inc. et al.*, 09-cv-2053
United States District Court for the District of New Jersey	January 29, 2009	*Merino v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00439
United States District Court for the Middle District of Alabama	February 2, 2009	*Brown, Latham and Spencer v. Heartland Payment Systems, Inc. et al.*, 2:09-cv-00086
United States District Court for the Eastern District of California	February 2, 2009	*Hilliard v. Heartland Payment Systems, Inc. et al.*, 1:09-cv-00179
United States District Court for the District of New Jersey	February 2, 2009	*Kaissi v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00540
United States District Court for the Northern District of Ohio	February 3, 2009	*McGinty and Carr v. Heartland Payment Systems, Inc. et al.*, 1:09-cv-00244
United States District Court for the Southern District of Texas	February 4, 2009	*Watson v. Heartland Payment Systems, Inc. et al.*, 4:09-cv-00325
United States District Court for the Eastern District of Wisconsin	February 4, 2009	*Anderson and Hoven v. Heartland Payment Systems, Inc. et al.*, 2:09-cv-00113
United States District Court for the Southern District of Florida	February 6, 2009	*Balloveras v. Heartland Payment Systems, Inc. et al.*, 1:09-cv-20326
United States District Court for the District of New Jersey	February 10, 2009	*Hinton v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00594
United States District Court for the Southern District of California	February 25, 2009	*Mata v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00376
United States District Court for the Western District of Missouri	February 26, 2009	*McLaughlin v. Heartland Payment Systems, Inc. et al.*, 6:09-cv-3069
United States District Court for the District of New Jersey	February 27, 2009	*Rose v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00917

Putative Financial Institution Class Actions:

Name of the Court	**Date Filed**	**Principal Parties**
United States District Court for the District of New Jersey	February 6, 2009	*Lone Summit Bank v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00581
United States District Court for the District of New Jersey	February 13, 2009	*TriCentury Bank et al. v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00697
United States District Court for the Southern District of Texas	February 16, 2009	*Lone Star National Bank v. Heartland Payment Systems, Inc. et al.*, 7:09-cv-00064
United States District Court for the District of New Jersey	February 20, 2009	*Amalgamated Bank et al. v. Heartland Payment Systems, Inc. et al.*, 3:09-cv-00776

A putative class action was commenced against us and certain of our executive officers alleging violations of the federal securities laws in connection with our disclosures relative to the Processing System Intrusion and our computer system security and the alleged trading in our securities by four of our officers. This case, *Davis v. Hartland Payment Systems, Inc, Robert O. Carr and Robert H.B. Baldwin, Jr.,* commenced on March 6, 2009 in the United States District Court for the District of New Jersey. The plaintiff in the putative federal securities law class action seeks to represent all purchasers of our securities between August 5, 2008 and February 23, 2009 and seeks to recover losses such purchasers allegedly incurred by reason of their purchases, as well as related costs and expenses.

We have been advised by the SEC that it has commenced an informal inquiry, and we have been advised by the United States Attorney for the District of New Jersey that it has commenced an investigation, in each case to determine whether there have been any violations of the federal securities laws in connection with our disclosure of the Processing Systems Intrusion and the alleged trading in our securities by certain of our employees, including certain executive officers.

We have been contacted by the Federal Financial Institutions Examination Council and informed that it will be making inquiries into the Processing System Intrusion, and the Federal Trade Commission, by letter dated February 19, 2009, has requested that we provide information about our information security practices. Additionally, we have received written or telephonic inquiries relating to the Processing System Intrusion from a number of state Attorneys General s offices, including a Civil Investigative Demand from the Louisiana Department of Justice Office of the Attorney General, the Canadian Privacy Commission, and other government officials. We are cooperating with the government officials in response to each of these inquiries. We expect that additional lawsuits may be filed against us relating to the Processing System Intrusion and that additional inquiries from governmental agencies may be received or investigations may be commenced.

Although we intend to defend the lawsuits, investigations and inquiries described above vigorously, we cannot predict the outcome of such lawsuits, investigations and inquiries . Apart from damages claimed in such lawsuits and in other lawsuits relating to the Processing System Intrusion that may be filed, we may be subject to fines or other obligations as a result of the government inquiries and investigations described above and additional governmental inquiries or investigations relating to the Processing System Intrusion that may be commenced. The card brands may also assert claims seeking to impose fines, penalties, and/or other assessments against us or our sponsor banks (who would seek indemnification from us pursuant to our agreements with them) based upon the Processing System Intrusion. In that regard, **w**e have been advised by Visa that based on Visa s investigation of the Processing System Intrusion Visa believes we are in violation of the Visa Operating Regulations and that, based on that belief, Visa has removed us from Visa s published list of PCI-DSS compliant service providers until such time as we are re-certified as PCI-DSS compliant and the assessor s report attesting to such re-certification has been reviewed and approved by Visa, intends to seek to impose fines on our sponsor banks, which fines (if successfully imposed) our sponsor banks could in turn seek to recover from us, intends to place us in a probationary status during the two years following our re-certification as being PCI-DSS compliant, during which time our failure to comply with the probationary requirements set forth by Visa or with the Visa Operating Regulations may result in Visa seeking to impose further risk conditions on us, including but not limited to our disconnection from VisaNet or our disqualification from the Visa payment system, and intends to treat some or all of the Visa accounts that Visa considers to have been placed at risk of compromise in the Processing System Intrusion as being eligible for Visa s Account Data Compromise Recovery and Data Compromise Recovery Solution processes, which processes could result in Visa s seeking to recover from our sponsor banks (and our sponsor banks in turn seeking to recover from us) amounts in respect of fraud losses and operating expenses that Visa believes Visa issuers to have incurred by reason of the Processing System Intrusion. We expect the other Card Brands will assert claims seeking to impose fines, penalties, and/or other assessments against us or our sponsor banks (who would seek indemnification from us pursuant to our agreements with them) based upon the Processing System Intrusion. By these claims, we expect the other Card Brands to seek to recover from us, or from our sponsor banks (who would in turn seek to recover from us), assessments in respect of fraud losses and operating expenses (including card reissuance costs and non-ordinary-course account monitoring expenses) that the other Card Brands believe either themselves or their issuers to have incurred by reason of the Processing System Intrusion, as well as fines and/or penalties by reason of our alleged failure to comply with the other Card Brands operating regulations. The amounts of the Card Brand claims described above are expected to be material, and the amounts we are required to pay to defend against and/or resolve those claims could have a material adverse effect on our results of operations and financial condition.

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While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claim as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact our results of operations, financial condition and cash flow.

Although we have insurance that we believe may cover some of the costs and losses that we may incur in connection with the above-described pending and potential lawsuits, inquiries, investigations and claims, we cannot now confirm that such coverage will, in fact, be provided or the extent of such coverage, if it is provided.

Other Legal Proceedings

On December 16, 2008, a putative class action was filed against us in the Superior Court of California, County of San Diego, *Ryan McInerney, Hossein Vazir Zand v. Heartland Payment Systems, Inc*. The plaintiffs purport to represent a putative class of individuals who allegedly were not reimbursed by us for business expenses and whose compensation was allegedly reduced for their costs of doing business. The plaintiffs seek unspecified monetary damages, penalties, injunctive and declaratory relief, and attorney s fees and costs.

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. We believe that the outcome of the proceedings to which we are currently a party will not have a material adverse effect on our financial position, results of operations or cash flows.

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

No matters were submitted to a vote of our shareholders during our fourth quarter ended December 31, 2008.

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PART II

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

Market Information

Our common stock trades on the New York Stock Exchange under the ticker symbol HPY. The following table sets forth the high and low sales prices of our common stock and dividend paid per share for the four quarters during the years ended December 31, 2007 and 2008:

	High	Low	Dividend Per Share
2007			
Quarter Ended:			
March 31, 2007	$ 29.01	$ 23.40	$ 0.05
June 30, 2007	$ 29.60	$ 23.66	$ 0.05
September 30, 2007	$ 33.00	$ 24.99	$ 0.075
December 31, 2007	$ 33.00	$ 25.37	$ 0.075
2008			
Quarter Ended:			
March 31, 2008	$ 27.01	$ 19.44	$ 0.09
June 30, 2008	$ 27.77	$ 20.63	$ 0.09
September 30, 2008	$ 33.00	$ 20.54	$ 0.09
December 31, 2008	$ 27.04	$ 12.01	$ 0.09

Holders of Common Stock

The number of shareholders of record of our common stock as of March 4, 2009 was 43.

Dividends

Until the third quarter of 2006, we had not paid any cash dividends on our common stock. On August 1, 2006, our Board of Directors declared the first quarterly cash dividend on our common stock. On February 20, 2009, the Company s Board of Directors declared a quarterly cash dividend of $0.025 per share of common stock, payable on March 16, 2009 to stockholders of record as of March 9, 2009.

Our Board of Directors believed it prudent to establish a new dividend rate in light of the current difficulties in the financial markets and potential claims related to the Processing System Intrusion. The payment of dividends on our common stock in the future will be at the discretion of our Board of Directors and will depend on, among other factors, our earnings, stockholders equity, cash position and financial condition.

Securities Authorized For Issuance Under Equity Compensation Plans

We maintain the Heartland Payment Systems, Inc. 2008 Equity Incentive Plan under which shares of our common stock are authorized for issuance. For more information on this plan, see Note 14 to Notes to Consolidated Financial Statements. Information regarding the common stock issuable under this plan as of December 31, 2008 is set forth in the following table:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and	Weighted-average exercise price of outstanding options,	Number of securities remaining available for future issuance under equity compensation plans (excluding securities

	rights	warrants and rights	reflected in the first column)
Equity compensation plans approved by security holders	5,308,173	$ 17.38	4,745,078
Equity compensation plans not approved by security holders	None	N/A	None
Total	5,308,173	$ 17.38	4,745,078

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Purchases of Equity Securities by the Issuer

On January 13, 2006, our Board of Directors authorized management to repurchase up to the lesser of (a) 1,000,000 shares of our common stock or (b) $25,000,000 worth of our common stock in the open market. On August 1, 2006, our Board of Directors authorized management to repurchase up to 1,000,000 shares of our common stock in the open market using the proceeds from the exercise of stock options. On May 3, 2007, the Board of Directors eliminated the restriction in the August 1, 2006 repurchase authorization which required management to use only proceeds from the issuance of stock options for repurchases, and increased the total remaining authorized number of shares to be repurchased to 2,000,000. Under these authorizations, the Company had repurchased an aggregate of 2,574,284 shares of its common stock at a cost of $61.9 million, or an average cost of $24.04 per share through, February 28, 2008.

On February 28, 2008, the Company s Board of Directors resolved to retire all common shares repurchased and include the retired shares in the authorized and unissued shares of the Company. Until February 28, 2008, the final disposition of the repurchased shares had not been decided. The excess of the purchase price of the treasury stock over the stated value was allocated between additional paid-in capital and retained earnings.

Performance Graph

The following graph compares the percentage change in cumulative total stockholder return on our common stock from August 10, 2005, the date our common stock was priced in connection with our initial public offering, through December 31, 2008 with the cumulative total return over the same period of (i) the S&P 500 Index and (ii) the S&P Information Technology Index.

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The below comparison assumes $100 was invested on August 10, 2005 in our common stock and in the S&P 500 Index and the S&P Information Technology Index, and assumes reinvestment of dividends, if any. Historical stock prices are not indicative of future stock price performance.

	Base Period		Period Ended		
	08/10/05	12/31/05	12/31/06	12/31/07	12/31/08
Heartland Payment Systems, Inc.	100.00	120.33	157.23	150.48	99.92
S&P 500	100.00	102.39	118.57	125.08	78.80
S&P Information Technology Index	100.00	101.53	110.08	128.03	72.80

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical consolidated financial information and other data for the years ended December 31, 2008, 2007, and 2006, which are derived from our consolidated financial statements included elsewhere in this report. Historical consolidated financial information for 2005 and 2004 are derived from our consolidated financial statements for those years (not included herein). The information in the following table should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this report.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Statement of Operations Data:					
Total revenues	$ 1,544,902	$ 1,313,846	$ 1,097,041	$ 834,824	$ 602,851
Costs of Services:					
Interchange	1,093,546	962,025	804,267	611,736	438,738
Dues, assessments and fees	67,648	57,050	47,122	36,602	26,317
Processing and servicing	173,743	126,599	111,554	82,557	67,263
Customer acquisition costs	48,522	44,193	35,451	28,025	18,908
Depreciation and amortization	11,006	6,806	6,042	5,685	3,912
Total costs of services	1,394,465	1,196,673	1,004,436	764,605	555,138
General and administrative	79,828	57,404	47,787	37,761	31,501
Total expenses	1,474,293	1,254,077	1,052,223	802,366	586,639
Income from operations	70,609	59,769	44,818	32,458	16,212
Other income (expense):					
Interest income	755	1,934	1,225	477	80
Interest expense	(3,206)	(785)	(753)	(1,553)	(1,385)
Losses on investments	(395)	(1,650)			
Exit costs for Service Center		(1,267)			
Fair value adjustment for warrants with mandatory redemption provisions				(2,912)	(509)
Gain on settlement of financing arrangement				5,140	
Other, net	(5)	(841)	(669)	198	833
Total other income (expense)	(2,851)	(2,609)	(197)	1,350	(981)
Income before income taxes	67,758	57,160	44,621	33,808	15,231
Provision for income taxes	25,918	21,290	16,077	14,715	6,376
Net income	41,840	35,870	28,544	19,093	8,855
Income allocated to Series A Senior Convertible Participating Preferred Stock				(4,728)	(4,263)
Net income attributable to Common Stock	$ 41,840	$ 35,870	$ 28,544	$ 14,365	$ 4,592
Earnings per common share:					
Basic	$ 1.12	$ 0.95	$ 0.78	$ 0.62	$ 0.28
Diluted	$ 1.08	$ 0.90	$ 0.71	$ 0.50	$ 0.26

Weighted average number of common shares outstanding:

Basic		37,521		37,686		36,394	23,069	16,408
Diluted		38,698		39,980		39,943	37,879	33,786
Cash dividends declared per common share	$	0.36	$	0.25	$	0.05		
Other Data:								
Number of active bank card merchants serviced (at period end - in thousands)		230		155		133	110	89
Bank card processing volume for the period (in millions)		66,925		51,936		43,294	33,722	24,987

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	As of December 31,				
	2008	2007	2006 (in thousands)	2005	2004
Balance Sheet Data:					
Cash and cash equivalents	$ 27,589	$ 35,508	$ 16,054	$ 8,724	$ 4,376
Receivables, net	140,145	122,613	107,154	93,756	64,325
Total assets	463,619	329,189	251,768	183,685	133,926
Due to sponsor banks	68,212	49,798	27,253	34,530	45,153
Accounts payable	25,864	20,495	16,936	14,736	17,692
Current portion of borrowings	58,522		174	261	5,286
Long term portion of borrowings	16,984			173	7,808
Total liabilities	284,375	163,520	112,475	103,634	127,827
Total Stockholders Equity	179,244	165,669	139,293	80,051	6,099

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the accompanying notes to consolidated financial statements and the risk factors included elsewhere in this report.

Overview

General

Our primary business is to provide bank card payment processing services to merchants in the United States and Canada. This involves facilitating the exchange of information and funds between merchants and cardholders financial institutions, providing end-to-end electronic payment processing services to merchants, including merchant set-up and training, transaction authorization and electronic draft capture, clearing and settlement, merchant accounting, merchant assistance and support and risk management. Our merchant customers primarily fall into two categories; our core small and mid-sized merchants (referred to as Small and Midsized Enterprises, or SME) and large national merchants, primarily in the petroleum industry. We also provide additional services to our merchants, such as payroll processing, gift and loyalty programs, and paper check processing, and we sell and rent point-of-sale devices and supplies.

On January 20, 2009, we publicly announced the Processing System Intrusion, which apparently had occurred during some portion of 2008. See Processing System Intrusion for more detail.

At December 31, 2008, we provided our bank card payment processing services to approximately 168,850 active SME bank card merchants located across the United States. This represents a 9.1% increase over the 154,750 active SME bank card merchants at December 31, 2007. At December 31, 2008, we provided bank card payment processing services to approximately 82 large national merchants with approximately 55,761 locations. Our total bank card processing volume for the year ended December 31, 2008 was $66.9 billion, a 28.9% increase from the $51.9 billion processed during the year ended December 31, 2007. Bank card processing volume for 2008 includes $8.7 billion for large national merchants acquired with Network Services. For the years ended December 31, 2006 and 2005, our bank card processing volume was $43.3 billion and $33.7 billion, respectively.

In May 2008, we acquired the net assets of the Network Services Business unit (Network Services) of Alliance Data Network Services LLC (Alliance), for a cash payment of $92.5 million. The acquisition was financed through a combination of cash on hand and our credit facilities. Network Services provides processing of credit and debit cards to large national merchants, primarily in the petroleum industry. Network Services settled 604 million transactions representing over $17 billion of total annual Visa and MasterCard bank card processing volume in 2007. In addition to settling Visa and MasterCard transactions, Network Services processes a wide range of payment transactions for its predominantly petroleum customer base, including providing approximately 2.6 billion transaction authorizations through its front-end card processing systems (primarily for Visa and MasterCard) in 2007. Network Services added $8.7 billion to our bank card processing volume on 317 million settled transactions since its acquisition through December 31, 2008. Additionally, Network Services generated revenues on 1.6 billion transactions it authorized through its front-end card processing systems since its acquisition through December 31, 2008.

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In March 2008, we acquired a majority interest in Collective Point of Sale Solutions Ltd. (CPOS) for a net cash payment of $10.1 million. CPOS is a Canadian provider of payment processing services and secure point-of-sale solutions. This acquisition added approximately 5,100 Canadian merchants and provides us an entrance into the Canadian credit and debit card processing market. We are now able to service merchants that have locations in both the United States and Canada. We do not expect the acquisition of CPOS to have a material impact on our 2009 revenues or net income.

In November 2008, we acquired the net assets of Chockstone, Inc. (Chockstone) for a net cash payment of $4.1 million. The Chockstone acquisition expands our ability to equip merchants nationwide with enhanced gift card and loyalty programs. Chockstone s loyalty platform helps businesses of all sizes identify their most profitable customers and market to their unique needs - thereby increasing the frequency of their visits and the size of their average purchases. Chockstone s loyalty marketing and gift card solutions are used by leading brands in more than 65,000 restaurants, convenience stores, and other retail locations in North America. We do not expect the acquisition of Chockstone to have a material impact on our 2009 revenues or net income.

We have developed a number of proprietary payment processing systems to increase our operating efficiencies and distribute our processing and merchant data to our three main constituencies: our merchant base, our sales force and our customer service staff. In 2001, we began providing authorization and data capture services to our SME merchants through our own front-end processing system, which we call HPS Exchange. In 2005, we began providing clearing, settlement and merchant accounting services through our own internally developed back-end processing system, which we call Passport. Passport enables us to customize these services to the needs of our Relationship Managers and SME merchants. Currently, we are further developing HPS Exchange and Passport to process the large national merchants which we acquired with Network Services.

During the years ended December 31, 2008, 2007 and 2006, approximately 83%, 75% and 64%, respectively, of our SME transactions were processed through HPS Exchange, which has decreased our operating costs per transaction. At December 31, 2008 and 2007, approximately 98% of our active SME merchants were processing on Passport, which also has contributed to decreasing our operating costs per transaction. With our conversion to Passport, our internally developed systems are providing substantially all aspects of most of our merchants processing needs, excluding Network Services. Previously, we relied on third party vendors for many of these services including bank card authorization and data capture services, settlement and merchant accounting services. We will continue to process a minority of our transactions through third party front-end systems.

The bank card revenue we earn in our SME business is recurring in nature, as we typically enter into three-year service contracts with our card processing merchants that, in order to qualify for the agreed-upon pricing, require the merchant to achieve bank card processing volume minimums. Most of our SME revenue is payment processing fees, which are a combination of a fee equal to a percentage of the dollar amount of each Visa or MasterCard transaction we process plus a flat fee per transaction. We make mandatory payments of interchange fees to card-issuing banks through Visa and MasterCard and dues, assessments and other network fees to Visa and MasterCard. Our SME gross bank card processing revenue is largely driven by Visa and MasterCard volume processed by merchants with whom we have processing contracts; as such, we also generally benefit from consumers increasing use of bank cards in place of cash and checks, and sales growth experienced by our retained bank card merchants. In contrast, Network Services revenues are largely driven by the number of transactions it processes (whether settled, or only authorized), not its processing volume, as the larger merchants which comprise Network Services customer base pay on a per transaction basis for processing services.

Significant increases in our sales force have led to significant growth in the number of SME merchants for whom we process. Our sales managers are compensated based on their success in growing the sales force and increasing the total SME bank card, payroll and check processing merchants in their regions. Our number of total Relationship Managers grew from 952 at December 31, 2006 and 1,117 at December 31, 2007, to 1,166 at December 31, 2008. We measure the production of our sales force by gross margin installed, which reflects the expected annual gross profit from a merchant/customer contract after deducting processing and servicing costs associated with that revenue. In 2008, our installed gross margin increased 13% over 2007 levels, which in turn represented a 22% increase over 2006 levels. The number of total SME bank card, payroll and check processing merchants we installed during year ended December 31, 2008 was 60,164 new merchants installed, compared to

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61,502 new merchants installed during the year ended December 31, 2007 and 54,099 new merchants installed during the year ended December 31, 2006. Our installed margin has grown faster than merchant count due both to installing larger merchants, and increases in margin per dollar processed.

As a result of our commission-only compensation system for our sales force, we are able to increase the size of our sales force with minimal upfront costs. However, since we pay signing bonuses and commissions approximating 92% of the gross margin generated by a SME merchant in its first year, growth in installed margin consumes significant capital, as it typically takes approximately one year s processing to cover the outlays for signing bonuses, commissions and payroll taxes.

In our SME business, same store sales growth, which represents the change in bank card processing volume for all bank card merchants that were processing with us in the same month a year earlier, contracted by 2.1% on average in 2008, compared to growth of 3.0% on average in 2007 and 4.2% on average in 2006. Same store sales growth or contraction results from the combination of the increasing use by consumers of bank cards for the purchase of goods and services at the point of sale, and sales growth or contraction experienced by our retained SME bank card merchants. The following table compares our same store sales growth or contraction for the 2008, 2007 and 2006 full years and by quarter during 2007 and 2008:

By Full Year	**Same Store Sales Growth (Contraction)**
2006 full year	4.2%
2007 full year	3.0%
2008 full year	(2.1)%
By Quarter 2007 and 2008	
2007 first quarter	3.4%
2007 second quarter	3.3%
2007 third quarter	3.6%
2007 fourth quarter	2.1%
2008 first quarter	0.6%
2008 second quarter	(0.1)%
2008 third quarter	(2.0)%
2008 fourth quarter	(6.8)%

We attribute the declining rates of same store sales growth percentages in our SME business, including the increasing contraction rates we experienced during the second, third and fourth quarters of 2008, to declining economic conditions including impacts from severely contracted credit markets, a weak housing market, historically low consumer and investor confidence and a soft labor market leading to higher unemployment rates. Management believes that all of these factors have negatively impacted consumer confidence, disposable income, spending and behavior, which has impacted the businesses of our SME merchants. In addition, Management believes that the current challenging economic conditions and depressed consumer confidence, as well as the general contraction in credit availability, may continue to negatively impact our business.

We also derive recurring revenue from our payroll processing services, American Express and Discover processing, and maintenance fees on micro payment and campus solutions. Other revenues include sales of card processing and micro payment equipment and fees for additional services we provide, such as fees for handling merchants chargebacks.

We provide payroll processing services throughout the United States. At December 31, 2008, we processed payroll for 7,738 customers, an increase of 24.6% from 6,209 payroll customers at December 31, 2007.

Processing System Intrusion

On January 20, 2009, we publicly announced the Processing System Intrusion. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by us during the transaction authorization process. Such data is not required to be encrypted while in transit under current

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payment card industry guidelines. We had received confirmation of our compliance with the Payment Card Initiative Data Security Standard (PCI-DSS) from a third-party assessor each year since the standard was announced, including most recently in April 2008. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). However, the cardholder information that we process does not include addresses or Social Security numbers. Also, we believe that no unencrypted PIN data was captured. We believe the breach has been contained and did not extend beyond 2008. Our investigation of the Processing System Intrusion is ongoing.

We have been advised by Visa Inc. that based on Visa s investigation of the Processing System Intrusion, Visa believes we are in violation of the Visa operating regulations and that, based on that belief, Visa has removed us from Visa published list of PCI-DSS compliant service providers until such time as we are re-certified as PCI-DSS compliant and the assessor s report attesting to such re-certification has been reviewed and approved by Visa, intends to seek to impose fines on our sponsor banks, which fines (if successfully imposed) our sponsor banks could in turn seek to recover from us, intends to place us in a probationary status during the two years following our re-certification as being PCI-DSS compliant, during which time our failure to comply with the probationary requirements set forth by Visa or with the Visa operating regulations may result in Visa seeking to impose further risk conditions on us, including but not limited to our disconnection from VisaNet or our disqualification from the Visa payment system, and intends to treat some or all of the Visa accounts that Visa considers to have been placed at risk of compromise in the Processing System Intrusion as being eligible for Visa s Account Data Compromise Recovery and Data Compromise Recovery Solution processes, which processes could result in Visa s seeking to recover from our sponsor banks (and our sponsor banks in turn seeking to recover from us) amounts in respect of fraud losses and operating expenses that Visa believes Visa issuers to have incurred by reason of the Processing System Intrusion.

While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claims as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs could be material and are expected to adversely impact our results of operations, financial condition and cash flow.

2008 Financial Highlights

For 2008, we recorded net income of $41.8 million, or $1.08 per diluted share, increases of 16.6% and 20.0%, respectively, from $35.9 million, or $0.90 per diluted share, in 2007. The increases were primarily driven by revenues added by the growth in our transaction processing volume and efficiencies realized in processing and servicing costs. Net income for 2008 included pre-tax charges of $0.4 million for losses on investments. Net income for 2007 included pre-tax charges of $1.7 million for the write off of an investment, $1.3 million to record the costs associated with exiting our old service center, and $0.8 million to record our liability from a legal proceeding under an indemnification we had provided to an insurer. The following is a summary of our financial results for 2008:

- New installed gross margin increased by 13% over 2007.

- Bank card processing volume during 2008 increased 28.9% to $66.9 billion from $51.9 billion during 2007; however, 2008 included $8.7 billion of processing volume from Network Services. Excluding Network Services processing volume, we received percentage-based revenues on processing volume of $57.9 billion, an increase of 11.6% over the $51.9 billion processed in 2007. This 11.6% increase in SME bank card processing volume was primarily attributable to a net increase in SME merchant accounts and installed gross margin. Additionally, Network Services generated revenues on the 317 million transactions it settled, and the 1.6 billion transactions it authorized through its front-end card processing systems since we acquired that business.

- Net revenue, which we define as total revenues less interchange fees and dues, assessments and fees, increased 30.2% to $383.7 million during 2008 from $294.8 million during 2007. The increase in net revenue was driven by the year-over-year increases in active merchants and processing volume, as well as the addition of revenues from Network Services. Excluding Network Services revenue, our net revenue grew by 15.3% during 2008.

Our processing and servicing costs for 2008 increased to 11.2% of our total revenues, from 9.6% of total revenues for 2007. The increase in processing and servicing expense included $25.1 million for Network Services and an increase of $3.5 million in merchant losses during the year ended December 31, 2008 as we incurred increased losses primarily related to merchants that had gone out of business due to weak economic conditions. The increase was also due to costs associated with the increased bank card processing volume, equipment costs of sales and the costs of operating our service center, particularly the costs of support personnel including field Account Managers and depreciation and amortization.

Our income from operations, which we also refer to as operating income, grew to $70.6 million for 2008 from $59.8 million for 2007. Our operating margin, which is measured as operating income divided by net revenue, was 18.4% for 2008, compared to 20.3% for 2007. Network Services operating margin is significantly lower than that of our historic business, and will materially reduce our combined operating margins in future periods.

Our effective income tax rate for 2008 was 38.3%, which compares to an effective tax rate of 37.2% for 2007. The higher effective tax rate for the year was due to increases in state income tax rates.

Components of Revenues and Expenses

Revenues. Our revenues fall into three categories: gross card processing revenue, payroll processing revenue and equipment-related income. Our gross card processing revenue primarily consists of discount, per-transaction (Network Services prices its card processing fees entirely on a per transaction basis) and periodic (primarily monthly) fees from the processing of bank card transactions, primarily Visa and MasterCard transactions, for merchants and authorization of transactions by Network Services. These fees are negotiated by our Relationship Managers with each merchant. Gross card processing revenue also includes American Express and Discover fees, customer service fees, fees for processing chargebacks, termination fees on terminated contracts, check processing fees, gift and loyalty card fees and other miscellaneous revenue. Revenues are recorded at the time service is provided.

Payroll processing revenue includes fees charged by our subsidiary, Heartland Payroll Company, for payroll processing services, including check printing, direct deposit, related federal, state and local tax deposits and providing accounting documentation and interest income earned on funds held for customers. Revenues are recorded at the time service is provided.

Equipment-related income includes revenues from the sale, rental and deployment of bank card and check processing terminals. Since January 1, 2006, our equipment-related income also includes revenues from the sale of hardware, software and associated services for prepaid card and stored-value card payment systems. Beginning October 19, 2007, we added revenues from the sale of hardware, software and associated services for campus payment solutions to our equipment-related income. Equipment revenues are recorded at the time of shipment, or the provision of service. Most of these revenue items will tend to grow with our merchant growth.

Expenses. Our most significant expense is interchange fees, which are set by the Visa and MasterCard card networks, and are paid to the card issuing banks. For our SME bank card processing, we do not offset bank card processing revenues and interchange fees because our business practice is to advance the interchange fees to most of our merchants when settling their daily transactions (thus paying the full amount of the transaction to the merchant), and then to collect our full discount fees from our merchants on the first business day of the next month. As Network Services does not advance interchange fees to its merchants, we record its portion of our processing revenues net of interchange fees. Interchange fees are calculated as a percentage of the dollar volume processed plus a per transaction fee. We also pay Visa and MasterCard network dues, assessments and fees, which are a combination of a percentage of the dollar volume processed and per transaction fees. Interchange fees and dues, assessments and fees are recognized at the time transactions are processed. It is our policy to pass along to our merchants any changes in interchange fees and card network dues, assessments and fees. Since the card networks regularly adjust those rates, our gross processing revenue will increase or decrease, but all the impact will be paid to the card issuing banks and our income from operations will not be affected.

Costs of services also include processing and servicing costs, customer acquisition costs, and depreciation and amortization. Processing and servicing costs include:

- processing costs, which are either paid to third parties, including our bank sponsors, or represent the cost of our own authorization/capture and accounting/settlement systems. During 2008, third party costs represented about 74% of our processing costs and increased due to our addition of Network Services, with internal costs representing the remainder. During 2007, third party costs represented about 69% of our processing costs, compared to 74% during 2006. Approximately 17% of our third-party processing costs in 2008 were paid to Alliance Data Systems Corporation for processing Network Services Transactions. Approximately 35%, 66% and 71%, respectively, of our third-party processing costs in 2008, 2007 and 2006 were paid to TSYS Acquiring Solutions;

- residual commission payments to our Relationship Managers, sales managers, trade associations, agent banks and value-added resellers, which are a percentage of the gross margin we generated from our merchant contracts during the accounting period;

- the costs of operating our service center, including telecommunications costs, personnel costs, occupancy costs, losses due to merchant defaults, depreciation and amortization, and other direct merchant servicing costs; and

- the costs of bank card terminals, prepaid card and stored value hardware deployed, and merchant supplies.

Customer acquisition costs reflect the amortization over the initial three-year contract term of the cash signing bonus paid and the deferred acquisition costs for vested Relationship Managers and sales managers, as well as changes in the accrued buyout liability, which reflect the impact of buying out residual commissions (see Critical Accounting Estimates Accrued Buyout Liability) and volume attrition.

Depreciation and amortization expenses are primarily recognized on a straight-line basis over the estimated useful life of the asset. We have made significant capital expenditures for computer hardware and software and such costs are generally depreciated over three to five years.

General and administrative expenses include salaries and wages and other administrative expenses. The two most significant elements in these expenses are our information technology infrastructure costs and our marketing expenses. Beginning January 1, 2006, general and administrative expenses also include expenses recorded for share-based compensation under SFAS No. 123R.

Other income (expense) consists of interest income on cash and investments, the interest cost on our borrowings, losses on investments, the gains or losses on the disposal or write down of property, plant and equipment and other non-operating income or expense items.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from those estimates. Our significant accounting policies are more fully described in note 2 to our consolidated financial statements included elsewhere in this report. The critical accounting estimates described here are those that are most important to the depiction of our financial condition and results of operations, including those whose application requires management s most subjective judgment in making estimates about the effect of matters that are inherently uncertain. The line items on our income statement and balance sheet impacted by management s estimates are described below.

Revenues

Historically, we have paid 70% to 75% of our gross processing revenue as interchange fees to the card issuing banks. Certain of our competitors report their revenue net of interchange fees. This is because the issuing banks make their payments to these competitors net of those interchange fees, and these acquirers pay this reduced amount to their merchants. We do not offset gross processing revenue and interchange fees because our business practice is to fund the interchange fee or to arrange for our sponsor bank to advance the interchange fees to most of our merchants when settling their transactions (thus paying the full amount of the transaction to the merchant), and then to collect our full discount fees from our merchants on the first business day of the next month. We believe this policy aids in new business generation, as our merchants benefit from bookkeeping simplicity. However, this results in our carrying a large receivable from our merchants at each period-end, and a corresponding but smaller payable to our sponsor bank, both of which are settled on the first business day after the period-end. As we are at risk for the receivables, we record the associated revenues on a gross processing revenue basis in our consolidated income statements. Since the acquisition of Network Services, we record a portion of our processing revenues net of interchange fees because the daily cash settlement with the Network Services merchants is net of interchange fees.

Capitalized Customer Acquisition Costs

Capitalized customer acquisition costs consist of (1) up-front signing bonuses paid to Relationship Managers and sales managers, referred to as the salesperson or salespersons, for the establishment of new merchant relationships, and (2) deferred acquisition cost representing the estimated cost of buying out the commissions of vested salespersons at some point in the future. Pursuant to Staff Accounting Bulletin Topic 13,

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Revenue Recognition, and the Financial Accounting Standards Board (FASB) Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*, capitalized customer acquisition costs represent incremental, direct customer acquisition costs that are recoverable through gross margins associated with SME merchant contracts. The capitalized customer acquisition costs are amortized using a method which approximates a proportional revenue approach over the initial three-year term of the merchant contract.

The amount of the up-front signing bonus paid for new SME bank card, payroll and check processing accounts is based on the estimated gross margin for the first year of the merchant contract. The gross signing bonuses paid during 2008, 2007 and 2006 were $43.8 million, $43.6 million and $32.6 million, respectively. The signing bonus paid, amount capitalized, and related amortization are adjusted at the end of the first year to reflect the actual gross margin generated by the merchant contract during that year. The net signing bonus adjustments made during 2008, 2007 and 2006 were positive $1.7 million, $1.1 million and $1.1 million, respectively. Positive signing bonus adjustments occur when the actual gross margin generated by the merchant contract during the first year exceeds the estimated gross margin for that year, resulting in the underpayment of the up-front signing bonus. Negative signing bonus adjustments could result from prior overpayments of up-front signing bonuses, and would be recovered from the relevant salesperson. The amount of signing bonuses paid which remained subject to adjustment at December 31, 2008 and 2007 was $41.2 million and $41.8 million, respectively.

The deferred acquisition cost component is accrued for vested salespersons over the first year of bank card merchant processing, consistent with the build-up in the accrued buyout liability, which is described below.

Management evaluates the capitalized customer acquisition costs for impairment at each balance sheet date by comparing, on a pooled basis by vintage month of origination, the expected future net cash flows from underlying merchant relationships to the carrying amount of the capitalized customer acquisition costs. If the estimated future net cash flows are lower than the recorded carrying amount, indicating an impairment of the value of the capitalized customer acquisition costs, the impairment loss will be charged to operations. We have not recognized an impairment loss in 2008, 2007 or 2006.

Accrued Buyout Liability

We pay our salespersons residual commissions based on the gross margin generated from the monthly processing activity of SME merchants signed by them. We refer to these residual commissions as the owned portion of such commissions, or portfolio equity. The salesperson has no obligation to perform additional services for the merchant for so long as the merchant continues processing with us. We accrue the buyout liability, which represents the estimated current settlement cost of buying out all vested and expected-to-vest salespersons for the owned portion of such commissions. We also record a deferred acquisition cost asset related to those buyouts, and amortize that asset as an expense over the initial 3-year contract term.

We consider a salesperson to be vested once they have established merchant relationships that generate the equivalent of $10,000 of monthly gross margin. Vested status entitles the salesperson to his or her residual commissions for as long as the merchant processes with us, even if the salesperson is no longer employed by us.

The accrued buyout liability is based on the SME merchants we have under contract at the balance sheet date, the gross margin we generated from those accounts in the prior twelve months, the owned commission rate, and the fixed buyout multiple of 2.5 times the commissions. The liability related to a new merchant is therefore zero when the merchant is installed, and increases over the twelve months following the installation date.

For unvested salespersons, the accrued buyout liability is accrued over the expected vesting period; however, no deferred acquisition cost is capitalized as future services are required in order to vest. In calculating the accrued buyout liability for unvested salespersons, we have assumed that 31% of unvested salespersons will vest in the future, which represents our historical vesting rate. A 5% increase to 36% in the expected vesting rate would have increased the accrued buyout liability for unvested salespersons by $0.2 million at December 31, 2008 and 2007.

Buyout payments made to salespersons reduce the outstanding accrued buyout liability. Given our view of the duration of the cash flows associated with a pool of merchant contracts, we believe that the benefits of

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such buyouts significantly exceed the cost, which typically represents 2 to 2 1/2 years of commissions. If the cash flows associated with a pool of bought out contracts does not exceed this cost, we will incur an economic loss on our decision to buyout the contracts. During 2008, 2007 and 2006, we made buyout payments of approximately $7.0 million, $8.8 million and $10.7 million, respectively. We expect to make significant buyout payments in the future, subject to available cash, as such buyouts reduce the monthly payments we will have to make to our salespersons for such merchants in the future.

Reserve for Processing System Intrusion

The Processing System Intrusion requires us to make assumptions and estimates concerning the outcomes and related costs and losses in connection with various lawsuits, claims, and investigations. We make our estimates of costs based on our best judgments and anticipated outcomes of these lawsuits, claims, and investigations. While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claims as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact our results of operations, financial condition and cash flow.

Merchant Deposits and Loss Reserves

Disputes between a cardholder and a merchant periodically arise as a result of, among other things, the cardholder s dissatisfaction with merchandise quality or merchant services. Such disputes may not be resolved in the merchant s favor. In these cases, the transaction is charged back to the merchant, which means the purchase price is refunded to the customer by the card-issuing bank and charged to the merchant. If the merchant is unable to fund the refund, we must do so. We also bear the risk of reject losses arising from the fact that we collect our fees from our merchants on the first day after the monthly billing period. If the merchant has gone out of business during such period, we may be unable to collect such fees. We maintain cash deposits or require the pledge of a letter of credit from certain merchants, generally those with higher average transaction size where the card is not present when the charge is made or the product or service is delivered after the charge is made, in order to offset potential contingent liabilities such as chargebacks and reject losses that would arise if the merchant went out of business. At December 31, 2008 and 2007, we held SME merchant deposits totaling $15.8 million and $14.1 million, respectively. Most chargeback and reject losses are charged to processing and servicing as they are incurred. However, we also maintain a loss reserve against losses including major fraud losses, which are both less predictable and involve larger amounts. The loss reserve was established using historical loss rates, applied to recent bank card processing volume. At December 31, 2008 and 2007, our loss reserve totaled $1,097,000 and $663,000, respectively. Aggregate bank card merchant losses, including losses charged to operations and the loss reserve, were $5.1 million, $2.8 million and $1.9 million for 2008, 2007 and 2006, respectively. As percentages of SME processing volume, in 2008, 2007 and 2006, we experienced losses of 0.0088%, 0.0054% and 0.0045%, respectively.

Chargebacks originating from large national merchant bank card processing are processed and carried by Fifth Third Bank, which is our third-party outsourced processor for settling large national merchant accounts.

Stock Options

We adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) on January 1, 2006. This statement revises SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and its related implementation guidance. The most significant change resulting from this statement is the requirement for public companies to expense employee share-based payments under the fair value method. Pursuant to SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. We elected to adopt the modified-prospective-transition

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method, as provided by SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this transitional method, the Company is required to record compensation expense for all awards granted after the date of adoption using grant-date fair value estimated in accordance with the provisions of SFAS No. 123R and for the unvested portion of previously granted awards using the grant-date fair value estimated in accordance with the provisions of SFAS No. 123.

In the third quarter of 2008, our Board of Directors approved a performance-based stock option program. Under this program, we granted 2.5 million performance-based stock options to our employees. These stock options were granted to those employees who the Board of Directors determined could have significant impact on successfully integrating the recently acquired Network Services business and effectively executing our growth plan. These stock options have a five-year term and will vest in equal amounts in 2011, 2012 and 2013 only if over the term of the stock options, both of the following performance conditions are achieved:

Consolidated net revenue grows at a compound annual rate of at least 15%; and

Fully diluted EPS grows at a compound annual rate of at least 25%.

Management believes that achieving these performance conditions is not more likely than not to occur therefore, no share-based compensation expense has been recorded for these stock options in 2008. The evaluation of the likelihood of achieving these performance conditions will be repeated quarterly, and at such point that vesting of some or all of the options becomes more likely than not, share-based compensation expense will be recorded.

We estimate the grant date fair value of the stock options we issue using a Black-Scholes valuation model. Our assumption for expected volatility is based on our historical volatility for those option grants whose expected life fall within a period we have sufficient historical volatility data related to market trading of our own Common Stock. For those option grants whose expected life is longer than we have sufficient historical volatility data related to market trading of our own Common Stock, we determine an expected volatility assumption by referencing the average volatility experienced by a group of our public company peers. For plain-vanilla stock options, we estimate the expected life of a stock option based on the simplified method as provided by the staff of the SEC in Staff Accounting Bulletins 107 and 110. The simplified method is used because, at this point, we do not have sufficient historical information to develop reasonable expectations about future exercise patterns. For the performance-based options, the expected life is estimated based on the average of three possible performance condition outcomes. Our dividend yield assumption is based on actual dividends expected to be paid over the expected life of the stock option. Our risk-free interest rate assumption for stock options granted is determined by using U.S. treasury rates of the same period as the expected option term of each stock option. The weighted-average fair value of options we granted during 2008, 2007 and 2006 were $6.11, $7.64 and $9.25, respectively. The fair value of options granted during 2008, 2007 and 2006 was estimated at the grant date using the following weighted average assumptions:

	Year Ended December 31,		
	2008	**2007**	**2006**
Expected volatility	35%	31%	41%
Expected life	2.5 to 4.0 years	2.5 to 3.75 years	2.5 to 3.75 years
Expected Dividends	1.36%	0.90%	0.40%
Risk-free interest rate	2.98%	4.29%	4.79%

Prior to adopting SFAS No. 123R, we accounted for stock options using the intrinsic value method under APB No. 25 in which no compensation expense has been recognized for share-based compensation plans. Amounts we recognized in our financial statements during the years ended December 31, 2008, 2007 and 2006 with respect to share-based compensation plans were as follows (in thousands):

	Year Ended December 31,		
	2008	**2007**	**2006**
Compensation expense recognized on share-based plans before income tax benefit	**$ 1,517**	$ 1,747	$ 1,323
Related income tax benefit recognized in the income statement	**572**	651	320
Cash received from stock option exercises	**3,075**	9,955	27,658
Excess tax benefit recorded for tax deductions resulting from the exercise of stock options	**710**	7,623	28,603
Tax benefit realized as reductions of estimated tax payments during the period	**1,400**	23,232	10,775

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Additionally, SFAS No. 123R amended SFAS No. 95, *Statement of Cash Flows* (SFAS No. 95), to require the excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid, which is included within operating cash flows. Accordingly, cash provided by operating activities decreased and cash provided by financing activities increased by $0.7 million and $7.6 million, respectively, related to excess tax benefits from share-based awards in the years ended December 31, 2008 and 2007. In 2008, we realized $1.4 million as reductions of estimated tax payments and realized $11.4 million as reductions of estimated tax payments made during 2007 and $11.8 million from tax refunds we received in 2007 from the recapture of income taxes paid in 2005. The excess tax benefits result from employees exercising non-qualified stock options and making disqualifying dispositions of shares acquired through their exercise of incentive stock options.

The application of SFAS No. 123R had the following effects on reported amounts relative to amounts that we would have reported using the intrinsic value method under APB No. 25 for the year ended December 31, 2006 (in thousands, except per share data):

	Year Ended December 31, 2006	
	Following APB No. 25	After Effect of Adopting SFAS No. 123R
Income from operations	$ 46,141	$ 44,818
Income before income taxes	45,944	44,621
Net income	29,547	28,544
Earnings per common share:		
Basic	$ 0.81	$ 0.78
Diluted	$ 0.74	$ 0.71
Net cash provided by (used in) operating activities	$ 13,977	$ (3,851)
Net cash provided by financing activities	11,281	29,109

Income Taxes

We account for income taxes pursuant to the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes.* Under this method, deferred tax assets and liabilities are recorded to reflect the future tax consequences attributable to the effects of differences between the carrying amounts of existing assets and liabilities for financial reporting and for income tax purposes. Judgments are required in determining the amount and probability of future taxable income, which in turn is critical to a determination of whether a valuation reserve against the deferred tax asset is appropriate.

The FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN No. 48), in June 2006. FIN No. 48 clarifies the accounting for the recognition and measurement of tax benefits associated with uncertain tax positions and defines criterion that an individual tax position must meet for any part of that position to be recognized or continue to be recognized in the financial statements. An uncertain tax position exists if it is unclear how a transaction will be treated under tax law. FIN No. 48 was effective for fiscal years beginning after December 15, 2006.

We adopted FIN No. 48 on January 1, 2007 and as a result, recognized a $0.8 million reserve for unrecognized tax benefits related to uncertain tax positions as a liability on our consolidated balance sheet, increased deferred tax assets by $0.3 million and recorded a cumulative effect adjustment to Retained Earnings of $0.5 million. The Company had approximately $1.7 million of total gross unrecognized tax benefits as of December 31, 2008, approximately $1.3 million of which would impact the effective tax rate.

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Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

The following table shows certain income statement data as a percentage of revenue for the year ended December 31, 2008 compared to the year ended December 31, 2007 (in thousands of dollars):

	2008	% of Total Revenue	2007	% of Total Revenue	Change Amount	Change %
Total Revenues	**$ 1,544,902**	**100.0%**	$ 1,313,846	100.0%	$ 231,056	17.6%
Costs of Services:						
Interchange	**1,093,546**	**70.8%**	962,025	73.2%	131,521	13.7%
Dues, assessments and fees	**67,648**	**4.4%**	57,050	4.3%	10,598	18.6%
Processing and servicing	**173,743**	**11.2%**	126,599	9.6%	47,144	37.2%
Customer acquisition costs	**48,522**	**3.1%**	44,193	3.4%	4,329	9.8%
Depreciation and amortization	**11,006**	**0.7%**	6,806	0.5%	4,200	61.7%
Total costs of services	**1,394,465**	**90.3%**	1,196,673	91.1%	197,792	16.5%
General and administrative	**79,828**	**5.2%**	57,404	4.4%	22,424	39.1%
Total expenses	**1,474,293**	**95.4%**	1,254,077	95.5%	220,216	17.6%
Income from operations	**70,609**	**4.6%**	59,769	4.5%	10,840	18.1%
Other income (expense):						
Interest income	**755**		1,934	0.1%	(1,179)	(61.0)%
Interest expense	**(3,206)**	**(0.2)%**	(785)	(0.1)%	(2,421)	(308.4)%
Other, net	**(400)**		(3,758)	(0.3)%	3,358	89.4%
Total other (expense) income	**(2,851)**	**(0.2)%**	(2,609)	(0.2)%	(242)	(9.3)%
Income before income taxes	**67,758**	**4.4%**	57,160	4.3%	10,598	18.5%
Provision for income taxes	**25,918**	**1.7%**	21,290	1.6%	4,628	21.7%
Net income	**$ 41,840**	**2.7%**	$ 35,870	2.7%	$ 5,970	16.6%

Total Revenues. Total revenues increased by 17.6%, from $1,313.8 million in 2007 to $1,544.9 million in 2008, primarily as a result of a $221.3 million, or 17.2%, increase in our bank card processing revenues. The breakout of our total revenues for the years ended December 31, 2008 and 2007 was as follows (in thousands of dollars):

	Year Ended December 31, 2008	Year Ended December 31, 2007	Change from Prior Year Amount	Change from Prior Year %
Bank card processing revenues, gross	**$ 1,504,381**	$ 1,283,065	$ 221,316	17.2%
Payroll processing revenues	**12,790**	10,205	2,585	25.3%
Equipment-related income	**27,731**	20,576	7,155	34.8%
Total Revenues	**$ 1,544,902**	$ 1,313,846	$ 231,056	17.6%

The increase in our gross bank card processing revenues from $1,283.1 million in 2007 to $1,504.4 million in 2008 was primarily due to higher bank card processing volume. Our bank card processing volume in 2008 increased 28.9% to $66.9 billion, compared to $51.9 billion in 2007; however, the increase included $8.7 billion of settled processing volume from Network Services, which earns revenues on a per transaction basis. Excluding Network Services processing volume, we received percentage-based revenues on processing volume of $57.9 billion, an increase of 11.6% over the $51.9 billion processed in 2007. The increase in bank card processing volume was primarily attributable to a net increase in bank card merchant accounts, with the number of SME bank card merchant accounts growing by approximately 9.1% from 154,750 as of December 31, 2007 to 168,850 as of December 31, 2008, as well as growth in our average account size. The increase in new bank card merchant accounts was primarily the result of the growth in our sales force, combined with improved production from our existing sales force as previous additions to the sales force gain experience and seasoning. At December 31, 2008, we employed 1,166 Relationship Managers, up from 1,117 Relationship Managers at December 31, 2007. In addition, Network Services generated revenues of $55.5 million on the 317 million transactions it

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settled, and the 1.6 billion transactions it authorized through its front-end card processing systems, during the seven months ended December 31, 2008. We report Network Services bank card processing revenues net of interchange and dues, assessments and fees because the daily cash settlement with Network Services merchants is on a net basis.

Payroll processing revenues increased by 25.3%, from $10.2 million in 2007 to $12.8 million in 2008, primarily due to the 24.6% increase in the number of payroll processing customers. Payroll processing customers increased from 6,209 at December 31, 2007 to 7,738 at December 31, 2008. Payroll processing revenues include processing fees and the interest income we earn on funds held for customers. Payroll processing fees increased by 35% from $9.2 million in 2007 to $12.4 million in 2008, offset partially by a decrease in interest income earned on funds held for customers from $833,000 in 2007 to $370,000 in 2008 primarily due to lower interest rates in the current period and the application of available interest earning balances to offset bank fees.

Equipment-related income increased by 34.8%, from $20.6 million in 2007 to $27.7 million in 2008, due to the addition of equipment-related revenues from our campus payments solutions business acquired in October 2007, the addition of revenues from our May 2008 acquisition of Network Services, and growth in equipment sale revenues to new SME bank card merchants.

Costs of services. Costs of services increased 16.5% from $1.2 billion in 2007 to $1.4 billion in 2008, due primarily to an increase in interchange fees and processing and servicing costs. Costs of services represented 90.3% of total revenues in 2008, down slightly from 91.1% in 2007.

Interchange fees increased 13.7% from $962.0 million in 2007 to $1,093.5 million in 2008, and represented 70.8% of total revenues in 2008, compared to 73.2% of total revenues in the prior year period. The increase in interchange fees was primarily due to higher bank card processing volume in 2008. However, interchange fees as a percentage of total revenues declined due to the nature of Network Services bank card processing settlement practices. We report Network Services bank card processing revenues net of interchange fees because our daily cash settlement with Network Services merchants is on a net basis.

Dues, assessments and fees increased 18.6% from $57.1 million in 2007 to $67.6 million in 2008, also as the result of increased bank card processing volume. Dues, assessments and fees were 4.4% of total revenues in 2008, compared to 4.3% in 2007.

Net revenue, which we define as total revenues less interchange fees and dues, assessments and fees, increased 30.2% from $294.8 million in 2007 to $383.7 million in 2008. The increase in net revenue was driven by the addition of net revenue from Network Services and by the year-over-year increases in active merchants and processing volume. Excluding Network Services net revenue addition, our net revenue would have grown by 15.3% in the year ended December 31, 2008.

Processing and servicing expense for 2008 increased by $47.1 million, or 37.2%, compared with 2007. The increase in processing and servicing expense included $25.1 million for Network Services and an increase of $3.5 million in merchant losses during the year ended December 31, 2008 as we incurred increased losses primarily related to merchants that had gone out of business possibly due to weak economic conditions. The increase in processing and servicing expense was also due to costs associated with the increased bank card processing volume, equipment costs of sales and increases in the costs of operating our Jeffersonville, Indiana service center, particularly the costs of support personnel, and depreciation and amortization.

As a percentage of total revenue, processing and servicing expense increased to 11.2% in 2008 compared with 9.6% in 2007. The increase in processing and servicing as a percentage of total revenue for 2008 reflects the addition of Network Services processing and servicing costs, partially offset by continued leveraging of our lower cost internally developed front-end processing system, HPS Exchange, and cost savings associated with our back-end processing system, Passport. Transactions processed on HPS Exchange represented approximately 83% of our total SME processing transactions during 2008, compared to 75% during 2007. We expect the increasing share of HPS Exchange in our total SME bank card merchant base to continue in the future. Included in processing and servicing expense was $3.8 million of payroll processing costs in 2008, an increase of 41.8% from $2.7 million recorded in 2007.

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Customer acquisition costs increased 9.8% from $44.2 million in 2007 to $48.5 million in 2008. An increase in amortization of signing bonuses, mostly as a result of growth in new merchant accounts, was primarily responsible for the increase in the customer acquisition costs. Customer acquisition costs for the years ended 2008 and 2007 included the following components (in thousands of dollars):

	Year Ended December 31,	
	2008	**2007**
Amortization of signing bonuses, net	**$ 38,749**	$ 31,450
Amortization of capitalized customer deferred acquisition costs	**14,983**	13,741
Increase in accrued buyout liability	**10,307**	13,286
Capitalized customer deferred acquisition costs	**(15,517)**	(14,284)
Total Customer Acquisition Costs	**$ 48,522**	$ 44,193

Depreciation and amortization expenses increased 61.7%, from $6.8 million in 2007 to $11.0 million in 2008. The increase for 2008 was primarily due to recording amortization of $2.5 million on the intangible assets acquired in the acquisitions of Network Services, CPOS and Chockstone, and depreciation expense recorded on information technology equipment to support the network and the continuing development of HPS Exchange and Passport. Additionally, we capitalized salaries and fringe benefits and other expenses incurred by employees that worked on internally developed software projects. Amortization does not begin on the internally developed software until the project is complete and placed in service, at which time we begin to amortize the asset over expected lives of three to five years. The amount capitalized increased from $4.2 million in 2007 to $5.9 million in 2008. The total amount of capitalized costs for projects placed in service in 2008 and 2007 was $5.4 million and $2.3 million, respectively.

In December 2007, we completed the construction of, and moved into, approximately 96,000 square feet of office space for Phase 1 of our new service center and in December 2008 our equipment deployment group exited the former leased service center and has moved into the additional 125,000 square feet of multi-use space on the site of our new service center as the first part of Phase 2. The total amount of capitalized costs for the new service center placed in service in 2008 was $9.3 million.

General and administrative. General and administrative expenses increased 39.1%, from $57.4 million in 2007 to $79.8 million in 2008. The increase was primarily due to the addition of Network Services general and administrative expenses, and adding other personnel costs and marketing initiatives to continue building our corporate, information technology and marketing infrastructure, which are necessary to support our growth and our product development initiatives.

General and administrative expenses as a percentage of total revenue were 5.2% for 2008 and 4.4% for 2007. SFAS No. 123R share-based compensation expense was $1.5 million and $1.7 million in 2008 and 2007, respectively. Our payroll operation s general and administrative expenses increased by 21.4%, from $4.2 million in 2007 to $5.1 million in 2008.

Income from operations. For the reasons described above, our income from operations, which we also refer to as operating income, improved from $59.8 million for 2007 to $70.6 million for 2008. Our operating margin, which is measured as operating income divided by net revenue, was 18.4% for 2008, compared to 20.3% for 2007. Network Services operating margin is significantly lower than that of our historic business, and will materially reduce our combined operating margins in future periods.

Interest income. Interest income decreased from $1.9 million in 2007 to $0.8 million in 2008, due primarily to the use of cash to acquire Network Services and CPOS, as well as lower interest rates. (see Liquidity and Capital Resources for more detail on the use of cash).

Interest expense. Interest expense of $3.2 million was recorded in 2008, an increase from $785,000 in 2007. The increase in interest expense for 2008 was due to higher payables to our sponsor banks and borrowings we incurred to fund the acquisition of Network Services. Interest expense which we recorded on payables to our sponsor banks resulted from our practice of having our sponsor banks advance interchange fees to most of our merchants. Generally, when we have cash available for investment we fund these advances to our merchants first with our cash, then by incurring a payable to our sponsor banks when that cash has been expended. We pay our sponsor banks the prime rate on these payables. See Liquidity and Capital Resources Credit Facility for more detail on the borrowings.

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Other, net. Other, net for 2008 included a loss on the sale of a debt security and write downs on a fixed-income bond fund.

Other, net for 2007 included:

A pre-tax charge in December 2007 of $1.3 million reflecting the estimated liability for costs (primarily accrued lease costs and property and equipment write offs) associated with exiting our former service center.

A pre-tax charge of $1.7 million equal to our full cost basis investment in Parcxmart Technologies, Inc. Due to significant concerns about the investee s ability to continue as a going concern, including negative cash flows from operations, working capital deficiencies and its inability to raise additional capital to supplement its cash position, we recognized an impairment loss.

A charge of $0.8 million reflecting our liability in a legal proceeding under an indemnification we provided to an insurer.

Income Tax. Income taxes for 2008 were $25.9 million, reflecting an effective tax rate of 38.3%. This compares to an effective tax rate of 37.3% for 2007, which resulted in income tax expense of $21.3 million. The higher effective tax rate for the year ended December 31, 2008 was due to FIN 48 changes and state income tax increases.

Net income. As a result of the above factors, net income increased from $35.9 million in 2007 to $41.8 million in 2008.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

The following table shows certain income statement data as a percentage of revenue for the year ended December 31, 2007 compared to the year ended December 31, 2006 (in thousands of dollars):

					Change	
	2007	**% of Total Revenue**	**2006**	**% of Total Revenue**	**Amount**	**%**
Total Revenues	**$ 1,313,846**	**100.0%**	$ 1,097,041	100.0%	$ 216,805	19.8%
Costs of Services:						
Interchange	**962,025**	**73.2%**	804,267	73.3%	157,758	19.6%
Dues, assessments and fees	**57,050**	**4.3%**	47,122	4.3%	9,928	21.1%
Processing and servicing	**126,599**	**9.6%**	111,554	10.2%	15,045	13.5%
Customer acquisition costs	**44,193**	**3.4%**	35,451	3.2%	8,742	24.7%
Depreciation and amortization	**6,806**	**0.5%**	6,042	0.6%	764	12.6%
Total costs of services	**1,196,673**	**91.1%**	1,004,436	91.6%	192,237	19.1%
General and administrative	**57,404**	**4.4%**	47,787	4.4%	9,617	20.1%
Total expenses	**1,254,077**	**95.5%**	1,052,223	96.0%	201,854	19.2%
Income from operations	**59,769**	**4.5%**	44,818	4.1%	14,951	33.4%
Other income (expense):						
Interest income	**1,934**	**0.1%**	1,225	0.1%	709	57.9%
Interest expense	**(785)**	**(0.1)%**	(753)	(0.1)%	(32)	(4.2)%
Other, net	**(3,758)**	**(0.3)%**	(669)		(3,089)	(461.7)%
Total other (expense) income	**(2,609)**	**(0.2)%**	(197)	0.0%	(2,412)	(1224.4)%

Income before income taxes		**57,160**	**4.3%**		44,621	4.1%		12,539	28.1%
Provision for income taxes		**21,290**	**1.6%**		16,077	1.5%		5,213	32.4%
Net income	**$**	**35,870**	**2.7%**	$	28,544	2.6%	$	7,326	25.7%

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Total Revenues. Total revenues increased by 19.8%, from $1,097.0 million in 2006 to $1,313.8 million in 2007, primarily as a result of a $212.1 million, or 19.8%, increase in our bank card processing revenues. The breakout of our total revenues for the years ended December 31, 2007 and 2006 was as follows (in thousands of dollars):

	Year Ended December 31,		Change from Prior Year	
	2007	2006	Amount	%
Bank card processing revenues, gross	**$ 1,283,065**	$ 1,070,939	$ 212,126	19.8%
Payroll processing revenues	**10,205**	6,422	3,783	58.9%
Equipment-related income	**20,576**	19,680	896	4.6%
Total Revenues	**$ 1,313,846**	$ 1,097,041	$ 216,805	19.8%

The increase in our gross bank card processing revenues from $1,070.9 million in 2006 to $1,283.1 million in 2007 was primarily due to higher bank card processing volume. Our bank card processing volume in 2007 increased 20.0% to $51.9 billion, compared to $43.3 billion in 2006. The increase in bank card processing volume was primarily attributable to a net increase in bank card merchant accounts, with the number of bank card merchant accounts growing by approximately 16.2% from 133,200 as of December 31, 2006 to 154,750 as of December 31, 2007, as well as growth in our average account size. The increase in new bank card merchant accounts was primarily the result of the growth in our sales force, combined with improved production from our existing sales force. At December 31, 2007, we employed 1,117 Relationship Managers, up from 952 Relationship Managers at December 31, 2006.

Payroll processing revenues increased by 58.9%, from $6.4 million in 2006 to $10.2 million in 2007, primarily due to the 47.3% increase in the number of payroll processing customers from 4,216 at December 31, 2006 to 6,209 at December 31, 2007. Payroll processing revenues include processing fees and the interest income we earn on funds held for customers. Payroll processing fees increased by 56.5% from $5.9 million in 2006 to $9.2 million in 2007 and interest income earned on funds held for customers increased by 53.8% from $542,000 in 2006 to $833,000 in 2007.

Equipment-related income increased by 4.6%, from $19.7 million in 2006 to $20.6 million in 2007, primarily due to growth in equipment sale revenues to new bank card merchants and the addition of revenues from our October 19, 2007 acquisition of the General Meters Corporation campus payments solutions business. Revenues from prepaid card and stored-value card systems at our Debitek, Inc. subsidiary declined from 2006.

Costs of services. Costs of services increased 19.1% from $1.0 billion in 2006 to $1.2 billion in 2007, due primarily to an increase in interchange fees. Costs of services represented 91.1% of total revenues in 2007, down slightly from 91.6% in 2006.

Interchange fees increased 19.6% from $804.3 million in 2006 to $962.0 million in 2007, and represented 73.2% of total revenues in 2007, compared to 73.3% of total revenues in the prior year period. The increase in interchange fees was primarily due to higher bank card processing volume in 2007.

Dues, assessments and fees increased 21.1% from $47.1 million in 2006 to $57.0 million in 2007, also as the result of increased bank card processing volume. Dues, assessments and fees were 4.3% of total revenues in both 2007 and 2006.

Net revenue, which we define as total revenues less interchange fees and dues, assessments and fees, increased 20.0% from $245.7 million in 2006 to $294.8 million in 2007.

Processing and servicing expense for 2007 increased by $15.0 million, or 13.5%, compared with 2006. The increase in processing and servicing expense was due primarily to costs associated with processing the increased bank card processing volume, and increases in the costs of operating our service center, particularly the costs of support personnel, including field Account Managers, and depreciation and amortization.

As a percentage of total revenue, processing and servicing expense decreased to 9.6% in 2007 compared with 10.2% in 2006. The decrease in processing and servicing as a percentage of total revenue for 2007 was driven by leveraging the lower costs of our internally developed front-end processing system, HPS Exchange, and cost savings associated with our back-end processing system, Passport. Transactions processed on HPS Exchange represented approximately 75% of our total processing transactions during 2007, compared to 64% during 2006. We expect the increasing share of HPS Exchange in our total bank card merchant base to continue in the future. In addition, we completed our conversion to our internally developed back-end processing system, Passport, on May 1, 2006, which is resulting in cost savings in providing back-end services. Included in processing and servicing expense was $2.7 million of payroll processing costs in 2007, an increase of 59.4% from $1.7 million recorded in 2006.

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Customer acquisition costs increased 24.7% from $35.5 million in 2006 to $44.2 million in 2007. An increase in amortization of signing bonuses, mostly as a result of growth in new merchant accounts, was primarily responsible for the increase in the customer acquisition costs. Customer acquisition costs for the years ended 2007 and 2006 included the following components (in thousands of dollars):

	Year Ended December 31,	
	2007	**2006**
Amortization of signing bonuses, net	**$ 31,450**	$ 22,891
Amortization of capitalized customer deferred acquisition costs	**13,741**	12,932
Increase in accrued buyout liability	**13,286**	15,483
Capitalized customer deferred acquisition costs	**(14,284)**	(15,855)
Total Customer Acquisition Costs	**$ 44,193**	$ 35,451

Depreciation and amortization expenses increased 12.6%, from $6.0 million in 2006 to $6.8 million in 2007. The increase was primarily due to the purchase of information technology equipment to support the network and the continuing development of HPS Exchange and Passport. Additionally, we capitalized salaries and fringe benefits and other expenses incurred by employees that worked on internally developed software projects. Amortization does not begin on the internally developed software until the project is complete and placed in service, at which time we begin to amortize the asset over three to five years. The amount capitalized increased from $2.5 million in 2006 to $4.2 million in 2007. The total amount of capitalized costs for projects placed in service in 2007 and 2006 was $2.3 million and $1.7 million, respectively.

In December 2007, we completed the construction of, and moved into, approximately 96,000 square feet of office space for Phase 1 of our new service center. As of December 31, 2007, all but our equipment deployment group has exited the former leased service center. We are currently building an additional 125,000 square feet of multi-use space on the site of our new service center. The total amount of capitalized costs for the new service center placed in service in 2007 was $28.4 million.

General and administrative. General and administrative expenses increased 20.1%, from $47.8 million in 2006 to $57.4 million in 2007. The increase was primarily due to added personnel, marketing, consulting and legal costs to continue building our corporate, information technology and marketing infrastructure which are necessary to support our growth and our marketing and product development initiatives.

General and administrative expenses as a percentage of total revenue for 2007 and 2006 were 4.4%. SFAS No. 123R share-based compensation expense was $1.7 million and $1.3 million in 2007 and 2006, respectively. Our payroll operation s general and administrative expenses increased by 37.4%, from $3.1 million in 2006 to $4.2 million in 2007. General and administrative expenses in 2007 included $186,000 for matching payroll tax expense related to gains employees realized on their exercise of non-qualified stock options, compared to $1.2 million in 2006.

Income from operations. For the reasons described above, our income from operations, which we also refer to as operating income, improved from $44.8 million for 2006 to $59.8 million for 2007. Our operating margin, which is measured as operating income divided by net revenue, was 19.7% for 2007, compared to 17.8% for 2006. Our operating income and operating margin for 2006 was unfavorably impacted by the $2.0 million recorded for the change in estimate of debit interchange expense; excluding that amount, our operating margin would have been 18.4% for 2006.

Interest income. Interest income increased from $1.2 million in 2006 to $1.9 million in 2007, due primarily to an increase in the amount of cash available for investment and higher interest rates.

Interest expense. Interest expense of $785,000 recorded in 2007 increased slightly from $753,000 in 2006. Most of our interest expense arises from the practice of having our sponsor bank advance interchange fees to most of our merchants. These advances to our merchants are funded first with our cash available for investment, then by incurring a payable to our sponsor bank when that cash has been expended. We pay the sponsor bank the prime rate on these payables.

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Other, net. Other, net for 2007 included:

A pre-tax charge in December 2007 of $1.3 million reflecting the estimated liability for costs (primarily accrued lease costs and property and equipment write offs) associated with exiting our former service center.

A pre-tax charge of $1.7 million equal to our full cost basis investment in Parcxmart Technologies, Inc. Due to significant concerns about the investee s ability to continue as a going concern, including negative cash flows from operations, working capital deficiencies and its inability to raise additional capital to supplement its cash position, we recognized an impairment loss.

A charge of $0.8 million reflecting our liability in a legal proceeding under an indemnification we provided to an insurer.

Other, net for 2006 included income of $0.8 million reflecting a gain for the proceeds received from a legal settlement.

Income Tax. Income taxes for 2007 were $21.3 million, reflecting an effective tax rate of 37.3%. This compares to an effective tax rate of 36.0% for 2006, which resulted in income tax expense of $16.1 million. The lower effective tax rate for 2006 was due to revising state income sourcing approaches in the third quarter of 2006. As a result of revising state income sourcing approaches in the third quarter of 2006, we realized reductions of our 2005 state income tax expense and our 2006 estimated effective annual state tax rates.

Net income. As a result of the above factors, net income increased from $28.5 million in 2006 to $35.9 million in 2007.

Balance Sheet Information

	December 31, 2008	December 31, 2007
	(in thousands)	
Selected Balance Sheet Data		
Cash and cash equivalents	**$ 27,589**	$ 35,508
Funds held for payroll customers	**22,002**	24,201
Receivables, net	**140,145**	122,613
Capitalized customer acquisition costs, net	**77,737**	70,498
Property and equipment, net	**75,443**	50,248
Goodwill and intangible assets, net	**94,909**	5,970
Total assets	**463,619**	329,189
Due to sponsor bank	**68,212**	49,798
Accounts payable	**25,864**	20,495
Deposits held for payroll customers	**22,002**	24,201
Borrowings:		
Current portion	**58,522**	
Long term portion	**16,984**	
Accrued buyout liability:		
Current portion	**10,547**	11,521
Long term portion	**30,493**	26,252
Total liabilities	**284,375**	163,520
Total stockholders equity	**179,244**	165,669

December 31, 2008 Compared to December 31, 2007

Total assets increased $134.4 million, or 40.8%, to $463.6 million at December 31, 2008 from $329.2 million at December 31, 2007, primarily due to increases in receivables, capitalized customer acquisition costs, property and equipment, net and goodwill and intangible assets, net. Cash and cash equivalents decreased by

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$7.9 million or 22.3% primarily as the result of using cash in our investing activities, specifically our 2008 acquisitions and investments in property and equipment (see Liquidity and Capital Resources for more detail).

The $53.0 million increase in goodwill at December 31, 2008 and the $36 million increase in intangible assets at December 31, 2008 were due to our May 2008 acquisition of Network Services for a net cash payment of $92.5 million, our March 2008 acquisition of CPOS for a net cash payment of $10.1 million, and our November 2008 acquisition of Chockstone for a net cash payment of $4.0 million. We recorded goodwill of $43.7 million and intangible assets of $34.4 million in the Network Services acquisition, goodwill of $9.4 million and intangible assets of $2.1 million in the CPOS acquisition, and goodwill of $1.6 million and intangible assets of $2.4 million in the Chockstone acquisition. The allocations of the Network Services, CPOS and Chockstone purchase prices are not final and may be adjusted in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations,* as more information becomes available.

Our receivables primarily are due from our bank card processing merchants and result from our practice of advancing interchange fees to most of our SME merchants during the processing month and collecting those fees from our merchants at the beginning of the following month, as well as from transaction fees we charge merchants for processing transactions. Generally, these advances to our SME merchants are funded first with our cash available for investment, then by incurring a payable to our sponsor banks when that cash has been expended. At December 31, 2008 and December 31, 2007, we used $17.5 million and $37.9 million, respectively, of our available cash to fund merchant advances. The decline in the amount of merchant advances we funded with our cash at December 31, 2008, from the December 31, 2007 level, was primarily attributable to using cash to fund our 2008 acquisitions. The amount due to our sponsor banks for funding advances was $68.2 million at December 31, 2008 and $49.8 million at December 31, 2007. The payable to our sponsor banks is repaid at the beginning of the following month out of the fees we collect from our merchants.

Receivables also include amounts resulting from the sale, installation, training and repair of payment system hardware and software for prepaid card and stored-value card payment systems and campus payment solutions. Our total receivables increased $17.5 million, or 14.3%, to $140.1 million at December 31, 2008 from $122.6 million at December 31, 2007 mostly due to receivables added by Network Services. Network Services merchants are invoiced monthly, on payment terms that are typical for large national accounts.

Capitalized customer acquisition costs increased $7.2 million, or 10.3%, from December 31, 2007 as a result of increases in the number of SME merchants we service. Property and equipment increased $25.2 million, or 51.1%, primarily due to spending $16.7 million during 2008 on the construction of our new service center in Jeffersonville, Indiana. We completed constructing 96,000 square feet of office space for the Phase 1 of the new service center and opened it for operation in December 2007; in December 2008 our processing equipment deployment group moved into a portion of an additional 125,000 square feet of multi-use space constructed on the site. We also continued building our technology infrastructure, primarily hardware and software needed for the expansion of HPS Exchange and Passport.

Our borrowings at December 31, 2008 included $75.0 million under our May 30, 2008 amended and restated credit agreement (the Amended and Restated Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, and certain lenders who may become a party to the Credit Agreement from time to time. The Amended and Restated Credit Agreement provides for a revolving credit facility in the aggregate amount of up to $50 million (the Revolving Credit Facility) and a term credit facility in the aggregate amount of up to $25 million (the Term Credit Facility). See Liquidity and Capital Resources Credit Facility for more information on the Amended and Restated Credit Agreement.

On May 30, 2008, we borrowed $50 million under the Revolving Credit Facility and $25 million under the Term Credit Facility. We applied all of the proceeds from these borrowings to finance the acquisition of Network Services. At December 31, 2008, there was $50 million outstanding under the Revolving Credit Facility and $25 million outstanding under the Term Credit Facility. Of the combined $75 million outstanding, $58.3 million was included in current borrowings and $16.7 million was included in long-term borrowings at December 31, 2008. At December 31, 2008, our borrowings also included short-term capital lease obligations of $0.2 million and long-term capital lease obligations of $0.3 million, both acquired with Chockstone. We had no borrowings outstanding at December 31, 2007.

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Total stockholders equity increased $13.6 million from December 31, 2007 primarily due to our net income of $41.8 million recorded for 2008, proceeds received from the exercise of employee stock options, which amounted to $3.1 million, and tax benefits recorded in additional-paid-in capital related to employees exercise of stock options and related tax benefits, which contributed $0.7 million. Stockholders equity was reduced by $18.0 million for the cost of purchasing treasury shares, $13.5 million for dividends declared on common stock and $2.1 million for foreign currency translation adjustments we recorded on our CPOS assets and liabilities. On February 28, 2008, our Board of Directors resolved to retire all common shares repurchased and include the retired shares in our authorized and unissued shares. Until February 28, 2008, the final disposition of the repurchased shares had not been decided. The excess of the purchase price of the treasury stock over the stated value was allocated between additional paid-in capital and retained earnings.

Liquidity and Capital Resources

General. Liquidity and capital resource management is a process focused on providing the funding we need to meet our short and long-term cash and working capital needs. We have used our funding sources to build our merchant portfolio and our technology platforms with the expectation that these investments will generate cash flows sufficient to cover our working capital needs and other anticipated needs for capital.

Our cash requirements include funding payments to salespersons for signing bonuses, residual commissions and residual buyouts, paying interest expense and other operating expenses, including taxes, constructing our new service center and investing in building our technology infrastructure. We expect that our future cash requirements will include material amounts required to defend against claims arising from the Processing System Intrusion and could include material amounts required to resolve such claims. At times, we have used cash to repurchase our common stock. We could in the future use cash for other unspecified acquisitions of related businesses or assets.

Other than borrowings we used to fund our May 2008 acquisition of Network Services, we fund our cash needs primarily with cash flow from our operating activities and through our agreements with our sponsor banks to fund SME merchant advances. Additionally, we could seek to raise cash by financing our owned service center in Jeffersonville, Indiana. We believe that our current cash and investment balances, cash generated from operations and our agreements with our sponsor banks to fund SME merchant advances will provide sufficient liquidity to meet our anticipated needs for operating capital for at least the next twelve months. However, we may face a liquidity challenge, particularly in light of current conditions in the financial markets, if we are unable to meet cash requirements arising from the Processing System Intrusion from our operating cash flow. See Overview Processing System Intrusion for more detail.

On December 31, 2008, we were fully borrowed on our credit facilities, which total $75.0 million. However, the revolving credit facility provides for an increase of $25 million upon the prior approval of the administrative agent. See Credit Facility for more details.

2008 Acquisitions. As of May 31, 2008, we acquired the net assets of the Network Services Business unit of Alliance Data Network Services LLC, for a cash payment of $77.5 million plus the net working capital of Network Services on the closing date, for a total purchase price of $92.5 million. The acquisition was financed through a combination of cash on hand and our credit facilities. Network Services provides processing of credit and debit cards to large national merchants, primarily in the petroleum industry. On March 3, 2008, we acquired a majority interest in Collective Point of Sale Solutions Ltd. (CPOS) for a net cash payment of $10.1 million. CPOS is a Canadian provider of payment processing services and secure point-of-sale solutions. On November 14, 2008, we acquired Chockstone, Inc. for a net cash payment of $4.0 million. Chockstone provides loyalty marketing and gift card solutions to restaurant, convenience store, and other retail locations in North America. The acquisitions of CPOS and Chockstone are not expected to have a material impact on earnings in the near term.

2007 Acquisitions. On October 19, 2007, we acquired the assets of General Meters Corporation, a provider of multipurpose card systems for college and university campuses, for a net cash payment of $6.0 million. The General Meters acquisition provided us with a customer base of colleges and universities for our campus card product. General Meters was combined with our subsidiary Debitek Inc., which we acquired in February 2006. This acquisition is not expected to have a material impact on earnings in the near term.

2006 Acquisitions. We acquired Debitek, a prepaid card and stored-value card solutions provider, in February 2006 for a net cash payment of $3.5 million. The acquisition of Debitek provided us with a proven platform in the stored-value and prepaid cards market, particularly with respect to small-dollar payment applications. This acquisition is not expected to have a material impact on earnings in the near term.

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At December 31, 2008, we had cash and cash equivalents totaling $27.6 million, compared to cash and cash equivalents of $35.5 million at December 31, 2007 and $16.1 million at December 31, 2006.

Our working capital, defined as current assets less current liabilities, was negative at December 31, 2008 primarily due to funding the Network Services acquisition with cash and predominately current borrowings. Our working capital was positive at December 31, 2007 and 2006.

Each funding source and use is described in more detail below.

Cash Flow Provided by (Used in) Operating Activities. We reported net cash provided by operating activities of $87.5 million in 2008, compared to $72.6 million in 2007. In 2006, we used $3.9 million in operating activities.

The most significant contributor to the increase in cash provided by operating activities for 2008 was our net income for 2008 as adjusted for depreciation and amortization, additions to loss reserves, provision for doubtful receivables, share-based compensation expense, and deferred taxes. Also contributing favorably to cash provided by operating activities was an increase in due to sponsor banks. The increase in the amounts due to sponsor banks was mostly due to using available cash, which otherwise would have been available to fund merchant advances, to fund the acquisitions of Network Services, CPOS and Chockstone, as well as treasury stock purchases during 2008.

The 2007 improvement over 2006 in cash provided by operating activities was also due to an increase in the amount due to sponsor banks and increased net income for 2007, as adjusted for depreciation and amortization, additions to loss reserves, provision for doubtful receivables, share-based compensation expense, other non-cash charges and deferred taxes.

Other major determinants of operating cash flow each year are net signing bonus payments, which consume increasing amounts of operating cash as our new merchant installation activity rises, and payouts on the accrued buyout liability, which represent the costs of buying out residual commissions owned by our salespersons. See Critical Accounting Estimates Capitalized Customer Acquisition Costs and Critical Accounting Estimates Accrued Buyout liability for more information. Net signing bonuses of $45.5 million, $44.7 million and $33.7 million, respectively, were paid in 2008, 2007 and 2006. In 2008, 2007 and 2006, we reduced the accrued buyout liability by making buyout payments of $7.0 million, $8.8 million and $10.7 million, respectively.

Contained within other changes in operating assets and liabilities are the changes in our receivables and due to sponsor banks. Our receivables primarily are due from our bank card processing merchants and result from our practice of advancing interchange fees to most of our SME merchants during the processing month and collecting those fees from our merchants at the beginning of the following month, as well as from transaction fees we charge merchants for processing transactions. Generally, these advances to our SME merchants are funded first with our cash available for investment, then by incurring a payable to our sponsor banks when that cash has been expended. The payable to the sponsor banks is repaid at the beginning of the following month out of the fees we collect from our merchants. At December 31, 2008, we had used $17.5 million of cash to fund merchant advances, compared to $37.9 million at December 31, 2007 and $44.6 million at December 31, 2006. The amount due to sponsor banks for funding advances was $68.2 million, $49.8 million and $27.3 million, respectively, at December 31, 2008, 2007 and 2006. During 2008, our receivables from SME merchants were down slightly from December 31, 2007, while we increased our payable to sponsor banks by $18.4 million. The increase in the payable to sponsor banks was applied in funding the purchase prices to acquire Network Services, CPOS and Chockstone, and the $18.0 million cost to repurchase treasury stock during 2008.

Our reported cash flow from operating activities for 2008, 2007 and 2006 was impacted by the cash flow reporting requirements of SFAS No. 123R and SFAS No. 95, *Statement of Cash Flow*, as amended. These statements require the amount of tax benefits resulting from employees exercising non-qualified stock options and making disqualifying dispositions of shares acquired through their exercise of incentive stock options in excess of the amount of SFAS No. 123R compensation cost recognized (referred to as excess tax benefits in this document), to be classified as a cash inflow from financing activities on our Statement of Cash Flow and a cash outflow from operating activities. In 2008, 2007 and 2006, our operating cash flow was reduced by the classification of $0.7 million, $7.6 million and $28.6 million, respectively, of excess tax benefits as cash inflow from financing activities.

Cash Flow Used in Investing Activities. Net cash used in investing activities was $142.5 million in 2008, compared to $42.3 million in 2007 and $17.9 million in 2006. During each period, we used cash to fund capital expenditures and acquisitions. Total capital expenditures for 2008 were $35.0 million, compared to $34.2 million invested in 2007 and $14.0 million invested in 2006. Included in capital expenditures was $16.7 million, $24.5 million and $5.9 million, respectively, for construction of our new service center facility. Construction commenced in 2006 and we completed 96,000 square feet of office space for Phase 1 of the new service center and opened it for operation in December 2007. In December 2008 our processing equipment deployment group moved into a portion of an additional 125,000 square feet of multi-use space constructed on the site. See Contractual Obligations for more detail regarding cumulative cash outlays and expected future funding requirements related to our new service center. We also continued building our technology infrastructure, primarily for hardware and software needed for the expansion of HPS Exchange and Passport. To further develop our technology, we anticipate that these expenditures will continue near current levels. Additionally, our technology expenditures could be increased by measures we implement after the Processing System Intrusion to further enhance the security of our computer system.

During the years ended December 31, 2008, 2007 and 2006, we invested in the following acquisitions: March 2008, we acquired CPOS for a net cash payment of $10.1 million; May 2008, we acquired Network Services for a cash payment of $92.5 million; November 2008, we acquired Chockstone, Inc. for a net cash payment of $4.0 million; October 2007, we acquired General Meters Corporation for a net cash payment of $6.0 million; and February 2006, we acquired Debitek, Inc. for a net cash payment of $3.5 million.

In January 2006, we made a $0.5 million investment in convertible preferred stock issued by Parcxmart Technologies, Inc. (Parcxmart) and in June 2007, we made an additional investment of $1.2 million in Parcxmart convertible preferred stock. In December 2007, due to significant concerns about Parcxmart s ability to continue as a going concern, including negative cash flows from operations, working capital deficiencies and inability to raise additional capital to supplement its cash position, we recognized an impairment loss equal to our full $1.7 million investment.

Cash Flow Provided By (Used in) Financing Activities. Net cash provided from financing activities was $47.3 million in 2008, compared to net cash used in financing activities of $10.9 million in 2007, and net cash provided by financing activities of $29.1 million in 2006. Cash flow from financing activities in 2008 was positive primarily due to proceeds from borrowings under our Credit Facility. See Credit Facility for more details on these borrowings and the application of funds borrowed. We also used cash to repurchase our common stock and for dividend payments. See Common Stock Repurchases for more information on our common stock repurchases authorization. Cash flow from financing activities in 2007 was negative primarily due to our common stock repurchases and dividend payments.

Cash flow from financing activities in 2006 was positive primarily due to the proceeds received from employees exercising stock options and from excess tax benefits. However, most of the cash proceeds received from the exercise of employee stock options in 2006 were used to repurchase shares of our common stock.

During 2008 and 2007, employees exercised stock options generating cash in the aggregate amount of $3.1 million and $10.0 million, respectively. Offsetting the cash provided from employees exercise of stock options in 2008 and 2007 was the use of $18.0 million and $18.9 million of cash to repurchase 781,584 shares and 731,500 shares, respectively, of our common stock. See Common Stock Repurchases for more information. During 2006, employees exercised their stock options and PEPShares Plan options generating cash in the aggregate amount of $27.7 million.

On September 21, 2007, we closed a public offering of 6,348,767 shares of our common stock. The offering price was set at $26.34 per share, the closing price of our common stock on the New York Stock Exchange on September 17, 2007. Approximately 99% of the shares sold in the offering were offered by Greenhill Capital Partners, L.P. and its affiliates (2,550,120 total shares), LLR Equity Partners, L.P. and its affiliates (2,216,486 total shares), and members of the company s management (1,557,820 total shares). The remaining 1%, 24,341 shares, were sold by us. We received only the proceeds from the shares we sold in the offering, or $615,000, which we used to cover $590,000 of expenses from the offering.

Financing cash activities for each year were favorably impacted by excess tax benefits which resulted from employees exercising non-qualified stock options and making disqualifying dispositions of shares acquired through their exercise of incentive stock options. During 2008, 2007 and 2006, we reported as a financing cash inflow, $0.7 million, $7.6 million and 28.6, respectively, of excess tax benefits resulting from employees exercising stock options. We actually realized cash tax benefits of $1.4 million, $23.2 million and 10.8 million, respectively, in 2008, 2007 and 2006 for excess tax benefits resulting from employees exercising stock options. See Cash Flow Provided by (Used in) Operating Activities for more detail.

Credit Facility. On May 30, 2008, we entered into an amended and restated credit agreement (the Amended and Restated Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, and certain lenders who may become a party to the Credit Agreement from time to time. The Amended and Restated Credit Agreement amended and restated in its entirety the previous credit agreement entered into on September 5, 2007 between the same parties that are parties to the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement provides for a revolving credit facility in the aggregate amount of up to $50 million (the Revolving Credit Facility), of which up to $5 million may be used for the issuance of letters of credit and up to $5 million is available for swing line loans. Upon the prior approval of the administrative agent, we may increase the total commitments by $25 million for a total commitment under the Revolving Credit Facility of $75 million. The Revolving Credit Facility is available to us on a revolving basis commencing on May 30, 2008 and ending on September 4, 2012.

The Amended and Restated Credit Agreement also provides for a term credit facility in the aggregate amount of up to $25 million (the Term Credit Facility). The Term Credit Facility requires amortizing payments in the amount of $2,083,333 on the last business day of each fiscal quarter commencing March 31, 2009. All principal and interest not previously paid on the Term Credit Facility will mature and be due and payable on December 31, 2011. Amounts borrowed and repaid under the Term Credit Facility may not be re-borrowed.

The Amended and Restated Credit Agreement contains covenants, which include our maintenance of certain leverage and fixed charge coverage ratios, limitations on our indebtedness, liens on our properties and assets, our investments in, and loans to, other business units, our ability to enter into business combinations and asset sales, and certain other financial and non-financial covenants. These covenants also apply to our subsidiaries. As of December 31, 2008, we were in compliance with these covenants. If we record a reserve for, or otherwise incur significant costs or losses related to, the Processing Systems Intrusion, it could cause us to violate these covenants.

Under the terms of the Amended and Restated Credit Agreement, we may borrow, at our option, at interest rates equal to one, two, three or nine month adjusted LIBOR rates or equal to the greatest of prime, the secondary market rate for three month certificates of deposits plus 1% and the federal funds rate plus 0.50%, in each case plus a margin determined by our current leverage ratio.

The Revolving Credit Facility may be used to finance future construction projects and acquisitions in accordance with the terms of the Credit Agreement and for our other working capital needs and general corporate purposes. On May 30, 2008, the Company borrowed $50 million under the Revolving Credit Facility and $25 million under the Term Credit Facility. All of the proceeds of both such borrowings were applied to finance and pay expenses related to the acquisition of Network Services. At September 30, 2008, there was $50 million outstanding under the Revolving Credit Facility and $25 million outstanding under the Term Credit Facility.

We had no outstanding obligations under any credit facility at December 31, 2007 or 2006.

Common Stock Repurchases. On January 13, 2006, our Board of Directors authorized management to repurchase up to the lesser of (a) 1,000,000 shares of our common stock and (b) $25,000,000 worth of our common stock in the open market. On August 1, 2006, our Board of Directors authorized management to repurchase up to an additional 1,000,000 shares of our common stock in the open market using proceeds from the issuance of stock options. On May 3, 2007, the Board of Directors eliminated the restriction in the August 1, 2006 repurchase authorization which required management to use only proceeds from the issuance of stock options for repurchases, and increased the total remaining authorized number of shares to be repurchased to

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2,000,000. We intend to use these authorizations to repurchase shares opportunistically as a means of offsetting dilution from shares issued upon the exercise of options under employee benefit plans, and to use cash to take advantage of declines in the Company s stock price. We have no obligation to repurchase shares under the authorization, and the specific timing and amount of the stock repurchase will vary based on market conditions, securities law limitations and other factors. The stock repurchase will be executed utilizing general corporate funds.

Under these authorizations, we repurchased an aggregate of 2,574,284 shares of our common stock during the years ended December 31, 2006, 2007 and 2008 at a cost of $61.9 million, or average cost of $24.04 per share.

During the years ended December 31, 2008, 2007 and 2006, we repurchased 781,584 shares, 731,500 and 1,061,200 shares, respectively, of our common stock at average per share costs of $23.02, $25.78 and $23.59. At December 31, 2008, we have remaining authorization to repurchase up to 525,716 additional shares of our common stock.

Dividends on Common Stock. On August 1, 2006, our Board of Directors declared the first quarterly cash dividend on our common stock. The following table summarizes quarterly cash dividends declared and paid on our common stock:

Date Declared	Record Date	Date Paid	Amount Paid Per Common Share	
Twelve Months Ended December 31, 2006:				
August 1, 2006	August 25, 2006	September 15, 2006	$	0.025
November 2, 2006	November 24, 2006	December 15, 2006	$	0.025
Twelve Months Ended December 31, 2007:				
February 12, 2007	February 23, 2007	March 15, 2007	$	0.05
May 3, 2007	May 25, 2007	June 15, 2007	$	0.05
July 30, 2007	August 24, 2007	September 15, 2007	$	0.075
October 31, 2007	November 23, 2007	December 15, 2007	$	0.075
Twelve Months Ended December 31, 2008:				
February 13, 2008	February 28, 2008	March 15, 2008	$	0.09
April 30, 2008	May 23, 2008	June 15, 2008	$	0.09
August 5, 2008	August 22, 2008	September 15, 2008	$	0.09
November 4, 2008	November 24, 2008	December 15, 2008	$	0.09

On February 20, 2009, our Board of Directors declared a quarterly cash dividend of $0.025 per share of common stock, payable on March 16, 2009 to stockholders of record as of March 9, 2009. Our Board of Directors believed it prudent to establish a new dividend rate in light of the current difficulties in the financial markets and potential claims related to the Processing System Intrusion.

Contractual Obligations. The Visa and MasterCard networks generally allow chargebacks up to four months after the later of the date the transaction is processed or the delivery of the product or service to the cardholder. If the merchant incurring the chargeback is unable to fund the refund to the card issuing bank, we must do so. As the majority of our SME transactions involve the delivery of the product or service at the time of the transaction, a good basis to estimate our exposure to chargebacks is the last four months bank card processing volume on our SME portfolio, which was $18.7 billion, $17.9 billion and $15.1 billion for the four months ended December 31, 2008, 2007 and 2006, respectively. However, during the four months ended December 31, 2008, 2007 and 2006, we were presented with $10.2 million, $10.5 million and $8.4 million, respectively, of chargebacks by issuing banks. In 2008, 2007 and 2006, we incurred merchant credit losses related to chargebacks of $5.1 million, $2.8 million and $1.9 million, respectively, on total SME dollar volume processed of $57.9 billion, $51.9 billion and $43.3 billion, respectively. These credit losses are included in processing and servicing expense in our consolidated statements of income.

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Chargebacks originating from large national merchant bank card processing are processed and carried by Fifth Third Bank, which is our third-party outsourced processor for settling large national merchant accounts.

The following table reflects our significant contractual obligations as of December 31, 2008:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
			(in thousands)		
Processing providers (a)	$ 10,757	$ 5,978	$ 4,779	$	$
Telecommunications providers	8,505	5,194	3,311		
Office and equipment leases	17,677	4,598	6,522	3,345	3,212
Term Loan Facility	25,000	8,333	16,667		
Land, construction and equipment (b)	6,864	6,864			
Capital lease obligations	571	246	325		
	$ 69,374	$ 31,213	$ 31,604	$ 3,345	$ 3,212

(a) We have agreements with several third-party processors to provide to us on a non-exclusive basis payment processing and transmittal, transaction authorization and data capture services, and access to various reporting tools. Our agreements with third-party processors require us to submit a minimum monthly number of transactions or volume for processing. If we submit a number of transactions or volume that is lower than the minimum, we are required to pay the third party processors the fees that they would have received if we had submitted the required minimum number or volume of transactions.

(b) These amounts relate to contractual commitments we have for constructing our new service center in Jeffersonville, Indiana. Additional contractual commitments will be entered into as we progress with the development of this site. Through December 31, 2008, we have spent approximately $48.2 million of our cash on our new service center, including $1.7 million to acquire land, and over the next twelve months we expect to spend approximately $13.6 million more on its development, including the contractual obligations in the above table.

In addition, we record a payable to our sponsor banks each month in conjunction with our monthly processing activities. This amount was $68.2 million and $49.8 million as of December 31, 2008 and 2007, respectively. This amount is repaid on the first business day of the following month out of the fees collected from our merchants.

Unrecognized Tax Benefits. At December 31, 2008, we had gross tax effected unrecognized tax benefits of approximately $1.7 million. See Critical Accounting Estimates Income Taxes. As of December 31, 2008, we are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authority, hence the unrecognized tax benefits have been excluded from the above commitment and contractual obligations table.

Off-Balance Sheet Arrangements

We have not entered into any transactions with third parties or unconsolidated entities whereby we have financial guarantees, subordinated retained interest, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or other obligations other than for chargebacks and reject losses described under Critical Accounting Estimates.

Legal and Regulatory Considerations

Processing System Intrusion Legal Proceedings

To date, we have had several lawsuits filed against us and we expect additional lawsuits will be filed. These include lawsuits which assert claims against us by cardholders (including various putative class actions seeking in the aggregate to represent all cardholders in the United States whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion), and banks that issued payment cards to cardholders whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion (including various putative class actions seeking to represent all financial institutions that issued payment cards to cardholders whose transaction information is alleged to have been placed at risk in the course of the Processing System Intrusion), seeking damages allegedly arising out of the Processing System Intrusion and other related relief. The actions generally assert various common-law claims such as claims for negligence and breach of contract, as well as, in some cases, statutory claims such as violation of the Fair Credit Reporting Act, state data breach notification statutes, and state unfair and deceptive practices statutes. The putative cardholder class actions seek various forms of relief including damages, injunctive relief, multiple or punitive damages, attorney s fees and costs. The putative financial institution class actions seek compensatory damages, including recovery of the cost of issuance of replacement cards and losses by reason of unauthorized transactions, as well as injunctive relief, attorney s fees and costs. We have filed a motion with the Judicial Panel on Multidistrict Litigation seeking to have these cases consolidated for pre-trial proceedings before the United States District Court for the Southern District of Texas. The putative consumer class actions and putative financial institution class actions filed against us through March 13, 2009 are described in Legal Proceedings Processing System Intrusion Legal Proceedings .

A putative class action was commenced against us and certain of our executive officers alleging violations of the federal securities laws in connection with our disclosures relative to the Processing System Intrusion and the alleged trading of our securities by four Heartland insiders. This case, *Davis v. Heartland Payment Systems, Inc., Robert O. Carr and Robert H.B. Baldwin, Jr.*, was commenced on March 6, 2009 in the United States District Court for the District of New Jersey. The plaintiff in the putative federal securities law class action seeks to represent all purchasers of our securities between August 5, 2008 and February 23, 2009 and seeks to recover losses such purchasers allegedly incurred by reason of their purchases, as well as related costs and expenses.

We have been advised by the SEC that it has commenced an informal inquiry and we have been advised by the United States Attorney for the District of New Jersey that it has commenced an investigation, in each case to determine whether there have been any violations of the federal securities laws in connection with our disclosure of the Processing Systems Intrusion and the alleged trading in our securities by certain of our employees, including certain executive officers.

We have been contacted by the Federal Financial Institutions Examination Council and informed that it will be making inquiries into the Processing System Intrusion, and the Federal Trade Commission, by letter dated February 19, 2009, has requested that we provide information about our information security practices. Additionally, we have received written or telephonic inquiries relating to the Processing System Intrusion from a number of state Attorneys General s offices, including a Civil Investigative Demand from the Louisiana Department of Justice Office of the Attorney General, the Canadian Privacy Commission, and other government officials. We are cooperating with the government officials in response to each of these inquiries. We expect that additional lawsuits may be filed against us relating to the Processing System Intrusion and that additional inquiries from governmental agencies may be received or investigations may be commenced.

Although we intend to defend the lawsuits, investigations and inquiries described above vigorously, we cannot predict the outcome of such lawsuits, investigations and inquiries . Apart from damages claimed in such lawsuits and in other lawsuits relating to the Processing System Intrusion that may be filed, we may be subject to fines or other obligations as a result of the government inquiries and investigations described above and additional governmental inquiries or investigations relating to the Processing System Intrusion that may be commenced. The Card Brands may also assert claims seeking to impose fines, penalties, and/or other assessments against us or our sponsor banks (who would seek indemnification from us pursuant to our agreements with them) based upon the Processing System Intrusion. In that regard, we have been advised by Visa that based on Visa s investigation of the Processing System Intrusion Visa believes we are in violation of the Visa Operating Regulations and that, based on that belief, Visa has removed us from Visa s published list of PCI-DSS compliant service providers until such time as we are re-certified as PCI-DSS compliant and the assessor s report attesting to such re-certification has been reviewed and approved by Visa, intends to seek to impose fines on our sponsor banks, which fines (if successfully imposed) our sponsor banks could in turn seek to recover from us, intends to place us in a probationary status during the two years following our re-certification as being PCI-DSS compliant, during which time our failure to comply with the probationary requirements set forth by Visa or with the Visa Operating Regulations may result in Visa seeking to impose further risk conditions on us, including but not limited to our disconnection from VisaNet or our disqualification from the Visa payment system, and intends to treat some or all of the Visa accounts that Visa considers to have been placed at risk of compromise in the Processing System Intrusion as being eligible for Visa s Account Data Compromise Recovery and Data Compromise Recovery Solution processes, which processes could result in Visa s seeking to recover from our sponsor banks (and our sponsor banks in turn seeking to recover from us) amounts in respect of fraud losses and operating expenses that Visa believes Visa issuers to have incurred by reason of the Processing System Intrusion. We expect the other Card Brands will assert claims seeking to impose fines, penalties, and/or other assessments against us or our sponsor banks (who would seek indemnification from us pursuant to our agreements with them) based upon the Processing System Intrusion. By these claims, we expect the other Card Brands to seek to recover from us, or from our sponsor banks (who would in turn seek to recover from us), assessments in respect of fraud losses and operating expenses (including card reissuance costs and non-ordinary-course account monitoring expenses) that the other Card Brands believe either themselves or their issuers to have incurred by reason of the Processing System Intrusion, as well as fines and/or penalties by reason of our alleged failure to comply with the other Card Brands operating regulations. The amounts of the Card Brand claims described above are expected to be material, and the amounts we are required to pay to defend against and/or resolve those claims are expected to be material could have a material adverse effect on our results of operations and financial condition.

While we have determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by us to be probable on those claims that are pending or have been threatened against us, or that we consider to be probable of assertion against us, and we do not have sufficient information to reasonably estimate the loss we would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claim as of December 31, 2008. As more information becomes available, if we should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, we will record a reserve for the claim in question. If and when we record such a reserve, it could be material and could adversely impact our results of operations, financial condition and cash flow. Costs we incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts we expect to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact our results of operations, financial condition and cash flow.

Although we have insurance that we believe may cover some of the costs and losses that we may incur in connection with the above-described pending and potential lawsuits, inquiries, investigations and claims, we cannot now confirm that such coverage will, in fact, be provided or the extent of such coverage, if it is provided.

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Other Legal Proceedings

On December 16, 2008, a putative class action was filed against us in the Superior Court of California, County of San Diego, *Ryan McInerney, Hossein Vazir Zand v. Heartland Payment Systems, Inc*. The plaintiffs purport to represent a putative class of individuals who allegedly were not reimbursed by us for business expenses and whose compensation was allegedly reduced for their costs of doing business. The plaintiffs seek unspecified monetary damages, penalties, injunctive and declaratory relief, and attorney s fees and costs.

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to the operation of our business. We believe that the outcome of the proceedings to which we are currently a party will not have a material adverse effect on our financial position, results of operations or cash flows.

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Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk. Our primary market risk exposure is to changes in interest rates.

We have interest rate risk related to our payable to our sponsor banks. During each month, KeyBank and Heartland Bank advance interchange fees to most of our merchants. We fund these advances first by applying a portion of our available cash and then by incurring a significant payable to our sponsor banks, bearing interest at the prime rate. At December 31, 2008, our payable to our sponsor banks was $68.2 million. This payable is repaid on the first business day of the following month out of fees collected from our merchants. During the quarter ended December 31, 2008 the average daily interest-bearing balance of that payable was approximately $22.1 million. The outstanding balance of our payable to our sponsor banks is directly related to our bank card processing volume and also will fluctuate depending on the amount of our available cash. A hypothetical 100 basis point change in short-term interest rates applied to our average payable to sponsor banks would result in a change of approximately $221,000 in annual pre-tax income.

We also incur interest rate risk on borrowings under our Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement provides for a Revolving Credit Facility in an aggregate amount of up to $50 million and a Term Credit Facility in an aggregate amount of up to $25 million. The Term Credit Facility requires amortizing payments in the amount of $2,083,333 on the last business day of each fiscal quarter commencing March 31, 2009. Under the terms of the Amended and Restated Credit Agreement, the Company may borrow, at its option, at interest rates equal to one, two, three or nine month adjusted LIBOR rates or equal to the greatest of prime, the secondary market rate for three month certificates of deposits plus 1% and the federal funds rate plus 0.50%, in each case plus a margin determined by the Company s current leverage ratio. During the quarter ended December 31, 2008, the average daily interest-bearing balance outstanding under the Amended and Restated Credit Agreement was $75.0 million. A hypothetical 100 basis point increase in short-term interest rates applied to our average outstanding balance under the Amended and Restated Credit Agreement would result in a decline of approximately $750,000 in annual pre-tax income.

While the bulk of our cash and cash-equivalents are held in checking accounts or money market funds, we do hold certain fixed-income investments with maturities within three years. At December 31, 2008, a hypothetical 100 basis point increase in short-term interest rates would result in an increase of approximately $48,000 in annual pre-tax income from money market fund holdings, but a decrease in the value of fixed-rate investments of approximately $60,000. A hypothetical 100 basis point decrease in short-term interest rates would result in a decrease of approximately $48,000 in annual pre-tax income from money market funds, but an increase in the value of fixed-rate instruments of approximately $60,000.

Foreign Currency Risk. While substantially all of our business is conducted in U.S. dollars, our Canadian processing subsidiary, CPOS, conducts its operations in Canadian dollars. Consequently, a portion of CPOS revenues and expenses may be affected by fluctuations in foreign currency exchange rates. We are also affected by fluctuations in exchange rates on assets and liabilities related to our CPOS subsidiary. We have not hedged our translation risk on foreign currency exposure. For year ended December 31, 2008, foreign currency exposures had an immaterial impact on our revenues and our net income. At December 31, 2008, fluctuations in exchange rates on CPOS assets and liabilities reduced our Other Comprehensive Income by $2.1 million.

We do not hold or engage in the trading of derivative financial, commodity or foreign exchange instruments.

Recent Accounting Pronouncements

The FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN No. 48), in June 2006. FIN No. 48 clarifies the accounting for the recognition and measurement of tax benefits associated with uncertain tax positions and defines criterion that an individual tax position must meet for any part of that position to be recognized or continue to be recognized in the financial statements. FIN No. 48 also adds disclosure requirements for the amounts of unrecognized tax benefits associated with uncertain tax positions. An uncertain tax position exists if it is unclear how a transaction will be treated under tax law. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We adopted FIN No. 48 on January 1, 2007 and recorded a cumulative effect adjustment of $0.5 million to Retained Earnings to establish reserves for uncertain tax positions.

The FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), in September 2006. SFAS No. 157 establishes a single authoritative definition of fair value in generally accepted accounting principles (GAAP), sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. SFAS No. 157 was effective for the Company on January 1, 2008. The adoption of SFAS No. 157 did not have a material effect on our consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the Fair Value Option). Unrealized gains and losses on items for which the Fair Value Option has been elected are reported in earnings. The Fair Value Option is applied instrument by instrument (with certain exceptions), is irrevocable (unless a new election date occurs) and is applied only to an entire instrument. The effect of the first re-measurement to fair value is reported as a cumulative-effect adjustment to the opening balance of Retained earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 with earlier adoption permitted, subject to certain conditions. The adoption of SFAS No. 159 did not have any effect on our consolidated financial position, results of operations or cash flows and therefore, was not elected by the company.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) applies the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses and establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired and liabilities assumed, including assets and liabilities arising from contingencies, any noncontrolling interest in the acquiree and goodwill acquired or gain realized from a bargain purchase. SFAS No. 141(R) is effective prospectively for business combinations for which the acquisition date is on or after the first annual reporting period beginning after December 15, 2008. SFAS No. 141 (R) will impact our Consolidated Financial Statements prospectively in the event of any business combinations entered into after the effective date in which we are the acquirer.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements.* SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, SFAS No. 160 requires a noncontrolling interest in a subsidiary to be reported as equity, separate from the parent s equity, in the consolidated statement of financial position and the amount of net income or loss and comprehensive income or loss attributable to the parent and noncontrolling interest to be presented separately on the face of the consolidated financial statements. Changes in a parent s ownership interest in its subsidiary in which a controlling financial interest is retained are accounted for as equity transactions. If a controlling financial interest in the subsidiary is not retained, the subsidiary is deconsolidated and any retained noncontrolling equity interest is initially measured at fair value. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively, except that presentation and disclosure requirements are to be applied retrospectively for all periods presented. The adoption of SFAS No. 160 did not have a material effect on our Consolidated Financial Statements.

In December 2007, the SEC issued SAB No. 110, *Certain Assumptions Used in Valuation Methods* (SAB 110). SAB 110 amends SAB 107 to allow the continued use, under certain circumstances, of the simplified method in developing the expected term for stock options. SAB 110 is effective January 1, 2008. We adopted the provisions of SAB 110 effective January 1, 2008. The adoption of SAB 110 will impact the our Consolidated Financial Statements prospectively in the event circumstances provide for application of the simplified method to future stock option grants we make.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142,

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Goodwill and Other Intangible Assets (SFAS No. 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other GAAP. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. Disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. Early adoption is not permitted. The adoption of FSP FAS 142-3 will impact our Consolidated Financial Statements in the event of any intangible assets acquired after the effective date.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the accounting principles used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. Currently, GAAP hierarchy is provided in the American Institute of Certified Public Accountants U.S. Auditing Standards (AU) Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (AU Section 411). SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board s amendments to AU Section 411. The adoption of SFAS No. 162 did not have a material effect on its Consolidated Financial Statements.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two class method described in SFAS No. 128, Earnings per Share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and prior period earnings per share data presented is to be adjusted retrospectively. The adoption of FSP EITF 03-6-1 did not have a material effect on our Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Market Risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Consolidated Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Heartland Payment Systems, Inc.

We have audited the accompanying consolidated balance sheets of Heartland Payment Systems, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income and comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 17 and 22 to the consolidated financial statements, on January 20, 2009, the Company announced the discovery of a criminal breach of its payment systems environment that apparently had occurred during some portion of 2008.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2009 expressed an unqualified opinion on the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
Philadelphia, Pennsylvania
March 16, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Heartland Payment Systems, Inc.

We have audited the internal control over financial reporting of Heartland Payment Systems, Inc. and subsidiaries (the Company) as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing in Item 9A herein. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (continued)

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2008 of the Company and our report dated March 16, 2009 expressed an unqualified opinion and included an explanatory paragraph regarding the discovery of a criminal breach of the Company s payment systems environment that apparently had occurred during some portion of 2008.

/s/ Deloitte Touche LLP
Philadelphia, Pennsylvania
March 16, 2009

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Heartland Payment Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 27,589**	$ 35,508
Funds held for payroll customers	**22,002**	24,201
Receivables, net	**140,145**	122,613
Investments held to maturity	**1,410**	1,119
Inventory	**8,381**	5,383
Prepaid expenses	**6,662**	3,478
Current tax asset	**2,440**	5,449
Current deferred tax assets, net	**6,723**	690
Total current assets	**215,352**	198,441
Capitalized customer acquisition costs, net	**77,737**	70,498
Deferred tax assets, net		3,878
Property and equipment, net	**75,443**	50,248
Goodwill	**58,456**	5,489
Intangible assets, net	**36,453**	481
Deposits and other assets	**178**	154
Total assets	**$ 463,619**	$ 329,189
Liabilities and stockholders equity		
Current liabilities:		
Due to sponsor banks	**$ 68,212**	$ 49,798
Accounts payable	**25,864**	20,495
Deposits held for payroll customers	**22,002**	24,201
Current portion of accrued buyout liability	**10,547**	11,521
Merchant deposits and loss reserves	**16,872**	14,757
Accrued expenses and other liabilities	**26,315**	15,266
Current portion of borrowings	**58,522**	
Total current liabilities	**228,334**	136,038
Deferred tax liabilities, net	**6,832**	
Reserve for unrecognized tax benefits	**1,732**	1,230
Long-term portion of borrowings	**16,984**	
Long-term portion of accrued buyout liability	**30,493**	26,252
Total liabilities	**284,375**	163,520
Commitments and contingencies (Note 17)		
Stockholders equity		
Common Stock, $.001 par value, 100,000,000 shares authorized, 37,675,543 and 39,804,322 shares issued at December 31, 2008 and 2007; 37,675,543 and 37,989,622 shares outstanding at December 31, 2008 and 2007	**38**	40
Additional paid-in capital	**167,337**	173,346

Accumulated other comprehensive loss	**(2,145)**	(62)
Retained earnings	**14,014**	36,729
Treasury stock, at cost (1,814,700 shares at December 31, 2007)		(44,384)
Total stockholders equity	**179,244**	165,669
Total liabilities and stockholders equity	**$ 463,619**	$ 329,189

See accompanying notes to consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share data)

	Year Ended December 31, 2008	2007	2006
Total Revenues	**$ 1,544,902**	$ 1,313,846	$ 1,097,041
Costs of Services:			
Interchange	**1,093,546**	962,025	804,267
Dues, assessments and fees	**67,648**	57,050	47,122
Processing and servicing	**173,743**	126,599	111,554
Customer acquisition costs	**48,522**	44,193	35,451
Depreciation and amortization	**11,006**	6,806	6,042
Total costs of services	**1,394,465**	1,196,673	1,004,436
General and administrative	**79,828**	57,404	47,787
Total expenses	**1,474,293**	1,254,077	1,052,223
Income from operations	**70,609**	59,769	44,818
Other income (expense):			
Interest income	**755**	1,934	1,225
Interest expense	**(3,206)**	(785)	(753)
Losses on investments	**(395)**	(1,650)	
Exit costs for Service Center		(1,267)	
Other, net	**(5)**	(841)	(669)
Total other (expense) income	**(2,851)**	(2,609)	(197)
Income before income taxes	**67,758**	57,160	44,621
Provision for income taxes	**25,918**	21,290	16,077
Net income	**$ 41,840**	$ 35,870	$ 28,544
Net income	**$ 41,840**	$ 35,870	$ 28,544
Other comprehensive income, net of tax			
Unrealized gains (losses) on investments, net of income tax of $29, $(25) and $8	**48**	(41)	5
Foreign currency translation adjustment	**(2,131)**		
Comprehensive income	**$ 39,757**	$ 35,829	$ 28,549
Earnings per common share:			
Basic	**$ 1.12**	$ 0.95	$ 0.78
Diluted	**$ 1.08**	$ 0.90	$ 0.71
Weighted average number of common shares outstanding:			
Basic	**37,521**	37,686	36,394
Diluted	**38,698**	39,980	39,943

See accompanying notes to consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total Stockholders Equity
Balance, January 1, 2006	34,200	$ 34	$ 96,417	$ (26)	$ (15,879)	$ (495)	$ 80,051
Issuance of Common Stock options exercised	4,267	4	27,654				27,658
Excess tax benefit on stock options exercised under SFAS No. 123R			28,603				28,603
Repurchase of Common Stock	(1,061)					(25,030)	(25,030)
Share-based compensation under SFAS No. 123R			1,323				1,323
Accumulated other comprehensive income				5			5
Dividends on common stock					(1,861)		(1,861)
Net income for the year					28,544		28,544
Balance, December 31, 2006	37,406	$ 38	$ 153,997	$ (21)	$ 10,804	$ (25,525)	$ 139,293
Cumulative effect of change in accounting principal FIN No. 48					(514)		(514)
Issuance of Common Stock secondary offering	24		25				25
Issuance of Common Stock options exercised	1,292	2	10,007				10,009
Excess tax benefit on stock options exercised under SFAS No. 123R			7,570				7,570
Repurchase of Common Stock	(732)					(18,859)	(18,859)
Share-based compensation under SFAS No. 123R			1,747				1,747
Accumulated other comprehensive loss				(41)			(41)
Dividends on common stock					(9,431)		(9,431)
Net income for the year					35,870		35,870
Balance, December 31, 2007	37,990	$ 40	$ 173,346	$ (62)	$ 36,729	$ (44,384)	$ 165,669
Issuance of Common Stock options exercised	468		3,075				3,075
Excess tax benefit on stock options exercised under SFAS No. 123R			710				710
Repurchase of Common Stock	(782)					(17,995)	(17,995)
Retirement of Treasury Stock		(2)	(11,311)		(51,066)	62,379	
Share-based compensation under SFAS No. 123R			1,517				1,517
Accumulated other comprehensive income (loss):							
Unrealized gains on available for sale investments				48			48
Foreign currency translation adjustment				(2,131)			(2,131)
Dividends on common stock					(13,489)		(13,489)
Net income for the year					41,840		41,840
Balance, December 31, 2008	37,676	$ 38	$ 167,337	$ (2,145)	$ 14,014	$	$ 179,244

See accompanying notes to consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flow

(In thousands)

	Year Ended December 31,		
	2008	**2007**	**2006**
Cash flows from operating activities			
Net income	**$ 41,840**	$ 35,870	$ 28,544
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Amortization of capitalized customer acquisition costs	**53,732**	45,191	35,823
Other depreciation and amortization	**14,423**	8,616	7,557
Addition to loss reserve	**5,693**	3,035	1,970
Provision for doubtful receivables	**2,045**	1,249	628
Deferred taxes	**4,023**	1,020	(351)
Share-based compensation	**1,517**	1,747	1,323
Loss on investments	**395**	1,650	
Exit costs for Service Center		1,267	
Write downs on purchased software, fixed assets and system development costs	**751**		1,500
Other	**(22)**	295	254
Changes in operating assets and liabilities:			
Increase in receivables	**(333)**	(16,701)	(13,017)
Decrease (increase) in inventory	**238**	(1,737)	(438)
Payment of signing bonuses, net	**(45,454)**	(44,700)	(33,743)
Increase in capitalized customer acquisition costs	**(15,517)**	(14,284)	(15,855)
Increase in prepaid expenses	**(2,507)**	(1,448)	(59)
Decrease in current tax asset	**3,754**	21,401	10,978
Decrease (increase) in deposits and other assets	**23**	(61)	23
Excess tax benefits on options exercised under SFAS No. 123R	**(710)**	(7,623)	(28,603)
Increase in reserve for unrecognized tax benefits	**502**	463	
Increase (decrease) in due to sponsor banks	**18,413**	22,545	(7,277)
Increase in accounts payable	**4,083**	3,544	1,325
Increase in accrued expenses and other liabilities	**3,083**	3,260	1,958
(Decrease) increase in merchant deposits and loss reserves	**(5,789)**	3,512	(1,210)
Payouts of accrued buyout liability	**(7,039)**	(8,806)	(10,664)
Increase in accrued buyout liability	**10,306**	13,286	15,483
Net cash provided by (used in) operating activities	**87,450**	72,591	(3,851)
Cash flows from investing activities			
Purchase of investments	**(340)**	(1,904)	(2,158)
Maturities of investments	**284**	310	1,258
Decrease (increase) in funds held for payroll customers	**1,646**	(7,376)	(5,972)
(Decrease) increase in deposits held for payroll customers	**(2,199)**	7,241	6,357
Acquisition of business, net of cash acquired	**(106,865)**	(6,300)	(3,453)
Purchases of property and equipment	**(35,059)**	(34,247)	(13,960)
Proceeds from disposal of property and equipment	**35**		
Net cash used in investing activities	**(142,498)**	(42,276)	(17,928)
Cash flows from financing activities			
Proceeds from borrowings	**95,000**		

Principal payments on borrowings and financing arrangements	**(20,023)**	(174)	(261)
Proceeds from exercise of stock options	**3,075**	9,955	27,658
Excess tax benefits on options exercised under SFAS No. 123R	**710**	7,623	28,603
Repurchase of common stock	**(17,995)**	(18,859)	(25,030)
Dividends paid on common stock	**(13,489)**	(9,431)	(1,861)
Net proceeds from sale of common stock		25	
Net cash provided by (used in) financing activities	**47,278**	(10,861)	29,109
Net (decrease) increase in cash and cash equivalents	**(7,770)**	19,454	7,330
Effect of exchange rates on cash	**(149)**		
Cash and cash equivalents at beginning of year	**35,508**	16,054	8,724
Cash and cash equivalents at end of year	**$ 27,589**	$ 35,508	$ 16,054
Supplemental cash flow information:			
Cash paid (received) during the year for:			
Interest	**$ 2,907**	$ 670	$ 747
Income taxes	**17,932**	(1,571)	2,727

See accompanying notes to consolidated financial statements.

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Heartland Payment Systems, Inc. and Subsidiaries

Notes To Consolidated Financial Statements

1. Organization and Operations

Basis of Financial Statement Presentation The accompanying consolidated financial statements include those of Heartland Payment Systems, Inc. (the Company) and its wholly-owned subsidiaries, Heartland Payroll Company (HPC), Debitek, Inc. (Debitek) and Heartland Acquisition LLC (Network Services), and its 70% owned subsidiary Collective POS Solutions Ltd. (CPOS). The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All intercompany balances and transactions with the Company s subsidiaries have been eliminated upon consolidation.

In 2008, certain amounts for prior periods have been reclassified to conform with current presentation. Prior period amounts presented on the consolidated income statements reflect a change in classification of certain charges from VISA and MasterCard from Processing and Servicing expenses, to Dues, Assessments and Fees. This classification reflects the nature of these additional VISA and MasterCard bank card transaction authorization fees, which the Company passes through to its merchants. The Company believes that this change in presentation provides a more meaningful measure of its net revenue, which is a useful measure of profitability and operating performance. The Company defines net revenue as total revenues less interchange fees and dues, assessments and fees. These reclassifications had no effect on reported consolidated income before income taxes, net income or per share amounts. The amounts of Processing and Servicing expenses, which have been reclassified to Dues, Assessments and Fees for the years ended December 31, 2008, 2007 and 2006, were $13.5 million, $8.5 million and $6.8 million, respectively.

The officers and directors of the Company represent approximately 21.6% of the outstanding shares of the Company as of December 31, 2008.

Business Description The Company provides payment processing services related to bank card transactions for merchants throughout the United States and some parts of Canada. In addition, the Company provides certain other merchant services, including check processing, the sale and rental of terminal equipment, and the sale of terminal supplies. HPC provides payroll and related tax filing services throughout the United States. Debitek provides prepaid card and stored-value card solutions throughout the United States. The Company and Debitek also provide campus payment solutions throughout the United States. CPOS is a Canadian provider of payment processing services and secure point-of-sale solutions.

Substantially all of the Company s revenue is derived from processing and settling Visa and MasterCard bank card transactions for its merchant customers. Because the Company is not a member bank as defined by Visa and MasterCard, in order to process and settle these bank card transactions for its merchants the Company has entered into sponsorship agreements with member banks. Visa and MasterCard rules restrict the Company from performing funds settlement or accessing merchant settlement funds and require that these funds be in the possession of the member bank until the merchant is funded. A sponsorship agreement permits the Company to route Visa and MasterCard bank card transactions under the member bank s control and identification numbers to clear credit bank card transactions through Visa and MasterCard. A sponsorship agreement also enables the Company to settle funds between cardholders and merchants by delivering funding files to the member bank, which in turn transfers settlement funds to the merchants bank accounts. These restrictions place the settlement assets and obligations under the control of the member bank.

The sponsorship agreements with the member banks require, among other things, that the Company abide by the by-laws and regulations of the Visa and MasterCard networks and maintain a certificate of deposit with the bank sponsors. If the Company breaches the sponsorship agreements, the bank sponsors may terminate the agreement and, under the terms of the agreement, the Company would have 180 days to identify an alternative bank sponsor (See Note 22. Subsequent Events). The Company is dependent on its bank sponsors, Visa and MasterCard for notification of any compliance breaches. As of December 31, 2008, the Company has not been notified of any such issues by its bank sponsors, Visa or MasterCard. Of the Company s total bank card processing volume for the month of December 2008, 72% was processed under its sponsorship

Heartland Payment Systems, Inc. and Subsidiaries

Notes To Consolidated Financial Statements

agreement with KeyBank N.A., 16% was processed under its sponsorship agreement with Heartland Bank (an unrelated third party), and 12% was processed under a sponsorship arrangement with World Financial Network National Bank for Network Services processing.

The Company entered into the sponsorship agreement with KeyBank on April 1, 1999. The agreement expires in March 2012. The acquisition of Network Services in May 2008 resulted in the addition of World Financial Network National Bank as the sponsor bank for Network Services large national merchant processing. In August 2008, the Company entered into a sponsorship agreement with SunTrust Banks to replace World Financial Network National Bank as its sponsor bank for Network Services large national merchant processing. In February 2009, the sponsorship of the large national merchants processing was transferred from World Financial Network National Bank to SunTrust Banks.

Processing System Intrusion On January 20, 2009, the Company publicly announced the Processing System Intrusion. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by the Company during the transaction authorization process. Such data is not required to be encrypted while in transit under current payment card industry guidelines. The Company had received confirmation of its compliance with the Payment Card Initiative Data Security Standard (PCI-DSS) from a third-party assessor each year since the standard was announced, including most recently in April 2008. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). However, the cardholder information that the Company processes does not include addresses or Social Security numbers. Also, the Company believes that no unencrypted PIN data was captured. The Company believes the breach has been contained and did not extend beyond 2008. Its investigation of the Processing System Intrusion is ongoing.

While the Company has determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by it to be probable on those claims that are pending or have been threatened against it, or that the Company considers to be probable of assertion against it, and the Company does not have sufficient information to reasonably estimate the loss it would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claim as of December 31, 2008. As more information becomes available, if the Company should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, the Company will record a reserve for the claim in question. If and when the Company records such a reserve, it could be material and could adversely impact its results of operations, financial condition and cash flow. Costs the Company incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts the Company expects to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact the Company s results of operations, financial condition and cash flow.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates include, among other things, the accrued buyout liability, capitalized customer acquisition costs, loss reserves, certain accounts payable and accrued expenses and certain tax assets and liabilities as well as the related valuation allowances, if any. Actual results could differ from those estimates.

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Heartland Payment Systems, Inc. and Subsidiaries

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Concentrations The Company processes for merchants throughout the United States. California represented 12.3% of the Company s total Small and Midsized Enterprises bank card processing volume in December 2008. The next largest state represented 6.6%.

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents The Company considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Receivables Receivables are stated net of allowance for doubtful accounts. The Company estimates its allowance based on experience with its merchants, customers, and sales force and its judgment as to the likelihood of their ultimate payment. The Company also considers collection experience and makes estimates regarding collectability based on trends in aging. Historically, the Company has not experienced significant charge offs for its merchant receivables.

The Company s primary receivables are from its bank card processing merchants. These receivables result from the Company s practice of advancing interchange fees to most of its small and midsized merchants (referred to as Small and Midsized Enterprises, or SME) during the month and collecting those fees at the beginning of the following month, as well as from transaction fees the Company charges its merchants for processing transactions. The Company does not advance interchange fees to its Network Services merchants.

Generally, the Company uses cash available for investment to fund these advances to SME merchants; when available cash has been expended, the Company directs its sponsor banks to make these advances, thus generating a payable to the sponsor banks. We pay our sponsor banks the prime rate on these payables. At December 31, 2008 and 2007, the Company used $17.5 million and $37.9 million, respectively, of its available cash to fund merchant advances. The amount due to its sponsor banks for funding advances was $68.2 million at December 31, 2008 and $49.8 million at December 31, 2007. The payable to sponsor banks is repaid at the beginning of the following month out of the fees the Company collects from its merchants. Receivables from merchants also include receivables from the sale of point of sale terminal equipment and check processing terminals. Unlike the SME merchants, Network Services customers are large national accounts which are invoiced monthly, on payment terms that are typical for large national accounts.

Receivables also include amounts resulting from the sale, installation, training and repair of cashless payment system hardware and software for prepaid card and stored-value card payment systems and campus payment solutions. These receivables are mostly invoiced on terms of 30 days net from date of invoicing and are typically funded from working capital.

Receivables also include amounts advanced to employees, primarily the Company s sales force, to cover certain expenses. These receivables are recovered from sales and residual commissions earned by the sales force.

Investments and Funds Held for Payroll Customers Investments, including those carried on the consolidated balance sheet as Funds Held for Payroll Customers, consist primarily of fixed income bond funds, corporate and U.S. Government debt securities, and certificates of deposit. Funds Held for Payroll Customers also include overnight bank deposits. The majority of investments carried in Funds Held for Payroll Customers are available-for-sale and recorded at fair value based on quoted market prices. Certificates of deposit are classified as held to maturity and recorded at cost. In the event of a sale, cost is determined on a specific identification basis. At December 31, 2008, Funds Held for Payroll Customers included cash and cash equivalents of $20.7 million and investments available for sale of $1.3 million.

Inventories Inventories consist of point-of-sale terminal equipment held for sale to merchants, check processing terminal equipment for sale to merchants, prepaid card and cashless payment systems hardware for sale to end users, resellers and distributors, and campus payments solutions equipment for sale to end users. Inventories are valued at the lower of cost or market price. Cost is arrived at using the first-in, first-out method. Market price is estimated based on current sales of equipment.

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Notes To Consolidated Financial Statements

Capitalized Customer Acquisition Costs, net Capitalized customer acquisition costs consist of (1) up-front signing bonus payments made to Relationship Managers and sales managers (the Company s sales force) for the establishment of new merchant relationships, and (2) a deferred acquisition cost representing the estimated cost of buying out the commissions of vested sales employees. Pursuant to Staff Accounting Bulletin Topic 13, *Revenue Recognition*, and Financial Accounting Standards Board (FASB) Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts*, capitalized customer acquisition costs represent incremental, direct customer acquisition costs that are recoverable through gross margins associated with merchant contracts. The capitalized customer acquisition costs are amortized using a method which approximates a proportional revenue approach over the initial three-year term of the merchant contract.

The up-front signing bonus is based on the estimated gross margin for the first year of the SME merchant contract. The signing bonus, amount capitalized, and related amortization are adjusted after one year to reflect the actual gross margin generated by the merchant contract during that year. The deferred customer acquisition cost asset is accrued for vested salespersons over the first year of merchant processing, consistent with the build-up in the accrued buyout liability, as described below.

Management evaluates the capitalized customer acquisition costs for impairment at each balance sheet date by comparing, on a pooled basis by vintage month of origination, the expected future net cash flows from underlying SME merchant relationships to the carrying amount of the capitalized customer acquisition costs. If the estimated future net cash flows are lower than the recorded carrying amount, indicating an impairment of the value of the capitalized customer acquisition costs, the impairment loss will be charged to operations. The Company believes that no impairment has occurred as of December 31, 2008 or 2007.

Property and Equipment Property and equipment are carried at cost, net of accumulated depreciation. Depreciation for the Company s owned service center building in Jeffersonville, Indiana is computed straight-line over thirty-nine years with depreciation on certain building improvements computed over fifteen years. Depreciation is computed straight-line over periods ranging from three to ten years for furniture and equipment. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease.

Equipment held under capitalized lease arrangements is included in property and equipment, and the associated liabilities are included in current and long-term borrowings as appropriate. Amortization of equipment under capitalized leases is included in depreciation and amortization expense.

Fully depreciated property and equipment are retained in property and equipment and accumulated depreciation accounts until their disposal or removal from service. When fully depreciated property and equipment is taken out of service, the original cost basis and matching accumulated depreciation amounts are written off.

Rent expense on operating leases is recorded on a straight-line basis over the term of the lease agreement.

The Company capitalizes the cost of computer software developed for internal use and amortizes such costs on a straight-line basis over an estimated useful life of three to five years. The Company capitalizes software development costs under the American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1), which requires that research and development costs incurred prior to establishing technological feasibility are charged to operations as such costs are incurred. Once technological feasibility is established, costs are capitalized until the software is placed in service.

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Long-Lived Assets The Company evaluates the potential for impairment when changes in circumstances indicate that undiscounted cash flows estimated to be generated by the related assets are less than the carrying amount. Management believes that no such changes in circumstances or impairment have occurred as of December 31, 2008 or 2007.

Goodwill Goodwill represents the excess of acquisition costs over the fair values of net assets acquired in business combinations. The Company has recorded goodwill in connection with its acquisitions of Debitek, Inc., E-Secure Peripherals, Inc., General Meters Corp., Collective Point of Sales Solutions Ltd., Network Services and Chockstone, Inc. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is tested for impairment at least annually and between annual tests if an event occurs or changes in circumstances suggest a potential decline in the fair value of the reporting unit. A significant amount of judgment is involved in determining if an indicator or change in circumstances relating to impairment has occurred. Such changes may include, among others: a significant decline in expected future cash flows; a sustained decline in market capitalization; a significant adverse change in legal factors or in the business climate; unanticipated competition; and slower growth rates. The Company performs its annual goodwill impairment testing in the fourth quarter. The Company s evaluation indicated that no impairment exists as of December 31, 2008 or 2007. At December 31, 2008 and 2007, goodwill of $58.5 million and $5.5 million was recorded on the Company s Consolidated Balance Sheet. The Company may be required to record goodwill impairment losses in future periods, whether in connection with the Company s next annual impairment testing in the fourth quarter of 2009 or prior to that, if any such indicators constitute a triggering event in other than the quarter in which the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment loss would result or, if it does, whether such charge would be material.

Merchant Deposits and Loss Reserves Disputes between a cardholder and a merchant periodically arise due to the cardholder s dissatisfaction with merchandise quality or the merchant s service, and the disputes may not always be resolved in the merchant s favor. In some of these cases, the transaction is charged back to the merchant and the purchase price is refunded to the cardholder by the credit card-issuing institution. If the merchant is unable to fund the refund, the Company is liable for the full amount of the transaction. The Company may have partial recourse to the Relationship Manager originally soliciting the merchant contract, if the Relationship Manager is still receiving income from the merchant s processing activities. Under FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other* (FIN 45), the Company s obligation to stand ready to perform is minimal. The Company maintains a deposit or the pledge of a letter of credit from certain merchants as an offset to potential contingent liabilities that are the responsibility of such merchants. The Company evaluates its ultimate risk and records an estimate of potential loss for chargebacks related to merchant fraud based upon an assessment of actual historical fraud loss rates compared to recent bank card processing volume levels. The Company believes that the liability recorded as loss reserves approximates fair value.

Accrued Buyout Liability The Company s historic focus has been on SME merchants, and it has a sales compensation arrangement in this market that has been essentially unchanged since its inception. Under this approach, Relationship Managers and sales managers are paid residual commissions based on the gross margin generated by monthly SME merchant processing activity. The Company has the right, but is not obligated, to buy out some or all of these commissions, and intends to do so periodically. Such purchases of the commissions are at a fixed multiple of the last twelve months commissions. Because of the Company s intent and ability to execute purchases of the residual commissions, and the mutual understanding between the Company and the Relationship Managers and sales managers, the Company has accounted for this deferred compensation arrangement pursuant to the substantive nature of the plan. The Company therefore records the amount that it would have to pay (the settlement cost) to buy out non-servicing related commissions in their entirety from vested Relationship Managers and sales managers, and an accrual, based on their progress towards vesting, for those unvested Relationship Managers and sales managers who are expected to vest in the future. As noted above, as the liability increases over the first year of a SME merchant contract, the Company also records a related deferred acquisition cost asset for currently vested Relationship Managers and sales managers. The accrued buyout liability associated with

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Heartland Payment Systems, Inc. and Subsidiaries

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unvested Relationship Managers and sales managers is not included in the deferred acquisition cost asset since future services are required in order to vest. Subsequent changes in the settlement cost, due to account attrition, same-store sales growth and changes in gross margin are included in the same income statement caption as customer acquisition cost amortization expense.

The accrued buyout liability is based on the SME merchants under contract at the balance sheet date, the gross margin generated by those merchants over the prior twelve months, and the contractual buyout multiple. The liability related to a new SME merchant is therefore zero when the merchant is installed, and increases over the twelve months following the installation date. The same procedure is applied to unvested commissions over the expected vesting period, but is further adjusted to reflect the Company s experience that 31% of unvested Relationship Managers and sales managers become vested.

The classification of the accrued buyout liability between current and non-current liabilities on the consolidated balance sheets is based upon the Company s estimate of the amount of the accrued buyout liability that it reasonably expects to pay over the next twelve months. This estimate is developed by calculating the cumulative annual average percentage that total historical buyout payments represent of the accrued buyout liability. That percentage is applied to the period-end accrued buyout liability to determine the current portion.

Revenues Revenues are mainly comprised of gross processing revenue, payroll processing revenue and equipment-related income. Gross processing revenue primarily consists of discount fees and per-transaction and periodic (primarily monthly) fees from the processing of Visa and MasterCard bank card transactions for merchants. The Company passes through to its customers any changes in interchange or network fees. Gross processing revenue also includes American Express and Discover fees, customer service fees, fees for processing chargebacks, termination fees on terminated contracts, check processing fees, gift and loyalty card fees and other miscellaneous revenue. Payroll processing revenue includes periodic and annual fees charged by HPC for payroll processing services, and interest earned from investing tax impound funds held for our customers. Revenue is recorded as bank card and other processing transactions are processed or payroll services are performed.

Equipment-related income includes revenues from the sale, rental and deployment of bank card and check processing terminals, from the sale of hardware, software and associated services for prepaid card and stored-value card payment systems, and campus payment solutions. Revenues are recorded at the time of shipment, or the provision of service.

Other Income (Expense) Other income (expense) consists of interest income on cash and investments, the interest cost on our borrowings, the gains or losses on the disposal of property and equipment and other non-operating income or expense items.

In 2008, other income (expense) includes pre-tax charges of $0.3 million for write downs on a fixed-income bond fund, and a pre-tax loss of $0.1 million on the sale of a debt security. Both charges are recorded in losses on investments in the Consolidated Statements of Income.

In 2007, other income (expense) includes a pre-tax charge of $1.3 million reflecting the estimated liability for costs (primarily accrued lease costs and property and equipment write offs) associated with exiting our former service center, a pre-tax charge of $1.7 million equal to our full investment in a cost-basis investment in Parcxmart Technologies, Inc., and a charge of $0.8 million reflecting our liability in a legal proceeding under an indemnification we provided to an insurer. In 2006, other income (expense) includes a $0.8 million gain from the proceeds received from a legal settlement and a $1.5 million charge for the write off of purchased software.

Income Taxes The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the accounting and tax basis of assets and liabilities using enacted tax rates. The impact on deferred assets and liabilities of a change in tax rates is recognized in income in the period that the rate change is enacted in compliance with FASB Statement No. 109, *Accounting for Income Taxes*.

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Stock Options The Company adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R) on January 1, 2006. This statement revises SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and its related implementation guidance. The most significant change resulting from this statement is the requirement for public companies to expense employee share-based payments under the fair value method. Pursuant to SFAS No. 123R, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. The Company elected to adopt the modified-prospective-transition method, as provided by SFAS No. 123R. Accordingly, prior period amounts have not been restated. Under this transitional method, the Company is required to record compensation expense for all awards granted after the date of adoption using the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R and for the unvested portion of previously granted awards using the grant-date fair value estimated in accordance with the provisions of SFAS No. 123.

Additionally, SFAS No. 123R amends SFAS No. 95, *Statement of Cash Flows* (SFAS No. 95), to require the excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid, which is included within operating cash flows. Accordingly, cash provided by operating activities decreased and cash provided by financing activities increased by $0.7 million in 2008 and $7.6 million in 2007 related to excess tax benefits from share-based awards. The excess tax benefits result from employees exercising non-qualified stock options and making disqualifying dispositions of shares acquired through their exercise of incentive stock options.

In the third quarter of 2008, the Company s Board of Directors approved a performance-based stock option program. Under this program, the Company granted 2.5 million performance-based stock options to its employees. These stock options were granted to those employees who the Board of Directors determined could have significant impact on successfully integrating the recently acquired Network Services business and effectively executing the Company s growth plan. These stock options have a five-year term and will vest in equal amounts in 2011, 2012 and 2013 only if, over the term of the stock options, both of the following performance conditions are achieved:

Consolidated net revenue grows at a compound annual rate of at least 15%; and

Fully diluted EPS grows at a compound annual rate of at least 25%.

Management believes that achieving these performance conditions is not more likely than not to occur; therefore, no share-based compensation expense has been recorded for these stock options in 2008. The evaluation of the likelihood of achieving these performance conditions will be repeated quarterly, and at such point that vesting of some or all of the options becomes more likely than not, share-based compensation expense will be recorded.

The application of SFAS No. 123R had the following effects on reported amounts relative to amounts that the Company would have reported using the intrinsic value method under APB No. 25 for the year ended December 31, 2006 (in thousands, except per share data):

	Year Ended December 31, 2006	
	Following APB No. 25	After Effect of Adopting SFAS No. 123R
Income from operations	$ 46,141	$ 44,818
Income before income taxes	45,944	44,621
Net income	29,547	28,544
Earnings per common share:		
Basic	$ 0.81	$ 0.78

Diluted	$ 0.74	$ 0.71
Net cash provided by (used in) operating activities	$ 13,977	$ (3,851)
Net cash provided by financing activities	11,281	29,109

Heartland Payment Systems, Inc. and Subsidiaries

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Foreign Currency The Canadian dollar is the functional currency of CPOS, which operates in Canada. CPOS revenues and expenses are translated at the average exchange rates prevailing during the period. The foreign currency assets and liabilities of CPOS are translated at the period-end rate of exchange. The resulting translation adjustment is recorded as a component of other comprehensive income and is included in stockholders equity. At December 31, 2008, the cumulative foreign currency translation loss was $2.1 million. The Company intends to indefinitely reinvest undistributed earnings of CPOS and has not tax affected the cumulative foreign currency translation loss. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not material.

Minority Interests Minority interests represent the minority stockholders share of the equity and after-tax net income or loss of consolidated subsidiaries. Minority stockholders share of after-tax net income or loss of consolidated subsidiaries is included in General and administrative expenses in the Consolidated Income Statement. The minority interests included in Accrued expenses and other liabilities in the December 31, 2008 Consolidated Balance Sheet were $124,000 and reflect the original investments by these minority shareholders in the consolidated subsidiaries, along with their proportionate share of the earnings or losses of the subsidiaries.

New Accounting Pronouncements The FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN No. 48), in June 2006. FIN No. 48 clarifies the accounting for the recognition and measurement of tax benefits associated with uncertain tax positions and defines criterion that an individual tax position must meet for any part of that position to be recognized or continue to be recognized in the financial statements. FIN No. 48 also adds disclosure requirements for the amounts of unrecognized tax benefits associated with uncertain tax positions. An uncertain tax position exists if it is unclear how a transaction will be treated under tax law. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN No. 48 on January 1, 2007 and recorded a cumulative effect adjustment of $0.5 million to Retained Earnings to establish reserves for uncertain tax positions.

The FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), in September 2006. SFAS No. 157 establishes a single authoritative definition of fair value in generally accepted accounting principles (GAAP), sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. SFAS No. 157 was effective for the Company on January 1, 2008. The adoption of SFAS No. 157 did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the Fair Value Option). Unrealized gains and losses on items for which the Fair Value Option has been elected are reported in earnings. The Fair Value Option is applied instrument by instrument (with certain exceptions), is irrevocable (unless a new election date occurs) and is applied only to an entire instrument. The effect of the first remeasurement to fair value is reported as a cumulative-effect adjustment to the opening balance of Retained earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 with earlier adoption permitted, subject to certain conditions. The adoption of SFAS No. 159 did not have any effect on our consolidated financial position, results of operations or cash flows and therefore, was not elected by the Company.

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In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS No. 141(R)), which replaces SFAS No. 141. SFAS No. 141(R) applies the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses and establishes principles and requirements for how the acquirer recognizes and measures identifiable assets acquired and liabilities assumed, including assets and liabilities arising from contingencies, any noncontrolling interest in the acquiree and goodwill acquired or gain realized from a bargain purchase. SFAS No. 141(R) is effective prospectively for business combinations for which the acquisition date is on or after the first annual reporting period beginning after December 15, 2008. SFAS No. 141(R) will impact the Company s Consolidated Financial Statements prospectively in the event of any business combinations entered into after the effective date in which the Company is the acquirer.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS No. 160), which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements.* SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, SFAS No. 160 requires a noncontrolling interest in a subsidiary to be reported as equity, separate from the parent s equity, in the consolidated statement of financial position and the amount of net income or loss and comprehensive income or loss attributable to the parent and noncontrolling interest to be presented separately on the face of the consolidated financial statements. Changes in a parent s ownership interest in its subsidiary in which a controlling financial interest is retained are accounted for as equity transactions. If a controlling financial interest in the subsidiary is not retained, the subsidiary is deconsolidated and any retained noncontrolling equity interest is initially measured at fair value. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and is to be applied prospectively, except that presentation and disclosure requirements are to be applied retrospectively for all periods presented. The adoption of SFAS No. 160 did not have a material effect on the Company s Consolidated Financial Statements.

In December 2007, the SEC issued SAB No. 110, *Certain Assumptions Used in Valuation Methods* (SAB 110). SAB 110 amends SAB 107 to allow the continued use, under certain circumstances, of the simplified method in developing the expected term for stock options. SAB 110 is effective January 1, 2008. The Company adopted the provisions of SAB 110 effective January 1, 2008. The adoption of SAB 110 will impact the Company s Consolidated Financial Statements prospectively in the event circumstances provide for application of the simplified method to future stock option grants made by the Company.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142) in order to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other GAAP. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and is to be applied prospectively to intangible assets acquired after the effective date. Disclosure requirements are to be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. Early adoption is not permitted. The adoption of FSP FAS 142-3 will impact the Company s Consolidated Financial Statements in the event of any intangible assets acquired after the effective date.

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In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the accounting principles used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. Currently, GAAP hierarchy is provided in the American Institute of Certified Public Accountants U.S. Auditing Standards (AU) Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles* (AU Section 411). SFAS No. 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board s amendments to AU Section 411. The Company does not expect the adoption of SFAS No. 162 to have an impact on its Consolidated Financial Statements.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two class method described in SFAS No. 128, Earnings per Share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and prior period earnings per share data presented is to be adjusted retrospectively. The adoption of FSP EITF 03-6-1 did not have a material effect on the Company s Consolidated Financial Statements.

3. Acquisitions

Chockstone, Inc.

As of November 14, 2008, the Company acquired the assets of Chockstone, Inc. for a cash payment of $4.1 million. Chockstone expands our ability to equip businesses nationwide with enhanced gift card and loyalty programs. This acquisition is not expected to have a material impact on earnings in the near term. Pro forma results of operations have not been presented because the effect of the acquisition was not material. The transaction was accounted for under the purchase method of accounting. The fair values of the Chockstone assets acquired and the liabilities assumed were estimated at the acquisition date. The fair values are preliminary, based on estimates, and may be adjusted in accordance with Statement of Financial Accounting Standards No. 141(SFAS No. 141), *Business Combinations,* as more information becomes available and valuations are finalized. Beginning November 14, 2008, Chockstone s results of operations were included in the Company s results of operations. The total purchase price was allocated as follows: $2.4 million to intangible assets, $1.6 million to goodwill, and $0.1 million to net tangible assets. The entire amount of goodwill is expected to be deductible for income tax reporting.

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Network Services

As of May 31, 2008, the Company closed its acquisition of Network Services. Network Services is a provider of payment processing solutions, serving a variety of industries such as petroleum, convenience store, parking and retail. Services include payment processing, prepaid services, POS terminal, helpdesk services and merchant bank card services. The Network Services acquisition will provide the Company with a substantial portfolio of merchants in the petroleum industry segment. Network Services settled over $17 billion of total annual Visa and MasterCard bank card processing volume representing 604 million annual Visa and MasterCard transactions in 2007. In addition to settled Visa and MasterCard transactions, Network Services handles a wide range of payment transactions for its predominantly petroleum customer base, including providing approximately 2.6 billion Visa and MasterCard transaction authorizations in 2007.

The Company acquired the Network Services business, including tangible personal property, intellectual property, licenses, contracts and related assets, and assumed certain liabilities related to Network Services, for a cash payment of $92.5 million. The Company funded the cash purchase price using $25.0 million it borrowed under its term loan facility, $50.0 million it borrowed under its revolving credit facility, and the balance from its available cash position. Beginning June 1, 2008, Network Services results of operations were included in the Company s results of operations.

The acquisition was accounted for under the purchase method of accounting. The fair values of the Network Services assets acquired and the liabilities assumed were estimated at the acquisition date. The fair values are preliminary, based on estimates, and may be adjusted in accordance with SFAS No. 141 as more information becomes available and valuations are finalized. Accordingly, the final fair value adjustments may be materially different from those presented in this document.

The following table summarizes the allocation of the acquisition costs, including direct transaction costs, to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values on May 31, 2008. The excess of the acquisition costs over the fair value of net assets acquired was allocated to goodwill. The goodwill acquired is expected to be deductible for tax purposes.

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		Allocation of Acquisition Costs (in thousands)
Net fair value of assets acquired and liabilities assumed:		
Receivables	$	18,043
Other current assets		3,672
Property and equipment		1,822
Accrued expenses and other liabilities		(7,399)
Total net assets acquired		16,138
Intangible assets acquired:		
Customer relationships		26,100
Software		7,900
Non-competition agreement		400
Total intangible assets		34,400
Goodwill		43,651
Total acquisition costs (a)	$	94,189

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(a) Total acquisition costs include $92.5 million of cash consideration paid, plus $1.7 million of direct transaction costs.

The following operating results for the years ended December 31, 2008 and 2007 assume that the Network Services acquisition occurred on January 1, 2007. The pro forma results of operations are based on historical results of operations, adjusted for the impacts of purchase price allocations and financing costs, and are not necessarily indicative of the actual results which would have been achieved had the Network Services acquisition occurred as of January 1, 2007, or the results which may be achieved in the future.

	Year Ended December 31, 2008	2007
Total revenues	$ 1,591,007	$ 1,443,677
Costs of services	1,430,280	1,301,414
General and administrative expenses	90,170	83,610
Total expenses	1,520,450	1,385,024
Income from operations	70,557	58,653
Net income	41,109	33, 938
Diluted earnings per share	1.06	0.85

Collective Point of Sale Solutions Ltd.

On March 3, 2008 the Company acquired a majority interest in Collective Point of Sale Solutions Ltd. (CPOS) for a cash payment of $10.5 million plus transaction costs of approximately $0.4 million. CPOS is a Canadian provider of payment processing services and secure point-of-sale solutions. This acquisition provides the Company an entrance into the Canadian credit and debit card processing market. The Company and CPOS are now able to service merchants that have locations in both the United States and Canada. The acquisition of CPOS did not have a material impact on the Company s 2008 revenues or net income. Pro forma results of operations have not been presented because the effect of the acquisition was not material.

The transaction was accounted for under the purchase method of accounting. The fair values of the CPOS assets acquired and the liabilities assumed were estimated at the acquisition date. The fair values are preliminary, based on estimates, and may be adjusted in accordance with SFAS No. 141 as more information becomes available and valuations are finalized. Beginning March 3, 2008, CPOS results of operations were included in the Company s results of operations. The preliminary allocation of the total purchase price was as follows: $9.4 million to goodwill, $2.1 million to intangible assets and $1.0 million to net tangible liabilities. Under Canada tax regulations, the goodwill acquired is not expected to be deductible for tax purposes.

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2007 Acquisitions.

On October 19, 2007, the Company acquired the assets of General Meters Corp (General Meters) for a net cash payment of $6.0 million. The General Meters acquisition provides the Company with a ready base of colleges and universities for its campus payment solutions. This acquisition is not expected to have a material impact on earnings in the near term. Pro forma results of operations have not been presented because the effect of the acquisition was not material. The transaction was accounted for under the purchase method of accounting. Beginning October 19, 2007, General Meters results of operations were included in the Company s results of operations. The total purchase price was allocated as follows: $3.5 million to goodwill, $472,000 to intangible assets and $2.0 million to net tangible assets. The entire amount of goodwill is expected to be deductible for income tax reporting.

On June 1, 2007, the Company acquired the assets of E-Secure Peripherals, Inc. (E-Secure) for a gross cash payment of $0.3 million. This acquisition is not expected to have a material impact on earnings in the near term. Pro forma results of operations have not been presented because the effect of the acquisition was not material. The transaction was accounted for under the purchase method of accounting. Beginning June 1, 2007, E-Secure s results of operations were included in the Company s results of operations. The total purchase price was allocated as follows: $278,000 to goodwill and $22,000 to net tangible assets. The entire amount of goodwill is expected to be deductible for income tax reporting.

2006 Acquisition.

Effective January 1, 2006, the Company acquired the stock of Debitek, Inc. (Debitek) for a gross cash payment of approximately $5.2 million. The Company acquired Debitek to obtain a proven platform and solutions provider in the prepaid and stored-value cards market, particularly with respect to small-dollar payment applications. Pro forma results of operations have not been presented because the effect of the acquisition was not material. The transaction was accounted for under the purchase method of accounting. Beginning January 1, 2006, Debitek s results of operations were included in the Company s results of operations. The total purchase price was allocated as follows: $1.7 million to goodwill, $121,000 to intangible assets and $3.4 million to net tangible assets, including cash of $1.7 million. The entire amount of goodwill is expected to be deductible for income tax reporting.

4. Receivables

A summary of receivables by major class is as follows at December 31, 2008 and 2007:

	December 31,	
	2008	2007
	(In thousands)	
Accounts receivable from merchants	**$ 132,699**	$ 114,585
Accounts receivable from others	**7,945**	8,193
	140,644	122,778
Less allowance for doubtful accounts	**(499)**	(165)
	$ 140,145	$ 122,613

Included in accounts receivable from others are $1,497,000 and $1,642,000 which are due from employees at December 31, 2008 and 2007, respectively.

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A summary of the activity in the allowance for doubtful accounts for three years ended December 31, 2008, 2007 and 2006 was as follows:

	Year Ended December 31, 2008	2007	2006
		(In thousands)	
Beginning balance	**$ 165**	$ 151	$ 68
Balance of acquired entity allowance			76
Additions to allowance	**2,045**	1,249	628
Charges against allowance	**(1,711)**	(1,235)	(621)
Ending balance	**$ 499**	$ 165	$ 151

5. Funds Held for Payroll Customers and Investments

A summary of Funds Held for Payroll Customers and Investments, including the cost, gross unrealized gains (losses) and estimated fair value for investments held to maturity and investments available-for-sale by major security type and class of security were as follows at December 31, 2008 and 2007:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
December 31, 2008				
Funds Held for Payroll Customers:				
Fixed income bond fund	**$ 965**	**$**	**$**	**$ 965**
Debt securities of the U.S. Government				
Corporate debt securities	**335**		**(23)**	**312**
Total investments available-for-sale	**1,300**		**(23)**	**1,277**
Cash held for payroll customers	**20,725**			**20,725**
Total Funds Held for Payroll Customers	**$ 22,025**	**$**	**$ (23)**	**$ 22,002**
Investments:				
Investments held to maturity Certificates of deposit (a)	**$ 1,410**	**$**	**$**	**$ 1,410**
Total investments	**$ 1,410**	**$**	**$**	**$ 1,410**

(a) Certificates of deposits have remaining terms ranging from 2 months to 20 months.

Cost

		Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In thousands)		
December 31, 2007				
Funds Held for Payroll Customers:				
Fixed income bond fund	$ 1,174	$	$ (69)	$ 1,105
Debt securities of the U.S. Government	249			249
Corporate debt securities	506		(30)	476
Total investments available-for-sale	1,929		(99)	1,830
Cash held for payroll customers	22,371			22,371
Total Funds Held for Payroll Customers	$ 24,300	$	$ (99)	$ 24,201
Investments:				
Investments held to maturity Certificates of deposit	$ 1,119	$	$	$ 1,119
Total investments	$ 1,119	$	$	$ 1,119

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On January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The framework provides a three-level hierarchy, which prioritizes the factors (inputs) used to calculate the fair value of assets and liabilities as follows:

Level 1. Level 1 inputs are unadjusted quoted prices, such as a New York Stock Exchange closing price, in active markets for identical assets. Level 1 is the highest priority in the hierarchy.

Level 2. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as other significant inputs that are observable at commonly quoted intervals, such as interest rates, foreign exchange rates, and yield curves.

Level 3. Level 3 are unobservable inputs which are based on company assumptions due to little, if any, observable market information. Level 3 is the lowest priority in the hierarchy.

As of December 31, 2008, all investments in available-for-sale securities held by the Company were measured using Level 1 inputs.

During the twelve months ended December 31, 2008, the Company recognized $258,000 of other-than-temporary impairment losses on its investment in the fixed income bond fund and $137,000 of realized losses on a sale of corporate debt securities.

The maturity schedule of all available-for-sale and held to maturity investments along with amortized cost and estimated fair value as of December 31, 2008 is as follows:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	**$ 2,303**	**$ 2,303**
Due after one year through five years	**407**	**385**
	$ 2,710	**$ 2,688**

6. Capitalized Customer Acquisition Costs, Net

A summary of the capitalized customer acquisition costs, net is as follows as of December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
	(In thousands)	
Capitalized signing bonuses	**$ 117,776**	$ 100,206
Less accumulated amortization	**(55,307)**	(44,443)
	62,469	55,763

Capitalized customer deferred acquisition costs	**37,010**	35,379
Less accumulated amortization	**(21,742)**	(20,644)
	15,268	14,735
	$ 77,737	$ 70,498

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A summary of the activity in capitalized customer acquisition costs, net for the three years ended December 31, 2008, 2007 and 2006 was as follows:

	Year Ended December 31, 2008	2007 (In thousands)	2006
Balance at beginning of period	**$ 70,498**	$ 56,705	$ 42,930
Plus additions to:			
Capitalized signing bonuses, net	**45,454**	44,700	33,743
Capitalized customer deferred acquisition costs	**15,517**	14,284	15,855
	60,971	58,984	49,598
Less amortization expense on:			
Capitalized signing bonuses, net	**(38,749)**	(31,449)	(22,892)
Capitalized customer deferred acquisition costs	**(14,983)**	(13,742)	(12,931)
	(53,732)	(45,191)	(35,823)
Balance at end of period	**$ 77,737**	$ 70,498	$ 56,705

Net signing bonus adjustments from estimated amounts to actual were positive $1.7 million, $1.1 million and $1.1 million, respectively, for the three years ended December 31, 2008, 2007 and 2006. Net signing bonus adjustments are netted against additions in the table above. Positive signing bonus adjustments occur when the actual gross margin generated by the merchant contract during the first year exceeds the estimated gross margin for that year, resulting in the underpayment of the up-front signing bonus. Negative signing bonus adjustments could result from the prior overpayment of signing bonuses and would be recovered from the relevant salesperson.

Fully amortized signing bonuses of $25.9 million, $22.8 million and $12.1 million, respectively, were written off during the three years ended December 31, 2008, 2007 and 2006. In addition, fully amortized customer deferred acquisition costs of $13.9 million, $11.8 million and $9.1 million, respectively, were written off during the three years ended December 31, 2008, 2007 and 2006.

The Company believes that no impairment has occurred in its capitalized customer acquisition costs as of December 31, 2008 and 2007.

7. Property and Equipment, Net

A summary of property and equipment, net as of December 31, 2008 and 2007 is as follows:

	December 31, 2008	2007 (In thousands)
Computer hardware and software	**$ 48,613**	$ 36,888
Building	**33,023**	20,580
Leasehold improvements	**4,519**	2,670
Furniture, fixtures and equipment	**8,725**	4,536

Land	**5,194**	4,795
	100,074	69,469
Less accumulated depreciation	**(24,631)**	(19,221)
	$ 75,443	$ 50,248

Depreciation expense for the three years ended December 31, 2008, 2007 and 2006 was $11.7 million, $8.6 million and $7.6 million, respectively.

Included in property and equipment at December 31, 2008 and 2007 was $12.6 million and $5.4 million, respectively, representing the cost of assets not yet placed in service, including $8.5 million and $1.4 million, respectively, at December 31, 2008 and 2007 for the cost of the Company s new

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Jeffersonville, Indiana service center. During the year ended December 31, 2008, $9.3 million of capitalized costs were placed in service for the new service center. During the years ended December 31, 2008, 2007 and 2006, the amount of other capitalized projects placed in service were $3.9 million, $2.3 million and $2.5 million, respectively.

8. Intangible Assets and Goodwill

The fair values of the CPOS, Network Services and Chockstone assets acquired and the liabilities assumed were estimated by management at their acquisition dates in accordance with SFAS No. 141. Management obtained reports from independent valuation firms retained by management to validate certain of the assumptions relied upon by management to make such estimates. The fair values are preliminary, based on estimates, and may be adjusted in accordance with SFAS No. 141 as more information becomes available and valuations are finalized. See Note 3 for more information on these acquisitions which closed in 2008.

Intangible Assets

Intangible assets consisted of the following as of December 31, 2008 and December 31, 2007:

	December 31, 2008				
	Gross Assets	Accumulated Amortization (In thousands)	Net Asset	Amortization Life and Method	
Finite Lived Assets:					
Customer relationships	**$ 28,749**	**$ 1,024**	**$ 27,725**	3 to 18 years	proportional cash flow
Software	**9,154**	**1,503**	**7,651**	3 to 5 years	straight line
Non-compete agreements	**994**	**211**	**783**	3 to 5 years	straight line
Other	**326**	**32**	**294**	3 to 5 years	straight line
	$ 39,223	**$ 2,770**	**$ 36,453**		

	December 31, 2007				
	Gross Assets	Accumulated Amortization (In thousands)	Net Asset	Amortization Life and Method	
Finite Lived Assets:					
Customer relationships	$ 593	$ 112	$ 481	3 years	straight line
	$ 593	$ 112	$ 481		

Amortization expense related to the intangible assets was $2.7 million and $72,000 for the years ended December 31, 2008 and 2007, respectively.

The estimated amortization expense related to intangible assets for the next five years is as follows:

For the Years Ending December 31,	(In thousands)
2009	$ 4,514

2010		4,250
2011		2,843
2012		2,025
2013		2,236
Thereafter		20,585
	$	36,453

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Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2008 and 2007 were as follows:

	December 31, 2008	December 31, 2007
	(In thousands)	
Beginning balance	**$ 5,489**	$ 1,676
Goodwill acquired during the period	**55,032**	3,813
Effects of foreign currency translation	**(1,807)**	
Other, primarily adjustments to allocations of purchase price	**(258)**	
Ending balance	**$ 58,456**	$ 5,489

9. Merchant Deposits and Loss Reserves

The Company s merchants have the liability for any charges properly reversed by the cardholder through a mechanism known as a chargeback. If the merchant is unable to pay this amount, the Company will be liable to the Visa and MasterCard networks for the reversed charges. Under FIN 45, the Company determined that the fair value of its obligation to stand ready to perform is minimal. The Company requires personal guarantees, merchant deposits and letters of credit from certain merchants to minimize its obligation. As of December 31, 2008 and December 31, 2007, the Company held merchant deposits totaling $15.8 million and $14.1 million, respectively, and letters of credit totaling $513,000 and $300,000, respectively.

The Visa and MasterCard networks generally allow chargebacks up to four months after the later of the date the transaction is processed or the delivery of the product or service to the cardholder. As the majority of the Company s SME merchant transactions involve the delivery of the product or service at the time of the transaction, a reasonable basis for determining an estimate of the Company s exposure to chargebacks is the last four months processing volume on the SME portfolio, which was $18.7 billion and $17.9 billion for the four months ended December 31, 2008 and December 31, 2007. However, for the four months ended December 31, 2008 and December 31, 2007, the Company was presented with $10.2 million and $10.5 million, respectively, in chargebacks by issuing banks. In the years ended December 31, 2008 and December 31, 2007, the Company incurred merchant credit losses of $5.1 million and $2.8 million, respectively, on total SME dollar volume processed of $57.9 billion and $51.9 billion, respectively. These credit losses are included in processing and servicing costs in the Company s consolidated statements of income.

The loss recorded by the Company for chargebacks associated with any individual merchant is typically small, due both to the relatively small size and the processing profile of the Company s SME merchants. However, from time to time the Company will encounter instances of merchant fraud, and the resulting chargeback losses may be considerably more significant to the Company. The Company has established a contingent reserve for estimated currently existing credit and fraud losses on its consolidated balance sheets, amounting to $1,097,000 on December 31, 2008 and $663,000 on December 31, 2007. This reserve is determined by performing an analysis of the Company s historical loss experience applied to current processing volume and exposures.

A summary of the activity in the loss reserve for the three years ended December 31, 2008, 2007 and 2006 was as follows:

	Year Ended December 31, 2008	2007	2006
	(In thousands)		

Beginning balance	**$ 663**	$ 475	$ 485
Additions to reserve	**5,693**	3,035	1,970
Charges against reserve (a)	**(5,259)**	(2,847)	(1,980)
Ending balance	**$ 1,097**	$ 663	$ 475

(a) Included in these amounts are payroll segment losses for the years ended December 31, 2008, 2007 and 2006 of $134,000, $49,000 and $39,000, respectively.

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Chargebacks originating from large national merchant bank card processing are processed and carried by Fifth Third Bank, which is our third-party outsourced processor for settling large national merchant accounts.

10. Credit Facility

On May 30, 2008, the Company entered into an amended and restated credit agreement (the Amended and Restated Credit Agreement) with JPMorgan Chase Bank, N.A., as administrative agent, and certain lenders who may become a party to the Credit Agreement from time to time. The Amended and Restated Credit Agreement amended and restated in its entirety the previous credit agreement entered into on September 5, 2007 between the same parties that are parties to the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement provides for a revolving credit facility in the aggregate amount of up to $50 million (the Revolving Credit Facility), of which up to $5 million may be used for the issuance of letters of credit and up to $5 million is available for swing line loans. Upon the prior approval of the administrative agent, the Company may increase the total commitments by $25 million for a total commitment under the Revolving Credit Facility of $75 million. The Revolving Credit Facility is available to the Company on a revolving basis commencing on May 30, 2008 and ending on September 4, 2012.

The Amended and Restated Credit Agreement also provides for a term credit facility in the aggregate amount of up to $25 million (the Term Credit Facility). The Term Credit Facility requires amortizing payments in the amount of $2,083,333 on the last business day of each fiscal quarter commencing March 31, 2009. All principal and interest not previously paid on the Term Credit Facility will mature and be due and payable on December 31, 2011. Amounts borrowed and repaid under the Term Credit Facility may not be re-borrowed. Principal payments due under the Term Credit Facility as of December 31, 2008 were as follows:

Twelve Months Ended December 31,	**(In thousands)**
2009	$ 8,333
2010	8,333
2011	8,334
	$ 25,000

The Amended and Restated Credit Agreement contains covenants, which include the maintenance of certain leverage and fixed charge coverage ratios, limitations on the Company s indebtedness, liens on its properties and assets, investments in, and loans to, other business units, the Company s ability to enter into business combinations and asset sales, and certain other financial and non-financial covenants. As of December 31, 2008, the Company was in compliance with these covenants.

Under the terms of the Amended and Restated Credit Agreement, the Company may borrow, at its option, at interest rates equal to one, two, three or nine month adjusted LIBOR rates or equal to the greatest of prime, the secondary market rate for three month certificates of deposits plus 1% and the federal funds rate plus 0.50%, in each case plus a margin determined by the Company s current leverage ratio.

The Revolving Credit Facility may be used to finance future construction projects and acquisitions in accordance with the terms of the Credit Agreement and for other working capital needs and general corporate purposes. On May 30, 2008, the Company borrowed $50 million under the Revolving Credit Facility and $25 million under the Term Credit Facility. All of the proceeds of both such borrowings were applied to finance and pay expenses related to the acquisition of Network Services, as described in more detail in Note 3. At December 31, 2008, there was $50 million outstanding under the Revolving Credit Facility and $25 million outstanding under the Term Credit Facility. The weighted average interest rate at December 31, 2008 was 2.31%. Total fees and direct costs paid for the Amended and Restated Credit Agreement were $304,000. These costs are being amortized to interest expense over the life of the Amended and Restated Credit Agreement.

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The Company had no debt outstanding at December 31, 2007.

11. Accrued Buyout Liability

A summary of the accrued buyout liability is as follows as of December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
	(In thousands)	
Vested Relationship Managers and sales managers	**$ 39,879**	$ 36,792
Unvested Relationship Managers and sales managers	**1,161**	981
	41,040	37,773
Less current portion	**(10,547)**	(11,521)
Long-term portion of accrued buyout liability	**$ 30,493**	$ 26,252

In calculating the accrued buyout liability for unvested Relationship Managers and sales managers, the Company has assumed that 31% of the unvested Relationship Managers and sales managers will vest in the future, which represents the Company s historical vesting rate. A 5% increase to 36% in the expected vesting rate would have increased the accrued buyout liability for unvested Relationship Managers and sales managers by $0.2 million at December 31, 2008 and 2007.

A summary of the activity in the accrued buyout liability for the three years ended December 31, 2008, 2007 and 2006 is as follows:

	Year Ended December 31, 2008	2007	2006
		(In thousands)	
Beginning balance	**$ 37,773**	$ 33,293	$ 28,474
Increase in settlement obligation, net	**10,306**	13,286	15,539
Buyouts	**(7,039)**	(8,806)	(10,720)
Ending balance	**$ 41,040**	$ 37,773	$ 33,293

The increase in settlement obligation is due to new SME merchant account signings, as well as same-store sales growth, if any, and changes in gross margin for existing merchant relationships, partially offset by the impact of SME merchant attrition.

12. Stockholders Equity

Common Stock Repurchases. On January 13, 2006, the Company s Board of Directors authorized management to repurchase up to the lesser of (a) 1,000,000 shares of the Company s common stock or (b) $25,000,000 worth of its common stock in the open market. On August 1, 2006, the Company s Board of Directors authorized management to repurchase up to an additional 1,000,000 shares of its common stock in the open market using the proceeds from the exercise of stock options.

On May 3, 2007, the Company s Board of Directors eliminated the restriction in the August 1, 2006 repurchase authorization which required the Company to use only proceeds from the issuance of stock options for repurchases, and increased the total authorized number of shares to be repurchased to 2,000,000. Management intends to use these authorizations to repurchase shares opportunistically as a means of offsetting dilution from shares issued upon the exercise of options under employee benefit plans, and to use cash to take advantage of declines in the Company s stock price. Management has no obligation to repurchase shares under the authorization, and the specific timing and amount of the stock repurchase will vary based on market conditions, securities law limitations and other factors. The stock repurchase will be executed utilizing the Company s cash resources including the proceeds of stock option exercises.

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Under these authorizations, we repurchased an aggregate of 2,574,284 shares of our common stock during the years ended December 31, 2006, 2007 and 2008 at a cost of $61.9 million, or average cost of $24.04 per share.

During the years ended December 31, 2008, 2007 and 2006, we repurchased 781,584 shares, 731,500 shares and 1,061,200, respectively, of our common stock at average per share costs of $23.02, $25.78 and $23.59. At December 31, 2008, we have remaining authorization to repurchase up to 525,716 additional shares of our common stock.

On February 28, 2008, the Company s Board of Directors resolved to retire all common shares repurchased and include the retired shares in the authorized and unissued shares of the Company. Until February 28, 2008, the final disposition of the repurchased shares had not been decided. The excess of the purchase price of the treasury stock over the stated value was allocated between additional paid-in capital and retained earnings.

Dividends on Common Stock. On August 1, 2006, our Board of Directors declared the first quarterly cash dividend on our common stock. The following table summarizes quarterly cash dividends declared and paid on our common stock during the three years ended December 31, 2008, 2007 and 2006:

Date Declared	Record Date	Date Paid	Amount Paid Per Common Share
Twelve Months Ended December 31, 2006:			
August 1, 2006	August 25, 2006	September 15, 2006	$ 0.025
November 2, 2006	November 24, 2006	December 15, 2006	$ 0.025
Twelve Months Ended December 31, 2007:			
February 12, 2007	February 23, 2007	March 15, 2007	$ 0.05
May 3, 2007	May 25, 2007	June 15, 2007	$ 0.05
July 30, 2007	August 24, 2007	September 15, 2007	$ 0.075
October 31, 2007	November 23, 2007	December 15, 2007	$ 0.075
Twelve Months Ended December 31, 2008:			
February 13, 2008	February 28, 2008	March 15, 2008	$ 0.09
April 30, 2008	May 23, 2008	June 15, 2008	$ 0.09
August 5, 2008	August 22, 2008	September 15, 2008	$ 0.09
November 4, 2008	November 24, 2008	December 15, 2008	$ 0.09

On February 20, 2009, our Board of Directors declared a quarterly cash dividend of $0.025 per share of common stock, payable on March 16, 2009 to stockholders of record as of March 9, 2009.

Public Offerings. On August 10, 2005, the Company priced its initial public offering of the Company s $0.001 par value common stock. The offering consisted of 7,762,500 shares of the Company s common stock, 2,758,546 of which were sold by the Company and 5,003,954 of which were sold by certain selling stockholders at a price to the public of $18.00 per share.

On September 21, 2007, the Company closed a public offering of 6,348,767 shares of its common stock. The offering price was set at $26.34 per share, the closing price of the Company s common stock on the New York Stock Exchange on September 17, 2007.

Approximately 99% of the shares sold in the 2007 offering were offered by Greenhill Capital Partners, L.P. and its affiliates (2,550,120 total shares), LLR Equity Partners, L.P. and its affiliates (2,216,486 total shares), and members of the company s management (1,557,820 total shares). The remaining 1%, 24,341 shares, were sold by the Company. The Company received only the proceeds from the shares it sold in the secondary offering. Gross proceeds of $615,000 received by the Company were used to cover the $590,000 of expenses from the offering. After the September 21, 2007 closing of the

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offering, the officers and directors of the Company owned approximately 37% of the outstanding shares. As of December 31, 2007, the officers and directors of the Company owned approximately 32% of the outstanding shares.

13. Income Taxes

The provision for income taxes for the three years ended December 31, 2008, 2007 and 2006 consists of the following:

	Year Ended December 31, 2008	2007	2006
	(In thousands)		
Current			
Federal	**$ 19,214**	$ 18,471	$ 16,724
State	**2,447**	1,746	(222)
Foreign	**248**		
Deferred			
Federal	**3,919**	972	(926)
State	**277**	101	501
Foreign	**(187)**		
Total provision for income taxes	**$ 25,918**	$ 21,290	$ 16,077

For financial reporting purposes, income before income taxes includes the following components:

	Year Ended December 31, 2008	2007	2006
	(In thousands)		
United States	**$ 67,623**	$ 57,160	$ 44,621
Foreign	**135**		
Total income before income taxes	**$ 67,758**	$ 57,160	$ 44,621

The differences in federal income taxes provided and the amounts determined by applying the federal statutory tax rate of 35% to income before income taxes for the three years ended December 31, 2008, 2007 and 2006 are:

	Year Ended December 31, 2008 %	2008 Amount (In thousands)	2007 %	2007 Amount (In thousands)	2006 %	2006 Amount (In thousands)
U.S. federal income tax at statutory rate	**35.00%**	**$ 23,715**	35.00%	$ 20,006	35.00%	$ 15,617
U.S. state and local income taxes, net	**2.61%**	**1,767**	2.07%	1,185	1.57%	700
Foreign income taxes	**0.02%**	**14**				
Change in tax rate			0.03%	15	(1.16)%	(518)
Nondeductible expenses	**0.16%**	**108**	0.15%	84	0.62%	278

Other	**0.47%**		**314**					
Provision for income taxes	**38.26%**	**$**	**25,918**	37.25%	$	21,290	36.03%	$ 16,077

The Company has recorded income tax expense at U.S. tax rates on all taxable income, except undistributed earnings of CPOS, its non-U.S. subsidiary. The Company intends to indefinitely reinvest undistributed earnings of CPOS. Determination of the amount of unrecognized deferred tax liability related to indefinitely reinvested profits is not material.

In connection with preparing its 2005 state income tax returns during the third quarter of 2006, the Company analyzed the approaches it applied for sourcing taxable income to individual states and benefited

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from revising its approaches to income sourcing in certain of those states. The Company revised state income sourcing approaches in the third quarter of 2006, and as a result realized reductions of its 2005 state income tax expense and its 2006 estimated effective annual state tax rates.

The Company adopted FIN No. 48 on January 1, 2007 and as a result, recognized a $0.8 million reserve for unrecognized tax benefits related to its uncertain tax positions as a liability on its consolidated balance sheet, increased deferred tax assets by $0.3 million and recorded a cumulative effect adjustment to Retained Earnings of $0.5 million. The Company had approximately $1.7 and $1.2 million of total gross unrecognized tax benefits of which approximately $1.3 and $0.8 million as of December 31, 2008 and December 31, 2007 respectively, would impact the effective tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2008 and 2007 is as follows:

	Year Ended December 31, 2008	2007
	(In thousands)	
Balance at January 1,	$ 1,230	$ 767
Additions based on tax positions related to the current year	225	463
Additions based on tax positions related to the prior years	488	
Reductions for tax positions of prior years	(211)	
Settlements		
Balance at December 31,	$ 1,732	$ 1,230

The Company recognizes interest related to uncertain tax positions in interest expense and recognizes penalties in general and administrative expense. The Company had accrued interest on uncertain tax positions of approximately $166,000 and $48,000 in accrued expenses and other liabilities and recognized $118,000 and $48,000 of interest expense as of December 31, 2008 and 2007 respectively. The Company does not expect to be assessed any penalties on its uncertain tax positions.

The Internal Revenue Service has commenced an examination of the Company s U.S. income tax returns for 2004 through 2006. A liability for unrecognized tax benefits has been established that the Company believes is adequate in relation to the potential for additional assessments. Once established, unrecognized tax benefits are adjusted only when there is more information available or when an event occurs necessitating a change. The Company does not expect the unrecognized tax benefits to significantly increase or decrease within the next twelve months. The tax years ended December 31, 2004 through December 31, 2007 remain subject to examination by the Company s state taxing jurisdictions. In addition to the U.S. federal examination, there is also limited audit activity in the U.S. state jurisdictions. Currently the Company does not expect that its state liability will significantly increase or decrease during the next 12 months. The Company files tax returns in all states where required, which includes most if not all states that have an income tax.

During 2008 and 2007, the Company recorded current tax assets reflecting excess tax benefits of $0.7 million and $7.6 million, respectively, resulting from employees exercising non-qualified stock options and making disqualifying dispositions of shares acquired through their exercise of incentive stock options. The Company realized $1.4 million of those current tax assets as reductions of estimated income tax payments during 2008, and $11.4 million as reductions of estimated tax payments during 2007; In addition, $11.8 million was realized in 2007 by recapturing income taxes paid in 2005. The Company classified the $0.7 million and $7.6 million of excess tax benefits for 2008 and 2007, respectively, as cash inflows from financing activities and cash outflows from operating activities in its Consolidated Statement of Cash Flows in accordance with SFAS No. 123R and SFAS No. 95, as amended.

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The net deferred tax asset was comprised of the following at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
	(In thousands)	
Deferred tax assets:		
Merchant contract costs	**$ 28,536**	$ 25,562
Loss reserve and accounts receivable allowance	**550**	313
SFAS No. 123R share-based compensation	**1,502**	921
Property and equipment		726
FIN No. 48 deferred tax reserve-state tax	**502**	448
Loss on purchased software		564
Unearned rent	**659**	
Other	**394**	332
Deferred tax assets	**32,143**	28,866
Deferred tax liabilities:		
Capitalized signing bonus	**24,365**	21,063
Software development	**4,495**	2,986
Property and equipment	**2,396**	
Intangible assets	**77**	27
Goodwill	**919**	103
Other		119
Deferred tax liabilities	**32,252**	24,298
Net deferred tax assets (liabilities)	**(109)**	4,568
Less current portion	**(6,723)**	(690)
Net deferred tax assets (liabilities) non-current portion	**$ (6,832)**	$ 3,878

14. Stock Incentive Plan

As described below, the Company maintained three share-based plans for its employees.

The Company adopted SFAS No. 123R on January 1, 2006 and began recognizing compensation expense in its income statement for its share-based plans. Amounts the Company recognized in its consolidated financial statements for the years ended December 31, 2008, 2007 and 2006 with respect to these share-based plans were as follows:

	Year Ended December 31, 2008	2007	2006
	(In thousands)		
Compensation expense recognized on share-based plans before income tax benefit	**$ 1,517**	$ 1,747	$ 1,323
Related income tax benefit recognized in the income statement	**572**	651	320

Cash received from stock option exercises	**3,075**	9,955	27,658
Excess tax benefit recorded for tax deductions resulting from the exercise of stock options	**710**	7,623	28,603
Tax benefit realized as reductions of estimated tax payments during the period	**1,400**	23,232	10,775

The Company estimates the grant date fair value of the stock options it issues using a Black-Scholes valuation model. The Company s assumption for expected volatility is based on its historical volatility for those option grants whose expected life fall within a period it has sufficient historical volatility data related to market trading of its own Common Stock. For those option grants whose expected life is longer than the Company has sufficient historical volatility data related to market trading of its own Common Stock, it determines an expected volatility assumption by referencing the average volatility experienced by a group of its public company peers. The Company estimates the expected life of a stock option based on the simplified method for plain-vanilla stock options as provided by the staff of the SEC in Staff Accounting Bulletins 107 and 110. The simplified method is used because, at this point, the Company does not have sufficient historical information to develop reasonable expectations about future

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exercise patterns. For the performance-based options, the expected life is estimated based on the average of three possible performance condition outcomes. The Company s dividend yield assumption is based on actual dividends expected to be paid over the expected life of the stock option. The risk-free interest rate assumption for stock options granted is determined by using U.S. treasury rates of the same period as the expected option term of each stock option. The weighted-average fair value of options granted during the years ended December 31, 2008, 2007 and 2006 were $6.11, $7.64 and $9.25, respectively. The fair value of options granted during the years ended December 31, 2008, 2007 and 2006 was estimated at the grant date using the following weighted average assumptions:

	Year Ended December 31,		
	2008	2007	2006
Expected volatility	35%	31%	41%
Expected life	2.5 to 4.0 years	2.5 to 3.75 years	2.5 to 3.75 years
Expected dividends	1.36%	0.90%	0.40%
Risk-free interest rate	2.98%	4.29%	4.79%

At December 31, 2008, there was a total of $1.9 million of unrecognized compensation expense related to unvested stock options. This expense is expected to be recognized over a weighted average period of 3.4 years.

2008 Equity Incentive Plan. In May 2008, the Company approved the 2008 Equity Incentive Plan to replace the Amended and Restated 2000 Equity Incentive Plan. The maximum number of share awards which may be granted during the term of the 2008 Equity Incentive Plan is 7,500,000, of which 2,754,922 stock options were granted during 2008. Of the stock options granted in 2008, 2,538,000 vest in accordance with performance based measures, while 174,000 stock options vest over four years and 42,922 stock options vested immediately. At December 31, 2008, there were 2,708,522 options outstanding under the 2008 Equity Incentive Plan, and 4,745,078 shares of the 7,500,000 authorized shares of common stock reserved for issuance under the 2008 Equity Incentive Plan remain available for grant.

The options were granted with terms of 5 years and an exercise price equal to the closing market price on the date of grant.

In the third quarter of 2008, the Company s Board of Directors approved a performance-based stock option program. Under this program, the Company granted 2.5 million performance-based stock options to its employees. These stock options were granted to those employees who the Board of Directors determined could have significant impact on successfully integrating the recently acquired Network Services business and effectively executing the Company s growth plan. These stock options have a five-year term and will vest in equal amounts in 2011, 2012 and 2013 only if, over the term of the stock options, both of the following performance conditions are achieved:

- Consolidated net revenue grows at a compound annual rate of at least 15%; and

- Fully diluted EPS grows at a compound annual rate of at least 25%.

Management believes that achieving these performance conditions is not more likely than not to occur therefore, no share-based compensation expense has been recorded for these stock options in 2008. The evaluation of the likelihood of achieving these performance conditions will be repeated quarterly, and at such point that vesting of some or all of the options becomes more likely than not, share-based compensation expense will be recorded.

Amended and Restated 2000 Equity Incentive Plan. The Amended and Restated 2000 Equity Incentive Plan (the 2000 Equity Incentive Plan) was replaced by the 2008 Equity Incentive Plan. During 2008, 2007 and 2006, 39,868, 314,983 and 212,178 stock options were granted, respectively. At December 31, 2008, 2007 and 2006, 284,130, 443,906 and 540,703 options, respectively, were unvested and will vest over a period of one to four years. At December 31, 2008, there were 2,599,651 options outstanding under the 2000 Equity Incentive Plan.

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The options were granted with terms of 5 to 10 years and an exercise price equal to or in excess of the estimated fair value at the date of the grant. Since the Company s common stock began publicly trading on August 11, 2005, option issuances have been at exercise prices equal to the closing market price.

The total intrinsic value of stock options exercised under the 2000 Equity Incentive Plan during 2008, 2007 and 2006 was $7.2 million, $25.5 million and $73.0 million, respectively.

2002 PEPShares Plan. In April 2002, the Company approved its 2002 PEPShares Plan, as amended (the PEPShares Plan). The options were exercisable at a price per share equal to the estimated fair value at the date of the grant. The Administrator of the PEPShares Plan determined that no elections to defer compensation earned after December 31, 2004 would be permitted and no amounts were deferred and contributed to the PEPShares Plan from compensation earned after December 31, 2004. Therefore there were no grants in 2008, 2007 or 2006. The options were scheduled to become exercisable in a series of five equal annual installments of 20%, contingent on continued service with the Company; however, vesting of these options was automatically accelerated upon the completion of the Company s initial public offering in 2005 and 1,308,832 options were exercised by their holders in 2005. At December 31, 2008, all unexercised options outstanding under the Company s 2002 PEPShares Plan terminated in accordance with their contractual term.

Share-Based Plan Activity. During 2008 and 2007, employees exercised 489,955 and 1,291,251 options, respectively, to acquire the Company s common stock, generating $3.1 million and $10.0 million of stockholders equity from the exercises and $0.7 million and $7.6 million of stockholders equity related to tax deductions, which accrued to the Company as employees exercised non-qualified stock options and made disqualifying dispositions of shares acquired through the exercise of incentive stock options. Activity in the 2008 Equity Incentive Plan, the 2000 Equity Incentive Plan and the 2002 PEPShares Plan during 2006, 2007 and 2008 was as follows:

	2008 Equity Incentive Plan		2000 Equity Incentive Plan		2002 PEPShares Plan	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Options Outstanding at January 1, 2006		$	8,118,929	$ 7.60	163,896	$ 5.59
Issued		$	212,178	$ 26.32		$
Exercised		$	(4,148,339)	$ 6.55	(116,187)	$ 5.40
Forfeited/cancelled		$	(32,829)	$ 14.43	(7,614)	$ 5.00
Outstanding at December 31, 2006		$	4,149,939	$ 9.54	40,095	$ 6.25
Options exercisable at December 31, 2006		$	3,609,236	$ 8.66	40,095	$ 6.25
Issued		$	314,983	$ 28.05		$
Exercised		$	(1,287,905)	$ 7.76	(3,346)	$ 6.25
Forfeited/cancelled		$	(84,856)	$ 17.01	(15,996)	$ 6.25
Outstanding at December 31, 2007		$	3,092,161	$ 11.97	20,753	$ 6.25
Options exercisable at December 31, 2007		$	2,651,455	$ 9.69	20,753	$ 6.25
Issued	2,754,922	$ 21.79	39,868	$ 21.89		$
Exercised		$	(476,104)	$ 6.96	(13,851)	$ 6.25
Forfeited/cancelled	(46,400)	$ 21.88	(56,274)	$ 24.44	(6,902)	$ 6.25

Outstanding at December 31, 2008	2,708,522	$ 21.79	2,599,651	$ 12.78		$
Options exercisable at December 31, 2008	42,922	$ 19.98	2,315,521	$ 11.03		$

Stock options issued under the 2008 Equity Incentive Plan and the 2000 Equity Incentive Plan, which were outstanding at December 31, 2008, totaled 5,308,173 and had a weighted-average remaining

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contractual life of 3.9 years, a weighted average exercise price of $17.38, and total intrinsic value of $18.8 million. Stock options issued under the 2008 Equity Incentive Plan and the 2000 Equity Incentive Plan, which were exercisable at December 31, 2008, totaled 2,358,443 and had a weighted-average remaining contractual life of 3.2 years, a weighted average exercise price of $11.19, and total intrinsic value of $18.8 million. We have historically issued new shares to satisfy the exercise of options. Options outstanding and exercisable at December 31, 2008 are summarized by exercise price below:

	Outstanding Options			Exercisable Options		
Exercise price per share	2008 Equity Incentive Plan	2000 Equity Incentive Plan	Total	2008 Equity Incentive Plan	2000 Equity Incentive Plan	Total
$3.00 to $5.00		642,340	642,340		642,340	642,340
$6.25 to $7.50		395,580	395,580		395,580	395,580
$9.28 to $11.00		789,120	789,120		789,120	789,120
$18.00 to $26.50	2,708,522	448,827	3,157,349	42,922	266,547	309,469
$26.66 to $31.66		323,784	323,784		221,934	221,934
	2,708,522	2,599,651	5,308,173	42,922	2,315,521	2,358,443

The table below summarizes options outstanding under the 2008 Equity Incentive Plan and the 2000 Equity Incentive Plan at December 31, 2008 by their weighted average remaining contractual term:

	2008 Equity Incentive Plan		2000 Equity Incentive Plan	
Exercise price per share	Options Outstanding	Average Remaining Contractual Term	Options Outstanding	Average Remaining Contractual Term
$3.00 to $5.00			642,340	3.2 years
$6.25 to $7.50			395,580	2.6 years
$9.28 to $11.00			789,120	4.1 years
$18.00 to $26.50	2,708,522	4.6 years	448,827	2.7 years
$26.66 to $31.66			323,784	2.9 years
	2,708,522	4.6 years	2,599,651	3.2 years

15. Fair Value of Financial Instruments

Management uses methods and assumptions to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value. Fair value equals quoted market price for securities held as available-for-sale investments. Other financial instruments include cash and cash equivalents, certificates of deposit, receivables, various accounts payable and accrued expenses. The fair value of such financial instruments approximates their carrying value due to their short maturity and pricing terms.

16. Employee Benefit Plan

The Company offers a defined contribution plan to all employees. Company contributions are generally based upon fixed amounts of eligible compensation and the Company contributed approximately $1.4 million, $0.5 million and $0.4 million to the Plan for the years ended

December 31, 2008, 2007 and 2006, respectively.

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17. Commitments and Contingencies

Litigation The Company is involved in certain legal proceedings and claims, which arise in the ordinary course of business. In the opinion of the Company, based on consultations with outside counsel, the results of any of these ordinary course matters, individually and in the aggregate, are not expected to have a material effect on its results of operations, financial condition or cash flows.

The Company is also subject to lawsuits, claims, and investigations which are the result of the Processing System Intrusion. See ***Contingencies*** below for a description of the Processing System Intrusion.

Leases The Company leases various office spaces and certain equipment under operating leases with remaining terms ranging up to eight years. The majority of the office space lease agreements contain renewal options and generally require the Company to pay certain operating expenses.

Future minimum lease commitments under non-cancelable leases as of December 31, 2008 are as follows:

	(In thousands)	
Twelve Months Ended December 31,	**Capital Leases**	**Operating Leases**
2009	$ 246	$ 4,598
2010	233	4,148
2011	92	2,374
2012		1,901
2013		1,444
Thereafter		3,212
Total Minimum Payments	571	$ 17,677
Interest Amount	(64)	
Present Value of Minimum Payments	$ 507	

Rent expense for leased property was $3.2 million, $2.2 million and $2.1 million, respectively, for the years ended December 31, 2008, 2007 and 2006.

Commitments Certain officers of the Company have entered into an employee confidential information and non-competition agreement under which they are entitled to severance pay equal to their base salary and medical benefits for 12 months and a pro-rated bonus in the event they are terminated by the Company other than for cause. There were no payouts under these agreements in 2008.

The following table reflects the Company s other significant contractual obligations, including leases from above, as of December 31, 2008:

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1 to 3 Years**	**3 to 5 years**	**More than 5 years**
			(In thousands)		
Processing providers (a)	$ 10,757	$ 5,978	$ 4,779	$	$

Telecommunications providers	8,505	5,194	3,311		
Office and equipment leases	17,677	4,598	6,522	3,345	3,212
Term Credit Facility	25,000	8,333	16,667		
Construction and equipment (b)	6,864	6,864			
Capital lease obligations	571	246	325		
	$ 69,374	$ 31,213	$ 31,604	$ 3,345	$ 3,212

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(a) The Company has agreements with several third-party processors to provide to us on a non-exclusive basis payment processing and transmittal, transaction authorization and data capture services, and access to various reporting tools. Our agreements with third-party processors require the Company to submit a minimum monthly number of transactions or volume for processing. If the Company submits a number of transactions or volume that is lower than the minimum, it is required to pay the third party processors the fees that they would have received if the Company had submitted the required minimum number or volume of transactions.

(b) These amounts relate to contractual commitments we have for constructing our new service center in Jeffersonville, Indiana. Additional contractual commitments will be entered into as we progress with the development of this site. Through December 31, 2008, we have spent approximately $48.2 million of our cash on our new service center, including $1.7 million to acquire land, and over the next twelve months we expect to spend approximately $13.6 million more on its development, including the contractual obligations in the above table.

Contingencies The Company collects and stores sensitive data about its merchant customers and bank cardholders. If the Company s network security is breached or sensitive merchant or cardholder data is misappropriated, the Company could be exposed to assessments, fines or litigation costs.

On January 20, 2009, the Company publicly announced the Processing System Intrusion. The Processing System Intrusion involved malicious software that appears to have been used to collect in-transit, unencrypted payment card data while it was being processed by the Company during the transaction authorization process. Such data is not required to be encrypted while in transit under current payment card industry guidelines. The Company had received confirmation of its compliance with the PCI-DSS from a third-party assessor each year since the standard was announced, including most recently in April 2008. Card data that was affected by the Processing System Intrusion included card numbers, expiration dates, and certain other information from the magnetic stripe on the back of the payment card (including, for a small percentage of transactions, the cardholder s name). However, the cardholder information that the Company processes does not include addresses or Social Security numbers. Also, the Company believes that no unencrypted PIN data was captured. The Company believes the breach has been contained and did not extend beyond 2008. Its investigation of the Processing System Intrusion is ongoing.

While the Company has determined that the Processing System Intrusion has triggered a loss contingency, to date an unfavorable outcome is not believed by it to be probable on those claims that are pending or have been threatened against it, or that the Company considers to be probable of assertion against it, and the Company does not have sufficient information to reasonably estimate the loss it would incur in the event of an unfavorable outcome on any such claim. Therefore, in accordance with SFAS No. 5, *Accounting for Contingencies,* no reserve/liability has been recorded with respect to any such claim as of December 31, 2008. As more information becomes available, if the Company should determine that an unfavorable outcome is probable on such a claim and that the amount of such unfavorable outcome is reasonably estimable, it will record a reserve for the claim in question. If and when, the Company records such a reserve, it could be material and could adversely impact its results of operations, financial condition and cash flow. Costs the Company incurred related to investigations and remedial actions performed in December 2008 were not significant. Amounts it expects to incur for investigations, remedial actions, legal fees, and crisis management services related to the Processing System Intrusion that will be performed after December 31, 2008 will be recognized as incurred. Such costs are expected to be material and could adversely impact the Company s results of operations, financial condition and cash flow.

18. Related Party Transactions

In July 2003, Greenhill Capital Partners, L.P. and its affiliated investment funds and LLR Equity Partners, L.P. and its affiliated investment fund granted the Company s Chief Executive Officer an irrevocable option to purchase up to an aggregate of 1,750,000 shares of the Company s Common Stock at any time on or before July 31, 2006 at a purchase price of $7.14 per share. Various officers, directors, partners and members of Greenhill Capital Partners, L.P. and its affiliated investment funds and LLR Equity Partners, L.P. and its affiliated investment fund are members of the Company s Board of Directors. On February 22, 2006, Mr. Carr exercised options to purchase 1,750,000 shares of our common stock from Greenhill Capital Partners and LLR Equity Partners. As a result of this transaction, a tax deduction of $26.4 million accrued to the Company and generated a current tax asset of $10.7 million and a credit to Additional Paid In Capital of $10.7 million during 2006.

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On March 28, 2005, Carr Holdings, L.L.C., sold 40,000 shares of our common stock to Thomas M. Sheridan, the Company s Chief Portfolio Officer, at a price of $9.28 per share. In addition, Carr Holdings, L.L.C. granted Mr. Sheridan an option to purchase an additional 40,000 shares of common stock at any time prior to the earlier of (i) March 31, 2006, if the Company had not consummated its initial public offering or (ii) six months and 15 days after the consummation of the Company s initial public offering. On August 8, 2005, Mr. Sheridan exercised options to purchase 12,000 shares of the Company s common stock from Carr Holdings, L.L.C. On February 22, 2006, the remaining options to purchase 28,000 shares of the Company s common stock from Carr Holdings, L.L.C. were cancelled by mutual agreement between Mr. Sheridan and Carr Holdings, L.L.C. As consideration for the cancellation, Mr. Sheridan received a payment of $361,900 from Carr Holdings L.L.C. The amount of the consideration was determined by subtracting the $9.28 exercise price of the options from the closing price of the Company s common stock on the New York Stock Exchange on the day before the date of this cancellation agreement, or $22.20, and multiplying the difference by 28,000 shares.

19. Segments

The determination of the Company s business segments is based on how the Company monitors and manages the performance of its operations. The Company s operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies, personnel skill sets and technology.

The Company has two reportable segments, as follows: (1) Card, which provides payment processing and related services for bank card transactions; and (2) Other. The Card segment includes CPOS, our Canadian payments processing subsidiary, since March 2008, and Network Services since May 2008. Goodwill and intangible assets resulting from the acquisitions of CPOS and Network Services are reported in the Card segment. At December 31, 2008, goodwill related to CPOS and Network Services was $51.2 million. The Other segment includes Payroll, which provides payroll and related tax filing services, and PrepaidCard, which provides prepaid card, stored-value card and loyalty card solutions. The PrepaidCard operating segment includes Debitek, General Meters and Chockstone since its November 2008 acquisition. Neither the Payroll operating segment nor the PrepaidCard operating segment meet the SFAS No. 131 *Disclosures about Segments of an Enterprise and Related Information* defined thresholds for determining individually reportable segments. Goodwill and intangible assets resulting from the acquisition of Debitek, General Meters and Chockstone are reported in the Other segment. At December 31, 2008, goodwill related to Debitek, General Meters and Chockstone was $7.2 million.

The Company allocates revenues, expenses, assets and liabilities to segments only where directly attributable. The unallocated corporate administration amounts are costs attributed to finance, corporate administration, human resources and corporate services. At December 31, 2008, 2007 and 2006, 43%, 57% and 66% respectively, of the Payroll s total assets in the Other segment were funds that the Company holds as a fiduciary for payment to taxing authorities. Reconciling items include eliminations of intercompany investments and receivables.

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A summary of the Company s segments for the three years ended December 31, 2008, 2007 and 2006 are as follows:

	Card Segment	Other Segment	Unallocated Corporate Administration Amounts (In thousands)	Reconciling Items	Total Amount
Year Ended December 31, 2008					
Total revenue	**$ 1,520,550**	**$ 24,482**	**$**	**$ (130)**	**$ 1,544,902**
Depreciation and amortization	**12,659**	**1,245**	**522**		**14,426**
Interest income	**755**				**755**
Interest expense	**3,314**			**(114)**	**3,206**
Net income (loss)	**60,151**	**6,125**	**(18,436)**		**41,840**
Total assets	**534,989**	**51,468**		**(122,838)**	**463,619**
Year Ended December 31, 2007					
Total revenue	$ 1,297,026	$ 17,103	$	$ (283)	$ 1,313,846
Depreciation and amortization	7,587	548	546		8,681
Interest income	1,934				1,934
Interest expense	785				785
Net income (loss)	49,106	833	(14,069)		35,870
Total assets	302,165	42,712		(15,688)	329,189
Year Ended December 31, 2006					
Total revenue	$ 1,084,290	$ 12,901	$	$ (150)	$ 1,097,041
Depreciation and amortization	6,697	369	519		7,585
Interest income	1,225				1,225
Interest expense	727	26			753
Net income (loss)	40,646	1,185	(13,287)		28,544
Total assets	234,210	25,869		(8,311)	251,768

20. Earnings Per Share

The Company presents earnings per share data in accordance with SFAS No. 128, Earnings Per Share, as amended, (SFAS 128), which establishes the standards for the computation and presentation of basic and diluted earnings per share data. Under SFAS 128, the dilutive effect of stock options is excluded from the calculation of basic earnings per share but included in diluted earnings per share except in periods of net loss where inclusion would be anti-dilutive.

Basic earnings per share is based on the weighted average number of common shares outstanding. For periods in which the Company held treasury stock, it was removed from the calculation of average common shares outstanding as of the trade date.

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The following is a reconciliation of the amounts used to calculate basic and diluted earnings per share:

	Year Ended December 31,		
	2008	2007	2006
	(In thousands, except per share)		
Basic:			
Net income	$ 41,840	$ 35,870	$ 28,544
Weighted average common stock outstanding	37,521	37,686	36,394
Earnings per share	$ 1.12	$ 0.95	$ 0.78
Diluted:			
Net income	$ 41,840	$ 35,870	$ 28,544
Basic weighted average common stock outstanding	37,521	37,686	36,394
Effect of dilutive instruments:			
Stock options	1,177	2,294	3,549
Diluted weighted average shares outstanding	38,698	39,980	39,943
Earnings per share	$ 1.08	$ 0.90	$ 0.71

21. Quarterly Consolidated Results of Operations (Unaudited)

The Company s unaudited quarterly results of operations for the years ended December 31, 2008 and 2007 were as follows:

	For the Quarter Ended			
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008
	(In thousands, except per share)			
Total revenues	**$ 339,619**	**$ 394,554**	**$ 424,800**	**$ 385,929**
Costs of services	**307,908**	**357,221**	**379,832**	**349,504**
General and administrative expenses	**17,174**	**18,289**	**21,866**	**22,499**
Total expenses	**325,082**	**375,510**	**401,698**	**372,003**
Income from operations	**14,537**	**19,044**	**23,102**	**13,926**
Net income	**8,977**	**11,469**	**13,413**	**7,981**
Diluted earnings per share	**$ 0.23**	**$ 0.30**	**$ 0.35**	**$ 0.21**

	For the Quarter Ended			
	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007
	(In thousands, except per share)			
Total revenues	$ 284,212	$ 333,445	$ 354,615	$ 341,574

Costs of services	259,241	303,431	322,774	311,227
General and administrative expenses	14,299	13,735	12,493	16,877
Total expenses	273,540	317,166	335,267	328,104
Income from operations	10,672	16,279	19,348	13,470
Net income	6,852	10,402	11,785	6,831
Diluted earnings per share	$ 0.17	$ 0.26	$ 0.30	$ 0.17

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22. Subsequent Events (Unaudited)

See Note 1, Organization and Operations, for a discussion of the subsequent event related to the Processing System Intrusion.

In the first quarter of 2009, the Company incurred various expenses and accruals totaling $12.6 million pre-tax, all of which were attributable to the Processing System Intrusion. The majority of these expenses relate to a fine imposed by MasterCard due to the Company allegedly not taking appropriate action subsequent to learning of the possibility of the Processing System Intrusion. The Company believes it took immediate and extraordinary actions to address the intrusion and cooperate with the card brands investigation of the intrusion, and that it responded appropriately to concerns that were raised leading up to the discovery of the intrusion, and so it will vigorously contest any effort to hold the Company liable for the MasterCard fine. The remainder of these expenses are primarily for other fines, legal fees and costs we incurred for investigations, remedial actions and crisis management services.

As previously disclosed, the Company was advised by Visa that, based on Visa s investigation of the Processing System Intrusion Visa believes it is in violation of the Visa Operating Regulations and that, based on that belief, Visa removed the Company from Visa s published Global List of PCI DSS Validated Service Providers. On April 30, 2009, following the completion of its annual PCI DSS assessment, the Company successfully validated its compliance with PCI DSS. As such, the Company was returned to MasterCard s and Visa s Lists of PCI DSS Validated Service Providers.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

ITEM 9A. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (CEO), and Chief Financial Officer (CFO) we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act, as of December 31, 2008. Based upon that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management Annual Report on Internal Control over Financial Reporting

Our management team is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

Our internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of the Company s management and directors; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Any system of internal control over financial reporting, however well designed and operated, may not prevent or detect all misstatements. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. In addition, the design of any control system is based, in part, upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of internal control systems, there is only reasonable assurance that the Company s system of internal control over financial reporting will succeed in achieving its goals under all potential future conditions.

Our management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.* As of December 31, 2008, management believes that the Company s internal cont>

Equity in (earnings) losses of non-consolidated entities. Equity in (earnings) losses of non-consolidated entities were $ (7.5 million) for the Pro Forma Transition Period compared to equity in earnings of $(1.9 million) for the thirty-nine weeks ended December 29, 2011. The increase in equity in earnings of non-consolidated entities was primarily due to increases in earnings from DCIP, partially offset by declines in earnings from NCM. We made pro forma adjustments to increase equity in earnings from NCM by $3.4 million for our share of their earnings, to increase equity in earnings from DCIP by $0.3 million for amortization of basis differences and to decrease equity in earnings from NCM by $1.3 million for amortization of basis differences. See Note 7 Investments of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information.

Investment expense. Investment expense was $876,000 for the Pro Forma Transition Period compared to a loss of $17.6 million for the thirty-nine weeks ended December 29, 2011. During the thirty-nine weeks ended December 29, 2011, we recognized an impairment loss of $17.8 million related to unrealized losses previously recorded in accumulated other comprehensive loss on marketable securities related to our investment in RealD Inc. common stock when we determined the decline in fair value below historical cost to be other-than-temporary. We made pro forma adjustments to increase amortization expense for the TRA intangible asset by $627,000 during the Pro Forma Transition Period.

Income tax provision. The income tax provision from continuing operations was a provision of $8.9 million for the Pro Forma Transition Period and $1.5 million for the thirty-nine weeks ended December 29, 2011. See Note 11 Income Taxes of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information. We made pro forma adjustments to increase our income tax provision by $2.9 million for the expected income tax impact of the pro forma adjustments during the Pro Forma Transition Period.

Earnings (loss) from continuing operations. Earnings (loss) from continuing operations from continuing operations were $17.9 million and ($89.6 million) for the Pro Forma Transition Period and thirty-nine weeks ended December, 29, 2011, respectively. Earnings from continuing operations during the Pro Forma Transition Period were positively impacted by lower interest expense and investment expense as well as the improvement in admissions and food and beverage revenues during the Transition Period from the thirty-nine weeks ended December 29, 2011 due to the success of our food and beverage strategic initiatives, the timing of rewards accumulated and redeemed related to AMC Stubs and the additional four days included in the Pro Forma Transition Period.

Results of Operations for the Fiscal Years Ended March 29, 2012 and March 31, 2011

Revenues. Total revenues increased 6.7%, or $159.4 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011. The increase in total revenues included $48.1 million resulting from the acquisition of Kerasotes. (Fiscal 2012 reflects 52 weeks of operations of Kerasotes compared with 44 weeks in fiscal 2011.) Admissions revenues increased $76.5 million, during the fifty-two weeks ended March 29, 2012 compared to the year ended March 31, 2011, primarily due to a 2.9% increase in attendance and a 1.7% increase in average ticket price. The increase in total admissions revenues included the additional attendance and admissions revenues resulting from the acquisition of Kerasotes of approximately $32.1 million. Total admissions revenues were reduced by deferrals, net of rewards redeemed, of $5.9 million during the year ended March 29, 2012, related to rewards accumulated under *AMC Stubs*. The rewards accumulated under *AMC Stubs* are deferred and recognized in future periods upon redemption or expiration of customer rewards. The increase in average ticket price was primarily due to an increase in ticket prices for standard 2D film. Admissions revenues at comparable theatres (theatres opened on or before fiscal 2011 and before giving effect to the net deferral of admissions revenues due to the new *AMC Stubs* customer frequency program) increased $63.1 million, during the year ended March 29, 2012 from the comparable period last year, primarily due to an increase in attendance and an increase in average ticket prices. Food and beverage revenues increased 6.9%, or $44.7 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011, due to a 3.8% increase in average food and beverage per patron and the increase in attendance, partially offset by the net deferral of food and beverage revenues due to the new *AMC Stubs* customer frequency program. The increase in food and beverage revenues included approximately $15.4 million resulting from the acquisition of Kerasotes. The increase in food and beverage per patron includes the impact of food and beverage price and size increases placed in effect during the second and third quarters of fiscal 2011, and a shift in product mix to higher priced items, including our dine-in theatres and premium food and beverage products. Total food and beverage revenues were reduced by a net amount of $14.4 million during the year ended March 29, 2012, related to rewards accumulated under *AMC Stubs* and deferred to be recognized in future periods upon redemption or expiration of customer rewards. Other theatre revenues increased 52.7%, or $38.3 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011, primarily due to a change in accounting for gift card breakage of $15.0 million (see Note 1 The Company and Significant Accounting Policies of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information), increases in membership fees earned through the *AMC Stubs* customer frequency program of $14.6 million, advertising revenues, and breakage income from gift card and package ticket sales.

Operating costs and expenses. Operating costs and expenses increased 1.6%, or $37.7 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011. The increase in operating costs and expenses included approximately $36.1 million resulting from the acquisition of Kerasotes. Film exhibition costs increased 6.5%, or $55.6 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011 primarily due the increase in admissions revenues and the increase in film exhibition costs as a percentage of admissions revenues. As a percentage of admissions revenues, film exhibition costs were 53.2% in the current period and 52.3% in the prior period. Film exhibition costs as a percentage of admissions revenues increased primarily due to the net deferral of admissions revenues of $5.9 million during the year ended March 29, 2012, related to the new *AMC Stubs* customer frequency program. Food and beverage costs increased 17.3%, or $13.8 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011 due the increase in food and beverage costs as a percentage of food and beverage revenues and the increase food and beverage revenues. As a percentage of food and beverage revenues, food and beverage costs were 13.6% in the current period compared with 12.4% in the prior period, primarily due to the food and beverage price and size increases, a shift in product mix to items that generate higher sales but lower percentage margins, and the net deferral of food and beverage revenues of $14.4 million during the year ended March 29, 2012, related to the new *AMC Stubs* customer frequency program. As a percentage of revenues, operating expense was 27.6% in the current period as compared to 29.3% in the prior period. During the year ended March 31, 2011, we evaluated excess capacity and vacant and under-utilized retail space throughout our theatre circuit and recorded charges to theatre and other closure expense of $60.8 million, which caused our operating expense to increase. See Note 15 Theatre and Other Closure and Disposition of Assets of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information. Gains were recorded on disposition of assets during the year ended March 31, 2011 which reduced operating expenses by approximately $9.7 million, primarily due to the sale of a divested AMC theatre in conjunction with the acquisition of Kerasotes. Rent expense decreased 1.4%, or $6.5 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011, primarily due to decreases in rent from the closure of screens and lower renewal rentals negotiated with landlords at the end of the base lease term, partially offset by increased rent as a result of the acquisition of Kerasotes on May 24, 2010.

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General and Administrative Expense:

Merger, acquisition and transaction costs. Merger, acquisition and transaction costs decreased $12.9 million during the year ended March 29, 2012 compared to the year ended March 31, 2011. Prior year costs primarily consisted of costs related to the acquisition of Kerasotes.

Management fees. Management fees were unchanged during the year ended March 29, 2012. Management fees of $1.3 million are paid quarterly, in advance, to the Former Sponsors in exchange for consulting and other services.

Other. Other general and administrative expense decreased 11.5%, or $6.7 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011, due primarily to decreases related to a union-sponsored pension plan, professional and consulting expenses, and advertising expenses, partially offset by increases in incentive compensation expense related to improvements in operating performance. During the year ended March 31, 2011, we recorded $3.0 million of expense related to our complete withdrawal from a union-sponsored pension plan.

Depreciation and amortization. Depreciation and amortization increased 0.6%, or $1.4 million during the year ended March 29, 2012 compared to the year ended March 31, 2011.

Other expense. During the year ended March 29, 2012, other expense includes loss on extinguishment related to redemption of our Term Loan due 2013 of $383,000 and Parent Term Loan due 2012 of $510,000 and a loss of $640,000 in connection with the cash tender offer and redemption of our Notes due 2014. During the year ended March 31, 2011, other expense includes a loss on extinguishment of indebtedness related to the redemption of our Notes due 2016 of $24.3 million and our 12% Senior Discount Notes due 2014 of $14.8 million and expense related to the modification of our former senior secured credit facility Term Loan due 2013 of $3.3 million and of our former senior secured credit facility Revolver of $367,000.

Interest expense. Interest expense decreased 3.0%, or $5.5 million, during the year ended March 29, 2012 compared to the year ended March 31, 2011, primarily due to the extinguishment and the related interest expense of our Parent Term Loan due 2012, our Discount Notes due 2014, and our Notes due 2016 redeemed with payments made on December 15, 2010 and February 1, 2011, partially offset by increases in indebtedness and the related interest expense due to the $600.0 million issuance of our Notes due 2020 on December 15, 2010 and the increases in interest expense related to the modification of our former senior secured credit facility on December 15, 2010. The issuance of our $300.0 million Term Loan due 2018 on February 22, 2012, the redemption of our $140.7 million Term Loan due 2013 on February 22, 2012 and the purchase and redemptions of $58.1 million of our Notes due 2014 on February 22, 2012, $50.9 million of our Notes due 2014 on March 7, 2012 and $51.0 million of our Notes due 2014 on April 6, 2012 did not significantly impact interest expense during the fiscal year ended March 29, 2012.

Equity in earnings of non-consolidated entities. Equity in earnings of non-consolidated entities were $12.6 million in the current period compared to equity in earnings of $17.2 million in the prior period. The decrease in equity in earnings of non-consolidated entities was primarily due to the equity in losses related to our investment in Open Road Releasing, LLC of $14.7 million, due primarily to advertising expenses related to current and upcoming film releases and also the decrease in earnings and distributions received from NCM, partially offset by a decrease in equity in losses related to our investments in DCIP and Midland Empire Partners, LLC. We recognized an impairment loss of $8.8 million related to an equity method investment through Midland Empire Partners, LLC during the year ended March 31, 2011. See Note 7 Investments of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information.

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Gain on NCM transactions. The gain on NCM, Inc. shares of common stock sold during the year ended March 31, 2011 was $64.6 million. We also recorded a loss of $207,000 from the surrender of 1,479,638 ownership units in NCM as part of the 2010 Common Unit Adjustment. See Note 7 Investments of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information.

Investment (income) expense. Investment (income) expense was an expense of $17.6 million for the year ended March 29, 2012 compared to income of $484,000 for the year ended March 31, 2011. During the year ended March 29, 2012, we recognized an impairment loss of $17.8 million related to unrealized losses previously recorded in accumulated other comprehensive loss on marketable securities related to our investment in RealD Inc. common stock when we determined the decline in fair value below historical cost to be other-than-temporary.

Income tax provision. The income tax provision from continuing operations was $2.0 million for the year ended March 29, 2012 and $2.0 million for the year ended March 31, 2011. See Note 11 Income Taxes of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus for further information.

Earnings from discontinued operations, Net. On December 29, 2008, we sold our operations in Mexico, including 44 theatres and 493 screens. The results of operations of the Cinemex theatres have been classified as discontinued operations for all periods presented.

Net loss. Net loss was $94.1 million and $174.3 million for the year ended March 29, 2012 and March 31, 2011, respectively. Net loss during the year ended March 29, 2012 was impacted by the reduced admissions and food and beverage revenues of $20.4 million during the year ended March 29, 2012 related to the new *AMC Stubs* customer frequency program, the impairment charge of $17.8 million on RealD Inc. common stock and the $4.6 million decline in equity in earnings, partially offset by the increase in attendance. Net loss during the year ended March 31, 2011 was primarily due to theatre and other closure expense of $60.8 million, loss on extinguishment and modification of indebtedness of $42.8 million, impairment charges of $21.6 million, increased merger and acquisition costs primarily due to the acquisition of Kerasotes, and the decrease in attendance, partially offset by the gain on NCM transactions of $64.4 million and a gain on disposition of assets of approximately $9.7 million.

Liquidity and Capital Resources

Our consolidated revenues are primarily collected in cash, principally through box office admissions and theatre food and beverage sales. We have an operating "float" which partially finances our operations and which generally permits us to maintain a smaller amount of working capital capacity. This float exists because admissions revenues are received in cash, while exhibition costs (primarily film rentals) are ordinarily paid to distributors from 20 to 45 days following receipt of box office admissions revenues. Film distributors generally release the films which they anticipate will be the most successful during the summer and year-end holiday seasons. Consequently, we typically generate higher revenues during such periods.

We had working capital deficit as of September 30, 2013 and December 31, 2012 of $256.6 million and $235.8 million, respectively. Working capital includes $136.4 million and $171.1 million of deferred revenues and income as of September 30, 2013 and December 31, 2012, respectively. We had working capital deficit as of March 29, 2012 of $173.9 million and working capital surplus of $74.1 million as of March 31, 2011. Working capital includes $174.4 million and $141.2 million of deferred revenue as of March 29, 2012 and March 31, 2011, respectively. We have the ability to borrow against the senior secured credit facility to meet obligations as they come due (subject to limitations on the incurrence of indebtedness in our various debt instruments) and could incur indebtedness of $138.5 million on the senior secured credit facility to meet these obligations as of September 30, 2013.

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We believe that cash generated from operations and existing cash and equivalents will be sufficient to fund operations and planned capital expenditures and acquisitions currently and for at least the next 12 months and enable us to maintain compliance with covenants related to the senior secured credit facility, our Notes due 2019 and our Notes due 2020. We are considering various options with respect to the utilization of cash and equivalents on hand in excess of our anticipated operating needs. Such options might include, but are not limited to, acquisitions of theatres or theatre companies, retirement of our corporate borrowings and payment of dividends.

Cash Flows from Operating Activities

Cash flows provided by (used in) operating activities, as reflected in the Consolidated Statements of Cash Flows, were $204.7 million, $(32.1) million and $76.5 million during the nine months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period December 30, 2011 through August 30, 2012, respectively.

Cash flows provided by (used in) operating activities, as reflected in the Consolidated Statements of Cash Flows, were $73.9 million, $76.3 million, $137.0 million, and $(16.2 million) during the period from inception August 31, 2012 through December 31, 2012, March 30, 2012 through August 30, 2012 and fiscal years ended March 29, 2012 and March 31, 2011, respectively.

Cash Flows from Investing Activities

Cash flows used in investing activities, as reflected in the Consolidated Statements of Cash Flows, were $180.3 million, $7.9 million and $86.8 million, during the nine months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period December 30, 2011 through August 30, 2012, respectively. Cash outflows from investing activities include capital expenditures of $175.4 million, $10.6 million and $94.4 million during the nine months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period December 30, 2011 through August 30, 2012, respectively. Our capital expenditures primarily consisted of strategic growth initiatives and remodels, maintaining our theatre circuit, and technology upgrades. We expect that our gross cash outflows for capital expenditures will be approximately $260 million to $290 million for 2013, before giving effect to expected landlord contributions of approximately $25 million.

During the nine months ended September 30, 2013, we received $4.7 million for a sales price adjustment from the sale of theatres located in Canada and paid $20,000 related to other dispositions of long-term assets.

Cash used in investing activities, as reflected in the Consolidated Statement of Cash Flows, were $158.9 million, $31.0 million, $163.7 million, and $250.0 million during the period from inception August 31, 2012 through December 31, 2012, March 30, 2012 through August 30, 2012 and the fiscal years ended March 29, 2012 and March 31, 2011, respectively. Cash outflows from investing activities include capital expenditures during the period from inception August 31, 2012 through December 31, 2012, March 30, 2012 through August 30, 2012 and the fiscal years ended March 29, 2012 and March 31, 2011 of $72.8 million, $40.1 million, $139.4 million, and $129.3 million, respectively.

During the period from inception August 31, 2012 through December 31, 2012 we paid $87.6 million for the purchase of the Rave theatres, net of cash acquired. The purchase included working capital and other purchase price adjustments.

We made partnership investments in non-consolidated entities accounted for under the equity method of approximately $26.9 million during the year ended March 29, 2012.

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During the year ended March 31, 2011, we paid $280.6 million for the purchase of Kerasotes theatres at closing, net of cash acquired. The purchase included working capital and other purchase price adjustments as described in the Unit Purchase Agreement.

During the year ended March 31, 2011, we received net proceeds of $102.2 million from the sale of 6.7 million shares of common stock of NCM, Inc. for $16.00 per share and reduced our related investment in NCM by $37.6 million, the carrying amount of the shares sold.

We received $57.4 million in cash proceeds from the sale of certain theatres required to be divested in connection with the Kerasotes acquisition during the year ended March 31, 2011 and received $991,000 for the sale of real estate acquired from Kerasotes.

We have received an additional $1.8 million of purchase price from Cinemex related to tax payments and refunds and a working capital calculation and post-closing adjustments during the fiscal year ended March 31, 2011.

We fund the costs of constructing, maintaining and remodeling new theatres through existing cash balances, cash generated from operations, capital contributions from Wanda or borrowed funds, as necessary. We generally lease our theatres pursuant to long-term non-cancelable operating leases which may require the developer, who owns the property, to reimburse us for the construction costs. We may decide to own the real estate assets of new theatres and, following construction, sell and leaseback the real estate assets pursuant to long-term non-cancelable operating leases.

Cash Flows from Financing Activities

On April 30, 2013, AMCE entered into a new $925.0 million senior secured credit facility pursuant to which it borrowed the Term Loan due 2020, and used the proceeds to fund the redemption of both the former senior secured credit facility Term Loan due 2016 and the former senior secured credit facility Term Loan due 2018. The new senior secured credit facility is comprised of a $150.0 million Revolving Credit Facility, which matures in 2018, and a $775.0 million term loan, which matures in 2020. Proceeds from the issuance of Term Loan due 2020 were $773.1 million and deferred financing costs paid related to the issuance of the new senior secured credit facility were $9.1 million, during the nine months ended September 30, 2013. We repurchased the principal balance on both our Term Loan due 2016 of $464.1 million and our Term Loan due 2018 of $296.3 million during the nine months ended September 30, 2013. See Note 12 Corporate Borrowings of the Notes to the unaudited Consolidated Financial Statements included elsewhere in this prospectus for further information.

During the Predecessor period of December 30, 2011 through August 30, 2012, proceeds from the issuance of Term Loan due 2018 were $297.0 million and deferred financing costs paid related to the Senior Secured Credit Facility were $7.7 million. We repaid the remaining principal balance due on our Term Loan due 2013 of $140.7 million and made payments to repurchase our Notes due 2014 of $300.0 million during the period December 30, 2011 through August 30, 2012.

Cash flows provided by (used in) financing activities, as reflected in the Consolidated Statement of Cash Flows, were $(26.8) million, $98.5 million and $(327.3) million during the nine months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period December 30, 2011 through August 30, 2012, respectively. Financing activities for the current period consist of repayments of the Term Loan due 2016 and Term Loan due 2018, payments related the Term Loan due 2020, and capital and financial lease obligations.

During the period December 30, 2011 through August 30, 2012, proceeds from the issuance of Term Loans due 2018 were $297.0 million. We repaid $140.7 million on the Term Loan due 2013 and repurchased $300.0 million of our Notes due 2014.

During the period from March 30, 2012 through August 30, 2012, we made principal payments of $191.0 million related to our Notes due 2014. During the period from inception August 31, 2012 through December 31, 2012, we received $100.0 million in additional capital contributions from Wanda subsequent to the Merger.

During the year ended March 29, 2012, proceeds from the issuance of Term Loans due 2018 were $297.0 million and deferred financing costs paid related to the issuance of the Term Loans due 2018 were $5.2 million.

During the year ended March 29, 2012, we redeemed the Parent Term Loan due 2012 of approximately $159.4 million, repaid the remaining principal balance due on our Term Loans due 2013 of $140.7 million and made payments to repurchase our Notes due 2014 of $109.0 million.

Proceeds from the issuance of the Notes due 2020 were $600.0 million and deferred financing costs paid related to the issuance of the Notes due 2020 were $12.7 million during the year ended March 31, 2011. In addition, deferred financing costs paid related to the senior secured credit facility were $1.9 million.

During the year ended March 31, 2011, AMCE made principal payments of $325.0 million to repurchase its Notes due 2016. In addition, AMCE made payments for tender offer and consent consideration of $5.8 million for its Notes due 2016. During the year ended March 31, 2011, we made payments of $240.8 million to redeem our Discount Notes due 2014, of which $169.9 million was classified as a financing activity and $70.9 million was classified as operating activity because it was attributable to amounts historically accrued through interest expense as part of operating activities related to original issue discount.

During fiscal 2012, AMCE used cash on hand to make dividend distributions to Parent in an aggregate amount of $109.6 million. Parent used the available funds to pay corporate overhead expenses incurred in the ordinary course of business and, on January 25, 2012, to redeem its Term Loan Facility due June 2012, plus accrued and unpaid interest. During fiscal 2011, AMCE used cash on hand to pay four dividend distributions to Parent in an aggregate amount of $278.3 million. Parent used the available funds to make cash payments to extinguish the Discount Notes due 2014 and the related cash interest payments and to pay corporate overhead expenses incurred in the ordinary course of business and to pay a dividend to Parent.

Each indenture relating to our notes (Notes due 2019 and Notes due 2020) allows us to incur specified permitted indebtedness (as defined therein) without restriction. Each indenture also allows us to incur any amount of additional debt as long as we can satisfy the coverage ratio of each indenture, after giving effect to the event on a pro forma basis. Under the indenture for the Notes due 2019 (our more restrictive indenture), we could borrow approximately $1,350.0 million (assuming an interest rate of 6.50% per annum on the additional indebtedness) in addition to specified permitted indebtedness at September 30, 2013. If we cannot satisfy the coverage ratios of the indentures, generally we can borrow an additional amount under the new senior secured credit facility.

As of September 30, 2013, we were in compliance with all financial covenants relating to the senior secured credit facility, the Notes due 2019, and the Notes due 2020.

Contractual Obligations

Pro Forma. Minimum annual cash payments required under existing capital and financing lease obligations, maturities of corporate borrowings, future minimum rental payments under existing operating leases, furniture, fixtures, and equipment and leasehold purchase provisions, and pension funding that have initial or remaining non-cancelable terms in excess of one year as of December 31,

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2012 on a pro forma basis to give effect to the Term Loan due 2020 as if it were consummated on December 31, 2012 are as follows:

(In thousands) Calendar Year	Minimum Capital and Financing Lease Payments	Principal Amount of Corporate Borrowings(1)	Interest Payments on Corporate Borrowings(2)	Minimum Operating Lease Payments	Acquisitions and Capital Related Betterments(3)	Pension Funding(4)	Pro Forma Total Commitments
2013	$ 16,750	$ 7,750	$ 138,023	$ 397,631	$ 40,303	$ 2,469	$ 602,926
2014	16,839	7,750	137,752	408,209			570,550
2015	16,972	7,750	137,481	399,584			561,787
2016	16,983	7,750	137,210	382,745			544,688
2017	16,998	7,750	136,938	361,082			522,768
Thereafter	113,860	1,936,250	308,841	1,661,501			4,020,452
Total	$ 198,402	$ 1,975,000	$ 996,245	$ 3,610,752	$ 40,303	$ 2,469	$ 6,823,171

(1) For pro forma purposes, the financing for the Term Loan due 2020 was assumed to have been consummated as of December 31, 2012. Amounts represent the cash requirements for the payment of principal on corporate borrowings. Total amount does not equal carrying amount due to unamortized premiums and discounts.

(2) Interest expense on the Term Loan due 2020 was estimated at 3.50% based upon the interest rate in effect as of December 31, 2012.

(3) Includes committed capital expenditures, investments, and betterments to our circuit. Does not include planned, but non-committed capital expenditures.

(4) We fund our pension plan such that the plan is in compliance with the Employee Retirement Income Security Act ("ERISA") and the plan is not considered "at risk" as defined by ERISA guidelines. The plan has been frozen effective December 31, 2006. The retiree health plan is not funded.

Historical. Minimum annual cash payments required under existing capital and financing lease obligations, maturities of corporate borrowings, future minimum rental payments under existing operating leases, furniture, fixtures, and equipment and leasehold purchase provisions, and pension funding that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2012 are as follows:

(In thousands) Fiscal Year	Minimum Capital and Financing Lease Payments	Principal Amount of Corporate Borrowings(1)	Interest Payments on Corporate Borrowings(2)	Minimum Operating Lease Payments	Capital Related Betterments(3)	Pension Funding(4)	Total Commitments
2013	$ 16,750	$ 8,004	$ 144,751	$ 397,631	$ 40,303	$ 2,469	$ 609,908
2014	16,839	8,004	144,396	408,209			577,448
2015	16,972	8,004	144,041	399,584			568,601
2016	16,983	453,328	142,895	382,745			995,951
2017	16,998	3,000	124,484	361,082			505,564
Thereafter	113,860	1,481,999	252,445	1,661,501			3,509,805
Total	$ 198,402	$ 1,962,339	$ 953,012	$ 3,610,752	$ 40,303	$ 2,469	$ 6,767,277

(1)

Represents cash requirements for the payment of principal on corporate borrowings. Total amount does not equal carrying amount due to unamortized premiums.

(2) Interest expense on the term loan portion of our senior secured credit facility was estimated at 4.25% for the Term Loan due 2016 and 4.75% for the Term Loan due 2018 based upon the interest rate in effect as of December 31, 2012.

(3) Includes committed capital expenditures, investments, and betterments to our circuit. Does not include planned, but non-committed capital expenditures.

(4) We fund our pension plan such that the plan is in compliance with ERISA and the plan is not considered "at risk" as defined by ERISA guidelines. The plan has been frozen effective December 31, 2006. The retiree health plan is not funded.

As discussed in Note 11 Income Taxes of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus, we adopted accounting for uncertainty in income taxes per the guidance in ASC 740, Income Taxes, ("ASC 740"). As of December 31, 2012, our recorded obligation for unrecognized benefits is $24.0 million. There are currently unrecognized tax benefits which we anticipate will be resolved in the next 12 months; however, we are unable at this time to estimate what the impact on our effective tax rate will be. Any amounts related to these items are not included in the table above.

Investment in NCM

We hold an investment of 15.44% in NCM accounted for following the equity method as of September 30, 2013. The fair market value of these units is approximately $359.3 million as of September 30, 2013, based upon the closing price of NCM, Inc. common stock of $18.86 per share. Because we have little tax basis in these units, the sale of all these units at September 30, 2013 would require us to report taxable income of approximately $491.4 million including distributions received from NCM LLC that were previously deferred. Our investment in NCM LLC is a source of liquidity for us and we expect that any sales we may make of NCM LLC units would be made in such a manner to most efficiently manage any related tax liability. We have available net operating loss carryforwards which could reduce any related tax liability.

Impact of Inflation

Historically, the principal impact of inflation and changing prices upon us has been to increase the costs of the construction of new theatres, the purchase of theatre equipment, rent and the utility and labor costs incurred in connection with continuing theatre operations. Film exhibition costs, our largest cost of operations, are customarily paid as a percentage of admissions revenues and hence, while the film exhibition costs may increase on an absolute basis, the percentage of admissions revenues represented by such expense is not directly affected by inflation. Except as set forth above, inflation and changing prices have not had a significant impact on our total revenues and results of operations.

New Accounting Pronouncements

See Note 1 The Company and Significant Accounting Policies of the Notes to Consolidated Financial Statements included elsewhere in this prospectus for information regarding recently issued accounting standards.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks.

Market risk on variable-rate financial instruments. At September 30, 2013, AMCE maintained a senior secured credit facility comprised of a $150.0 million revolving credit facility and a $775.0 million Senior Secured Term Loan due 2020. The senior secured credit facility permits borrowings at a rate equal to an applicable margin plus, at our option, either a base rate or LIBOR, with a minimum base rate of 1.75% and a minimum rate for LIBOR borrowings of 0.75%. The rate in effect at September 30, 2013 for the outstanding Senior Secured Term Loan due 2020 was a LIBOR-based rate and was 3.50% per annum. See Note 12 Corporate Borrowings of the Notes to the unaudited Consolidated Financial Statements included elsewhere in this prospectus for additional information. Increases in market interest rates would cause interest expense to increase and earnings before income taxes to decrease. The change in interest expense and earnings before income taxes would be dependent upon the weighted average outstanding borrowings during the reporting period following an increase in market interest rates. AMCE had no borrowings on our revolving credit facility as of September 30, 2013 and had an aggregate principal balance of $771.1 million outstanding under the Senior Secured Term Loan due 2020 on September 30, 2013. A 100 basis point change in market interest rates would have increased or decreased interest expense on the senior secured credit facility by $5.8 million during the nine months ended September 30, 2013 and $5.9 million during the Transition Period ended December 31, 2012.

Market risk on fixed-rate financial instruments. Included in long-term corporate borrowings are principal amounts of $600.0 million of our Notes due 2019 and $600.0 million of our Notes due 2020. Increases in market interest rates would generally cause a decrease in the fair value of the Notes due 2019 and Notes due 2020 and a decrease in market interest rates would generally cause an increase in fair value of the Notes due 2019 and Notes due 2020.

BUSINESS

We are one of the world's largest theatrical exhibition companies and an industry leader in innovation and operational excellence. We introduced Multiplex theatres in the 1960s and the North American stadium-seated Megaplex theatre format in the 1990s. Our field operations teams win recognition from national organizations like the Motion Picture Association of America and local groups in "Best of" competitions, while maintaining greater than 50% top-box customer satisfaction and industry leading theatre productivity metrics.

As of September 30, 2013, we owned, operated or held interests in 343 theatres with a total of 4,950 screens primarily in North America. Our theatres are predominantly located in major metropolitan markets, which we believe give our circuit a unique profile and offer strategic and operational advantages. 40% of the U.S. population lives within 10 miles of one of our theatres. Our top five markets, in each of which we hold the #1 or #2 share position, are New York (42% share), Los Angeles (27%), Chicago (44%), Philadelphia (29%) and Dallas (28%). For the twelve months ended September 30, 2013, these five metro markets comprised 40% of our revenues and 38% of our attendance. Additionally we hold the #2 position by market share in the next five largest markets (San Francisco, Boston, Atlanta, Washington, D.C. and Houston). Strategically, these markets and our theatres in them are diverse, operationally complex, and, in many cases, for established locations, the scarcity of new theatre opportunities creates a significant competitive advantage against newcomers or alternative entertainment options.

Across our entire circuit, approximately 200 million customers visited our theatres during calendar year 2012 and during the twelve months ended September 30, 2013. For the nine months ended September 30, 2013, we had total revenues of approximately $2.0 billion; Adjusted EBITDA of $335.2 million, and earnings from continuing operations of $80.5 million, and for the twelve months ended September 30, 2013, we generated total revenues of $2.7 billion, Adjusted EBITDA of $450.0 million and earnings from continuing operations of $81.6 million. According to publicly available information for our peers, during the calendar year ended December 31, 2012, our circuit led in revenues per head ($13.56), average ticket price ($9.04) and food and beverage per head ($3.92). For the same period, our attendance per screen (41,900) and admissions gross profit per screen ($179,000) were among the highest of our peers. In the last two years ended September 30, 2013, we have deployed a total of $182.2 million in growth-oriented capital, including $21.2 million contributed by landlords, into our circuit and infrastructure to help generate those results. We believe that it is the quality of our theatre locations and our customer-focused innovation that continue to drive improved productivity per location (which we measure as increases in attendance per location and/or food and beverage revenues per customer), return on investment and shareholder value.

We believe that our size, reputation, financial performance, history of innovation, strong major market presence and highly productive theatre circuit position us well for the future. A future where, after more than nine decades of business models driven by *quantity* of theatres, screens and seats, we believe the *quality* of the movie going experience will determine long term, sustainable success. We are improving the quality of the movie-going experience in ways that extend stay and capture a greater proportion of total movie-going spending in order to maximize the economic potential of each customer visit, create sustainable growth and deliver shareholder value.

Our intention is to capitalize on this pivot towards quality by leveraging our extensive experience in best-in-class theatre operations, combined with the next wave of innovations in movie-going. We plan to continue investing in our theatres and upgrading the consumer experience to take greater advantage of incremental revenue-generating opportunities, primarily through an array of improved and differentiated customer experiences in (1) more comfort & convenience; (2) food & beverage; (3) engagement & loyalty; (4) sight & sound and (5) targeted programming.

For the nine months ended September 30, 2013, the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, we generated revenues of approximately $2.0 billion, $0.8 billion, $1.2 billion, $2.5 billion, and $2.4 billion, respectively, Adjusted EBITDA (as defined on page 18) of $335.2 million, $104.4 million, $222.8 million, $370.1 million, and $315.8 million, respectively, and earnings (loss) from continuing operations of $80.5 million, $(36.5) million, $55.0 million, $(90.5) million, and $(171.2) million, respectively.

The following table provides detail with respect to digital delivery, 3D enabled projection, large screen formats, such as IMAX and our proprietary ETX, and deployment of our enhanced food and beverage offerings as deployed throughout our circuit on September 30, 2013 and total planned deployments by December 31, 2013.

Format	Theatres	Screens	Planned Deployed Screens 2013
Digital	333	4,835	4,892
3D enabled (including ETX)	333	2,234	2,388
IMAX (3D enabled)	136	136	143
ETX (3D enabled)	15	15	17
Dine-in theatres	11	182	198
Premium seating	28	327	428

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The following table provides detail with respect to the geographic location of our Theatrical Exhibition circuit as of September 30, 2013:

Theatrical Exhibition	Theatres(1)	Screens(1)
California	44	656
Illinois	39	478
Texas	21	394
Florida	21	380
New Jersey	21	282
New York	24	266
Indiana	21	258
Michigan	9	178
Georgia	11	167
Arizona	9	160
Colorado	12	154
Washington	11	137
Pennsylvania	10	126
Ohio	8	122
Missouri	9	119
Massachusetts	8	119
Maryland	10	113
Virginia	7	113
Louisiana	7	99
Minnesota	6	96
North Carolina	4	77
Oklahoma	4	70
Wisconsin	4	63
Kansas	2	48
Nebraska	2	38
Connecticut	2	36
Iowa	2	31
District of Columbia	4	28
Nevada	2	28
Kentucky	1	20
Alabama	1	16
Arkansas	1	16
South Carolina	1	14
Utah	1	6
Canada	1	13
China (Hong Kong)(2)	2	13
United Kingdom	1	16
Total Theatrical Exhibition	343	4,950

(1) Included in the above table are 7 theatres and 90 screens that we manage or in which we have a partial interest. We manage 3 theatres where we receive a fee from the owner and where we do not own any economic interest in the theatre. We manage and own 50% economic interests in 2 theatres accounted for following the equity method and own a 50% economic interest in 1 IMAX screen accounted for following the equity method.

(2) In Hong Kong, we maintain a partial interest represented by a license agreement for use of our trademark.

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We were founded in 1920 and since then have pioneered many of the theatrical exhibition industry's most important innovations, including the multiplex theatre format in the early 1960s and the North American megaplex theatre format in the mid-1990s. In addition, we have acquired some of the most respected companies in the theatrical exhibition industry, including Loews, General Cinema and Kerasotes. In December 2012, we acquired a total of ten theatres from Rave Reviews Cinemas, LLC and Rave Digital Media, LLC. Our historic growth has been driven by a combination of organic growth and acquisition strategies, in addition to strategic alliances and partnerships that highlight our ability to capture innovation and value beyond the traditional exhibition space. For example:

In March 2011, we announced the launch of an innovative distribution company called Open Road Films along with another major theatrical exhibition chain. Open Road Films is a dynamic acquisition-based domestic theatrical distribution company that concentrates on wide-release movies. Their first film, *Killer Elite,* was released in September 2011. Subsequent releases through September 30, 2013 include *The Grey*, *Silent House*, *Hit and Run*, *End of Watch*, *Silent Hill: Revelation, A Haunted House, Side Effects, the Host and Jobs*;

In October 2011, we entered into an agreement with Union Square Events (a division of Union Square Hospitality Group) to develop service concepts, menu offerings, recipes and throughput processes for our Enhanced Food and Beverage strategic initiative. In addition to expanding menu options, this collaborative arrangement conceived our emerging concept, DIT Express. DIT Express emphasizes freshness, speed and convenience. Customers place their orders at a central station and the order is delivered to our customer at their reserved seat. We believe DIT Express will become an important part of our food and beverage offerings.

In March 2005, we formed a joint venture with one of the major theatrical exhibition chains which combined our respective cinema screen advertising businesses into a company called NCM and in July 2005, another of the major theatrical exhibition chains joined NCM as one of the founding members. As of September 30, 2013, we owned 19,052,770 common units in NCM, or a 15.44% ownership interest in NCM. All of our NCM membership units are redeemable for, at the option of NCM, cash or shares of common stock of NCM, Inc. on a share-for-share basis. The estimated fair market value of our units in NCM was approximately $359.3 million based on the closing price per share of NCM, Inc. on September 30, 2013 of $18.86 per share, see Note 7 Investments to the audited Consolidated Financial Statements included elsewhere in this prospectus. NCM operates an in-theatre digital network in the United States. The digital network consists of projectors used to display advertising and other non-film events. NCM's primary activities that impact our theatres include:

advertising through its branded "First Look" pre-feature entertainment program, lobby promotions and displays,

live and pre-recorded concerts, sporting events and other non-film entertainment programming.

We believe that the reach, scope and digital delivery capability of NCM's network provides an effective platform for national, regional and local advertisers to reach an engaged audience. We receive a monthly theatre access fee for participation in the NCM network. In addition, we are entitled to receive mandatory quarterly distributions of excess cash from NCM.

We hold a 29% interest in DCIP, a joint venture charged with implementing digital cinema in the Company's theatres. During fiscal 2010, DCIP completed its formation and $660.0 million funding to facilitate the financing and deployment of digital technology in our theatres. During March of 2011, DCIP completed additional financing of $220.0 million, which has allowed us to substantially complete our planned digital deployments. Future digital cinema developments will be managed by DCIP, subject to certain approvals

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Consistent with our history and culture of innovation, we believe we have pioneered a new way of thinking about theatrical exhibition: as a consumer entertainment provider. This vision, which introduces a strategic and marketing overlay to traditional theatrical exhibition, has been instrumental in driving and redirecting our future strategy.

The following table sets forth our historical information, on a continuing operations basis, concerning new builds (including expansions), acquisitions and dispositions and end-of-period operated theatres and screens through September 30, 2013:

	New Builds		Acquisitions		Closures/Dispositions		Total Theatres	
Fiscal Year	Number of Theatres	Number of Screens	Number of Theatres	Number of Screens	Number of Theatres	Number of Screens	Number of Theatres	Number of Screens
2007	7	107	2	32	26	243	311	4,524
2008	8	112			18	196	301	4,440
2009	6	83			8	77	299	4,446
2010	1	6			11	105	289	4,347
2011	4	55	95	960	36	400	352	4,962
2012	2	26			16	120	338	4,868
Transition period ended December 31, 2012	1	35	11	166	6	81	344	4,988
2013 through September 30, 2013			3	25	4	63	343	4,950
	29	424	111	1,183	125	1,285		

We have created and invested in a number of allied businesses and strategic initiatives that have created differentiated viewing formats and experiences, greater variety in food and beverage options and value appreciation for our company. We believe these initiatives will continue to generate incremental value for our company in the future. For example:

To complement our deployment of digital technology, in 2006 we partnered with RealD to install their 3D enabled systems in our theatres. As of September 30, 2013, we had 2,234 RealD screens, including 15 ETX screens. Additionally, we have 136 IMAX screens that are 3D enabled. During the nine months ended September 30, 2013, 3D films licensed by us in the U.S. have generated approximately 40% greater admissions revenue per person than the standard 2D versions of the same film, or approximately $3.32 additional revenue per ticket.

We are the world's largest IMAX exhibitor with 136 screens (all 3D-enabled) as of September 30, 2013. With a 44% market share in the United States (as of September 30, 2013), our IMAX screen count is nearly twice the screen count of the second largest U.S. IMAX exhibitor. During June 2010, we announced an expansion of our IMAX relationship. Under this expanded agreement, we expect to increase our IMAX screen count to 141 by the end of calendar year 2013.

During fiscal 2010, we introduced our proprietary large-screen digital format, ETX, and as of September 30, 2013 we operated at 15 locations. ETX features wall-to-wall screens that are 20% larger than traditional screens, a custom sound system that is three times more powerful than a traditional auditorium, and 3D-enabled digital projection with twice the clarity of high definition. We charge a premium price for the ETX experience, which for the nine months ended September 30, 2013 produced approximately 61% greater admissions revenue than standard 2D versions of the same movie, or approximately $5.23 additional revenue per ticket.

Our tickets are currently on sale over the Internet at Fandango®. During calendar year 2012, our Internet ticketing services sold approximately 17.2 million tickets for us. We believe there is additional upside in our future Internet ticketing service alliances which would provide consumers with mobile ticketing applications and integration with our digital marketing programs.

Our Strategy: The Customer Experience Leader

Through most of its history, movie-going has been defined by product the movies themselves. Yet, long term significant, sustainable changes in the economics of the business and attendance patterns have been driven by improvements to the movie-going experience, not the temporary ebb and flow of product. The introduction of Multi- and then Megaplexes, with their then-modern amenities and stadium seats, for example, changed the landscape of the industry.

We believe the industry is in the early stages of once again significantly upgrading the movie-going experience, and this shift towards quality presents opportunities to those who are positioned to capitalize on it. As is our custom, we intend to be a leader in this change, with consumer-focused innovations that improve productivity, maximize revenue-generation per customer visit and, in turn, drive, shareholder value.

Our strategic objective is then very straightforward: we intend to be the customer experience leader. We aim to maintain and increase our leadership position and competitive advantage through the following five tightly defined strategies:

1) More Comfort & Convenience We believe that in an era of jam-packed, busy schedules and stressful lives, movie-going more than ever represents an easy, familiar escape. Against that reality, we believe that maximizing comfort and convenience for our customers will be increasingly necessary to maintain and improve customer relevance.

Three specific initiatives help us deliver more comfort and convenience to our customers. The most impactful so far, as measured by improved customer satisfaction, economic and financial metrics, is recliner re-seats. Along with these physical plant transformations, open-source internet ticketing and reserved seating help us shape and adapt our circuit to meet and exceed our customers' expectations.

Recliner re-seats are the key feature of full theatre renovations. These exhaustive theatre renovations involve stripping theatres to their basic structure in order to replace finishes throughout, upgrade the sight and sound experience, install modernized points of sale and, most importantly, replace traditional theatre seats with plush, electric recliners that allow customers to deploy a leg rest and fully recline at the push of a button. The renovation process typically involves losing 66% seating capacity. In the process of doing a re-seat, where three rows of seats may have existed in the past, only one will exist now and as the recliners are typically six to ten inches wider than a conventional seat, more seats are lost. For an industry historically focused on quantity, this reduction in seating capacity could be viewed as counter-intuitive and harmful to revenues. However, the *quality* improvement in the customer experience is driving, on average, an 91% increase in attendance at these locations. Our customers have responded favorably to the significant personal space gains from ample row depths, ability to recline or stretch their legs, extra-wide pillowed chaise and oversized armrests. Starting with one 12-screen theatre a little over two years ago, as of September 30, 2013 we now feature recliners re-seats in 28 theatres or 327 screens with another 7 theatres or 65 screens under construction. Cash-on-cash returns for the five locations opened prior to October 1, 2012 have averaged over 100% and total revenues at these locations have increased by approximately 111%. We believe that approximately 1/4 of our circuit's re-seat potential has been addressed, leaving us with approximately 1,600 addressable screens to go in approximately 100 locations. Thus far, we have implemented only modest ticket pricing increases at these re-seated theatres, and we believe there is unrealized revenue potential at these theatres as we rebalance the supply-demand relationship created by added comfort from re-seats and our customers' willingness to pay for this improved experience. Over the next five years we intend to invest approximately $600 million in recliner re-seat conversions.

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Rebalancing of the new supply-demand relationship created by recliner re-seats presents us two further opportunities to improve customer convenience and maximize operating results: open-source internet ticketing and reserved seating.

Open-source internet ticketing makes all our seats (almost 950,000) in all our theatres and auditoriums for all our showtimes (approximately 22,000 per day), as available as possible, on as many websites as possible. This is a significant departure from the prior ten-year practice, when tickets to any one of our buildings were only available on one website. In the two years since we exercised our right to end exclusive contracts, internet tickets sold as a percentage of total tickets sold has increased significantly from approximately 5.5% to 8.5%. We believe increased online access is important because it captures customers' purchase intent more immediately and directly than if we had to wait until they showed up at the theatre box office to make a purchase. Once our customers buy a ticket, they are less likely to change their mind. Carefully monitoring internet pre-sales also lets us adjust capacity in real time, moving movies that are poised to overperform to larger capacity or more auditoriums, thereby maximizing yield.

Reserved seating, now fully implemented in 50 of our busiest theatres, allows our customers to choose a specific seat in advance of the movie. We believe that knowing there is a specifically chosen seat waiting for a show that promises to be a sellout is comforting to our customers, and removes anxiety around the experience. We believe reserved seating will become increasingly prevalent to the point of being a pre-requisite in the medium-term future.

We believe the comfort and personal space gains from recliner re-seats, coupled with the immediacy of demand captured from open-source internet ticketing and the anxiety removal of reserved seating make a powerful economic combination for us that none of our peer set is exploiting as aggressively as we are.

2) Enhanced Food & Beverage Popcorn and soft drinks are as integral a part of the movie-going experience as the movies themselves. Yet, approximately one third of our 200 million annual customers do not purchase food or a beverage. At AMC, our food and beverage program is designed to address this opportunity. In order to increase the percentage of customers purchasing food and beverage as well as increase sales per patron, we have developed food and beverage concepts that expand selection and service offerings. These concepts range from the simple and traditional (Food & Beverage Kiosks), to a broader range of post-pay shopping (Marketplace and Marketplace Express) to liquor (MacGuffins) to the vastly innovative and complex (Dine-In Theatres). This array of concepts, progressively more innovative and capital intensive, creates further service and selection across a range of theatre types and attendance levels and allows us to satisfy more customers and more, different customer needs and generate additional revenues.

The most broadly deployed concept is *Food & Beverage Kiosks,* which supplements the traditional menu with made-to-order hot foods (i.e. chicken fingers, mozzarella sticks, single serve pizzas), made-to-order beverages (espresso drinks, smoothies), better-for-you products and an expanded range of candies and frozen novelty treats. *Food & Beverage Kiosks* capitalizes on food and beverage trends our customers have adopted in other quick-eat venues. To date, we have implemented 80 *Food & Beverage Kiosks* where we enjoy average, incremental food & beverage per head (FBPH) of $0.04 and cash-on-cash returns for the 58 locations deployed prior to October 1, 2012 have averaged approximately 37%, and we have 30 new locations in the pipeline over the next 12 months.

At the next level, and designed for higher volume theatres, *Marketplace* vastly expands menu offerings as well as delivers a more customer engaging, post-pay shopping experience. Today we operate these flexible, highly popular concepts across a wide range of asset types and attendance levels. In addition to the expanded offerings found in *Food & Beverage Kiosks*, *Marketplaces* also feature grab-and-go and self-serve food and beverages, including Coke Freestyle®, which puts our customers in charge with over 120 drink flavor options in a compact footprint. AMC's operational excellence and history of innovation allowed us first-mover advantage on this new technology, which today is deployed in 47 of our theatres and we anticipate will be in all of our circuit by mid-2015. We find that when customers are allowed to browse and choose, overall satisfaction goes up and they spend more. Our FBPH metrics improve on average $0.12 when a *Marketplace* is added to a theatre. We now operate 14 *Marketplaces* with plans to install as many as 12 more over the next 5 years, as our next generation food & beverage format.

Deployed alone or alongside our other food and beverage concepts are our *MacGuffins Bar & Lounges*, which give us a fresh opportunity to engage our over-21 customers. We believe that few innovations have won over the adult movie goer more decisively than our full service bars featuring premium beers, wines and liquors. Extremely versatile in design with a significant impact on theatre economics, *MacGuffins* are our fastest growing idea in the enhanced food and beverage space. As of September 30, 2013, we have deployed 45 *MacGuffins*, and with their impressive average, incremental FBPH of $0.30, we are moving quickly to install an additional 23 within twelve months and believe the concept will be successful in an additional 75-100 theatres thereafter, especially when we consider our recent success with alcohol licensing in California and the potential to enter the New York market in 2014. The capital investment for a standalone *MacGuffins* is approximately $150,000. *MacGuffins* have delivered average cash-on-cash returns for the twelve locations deployed prior to October 1, 2012 of over 100%. Due to our success in operating *MacGuffins*, we believe we can leverage our substantial experience when it comes to permitting, installing and commissioning these improvements.

At the top of the scale are our *Dine-In Theatres*. *Dine-In Theatres* are full restaurant operations, giving our customers the ultimate dinner-and-a-movie experience all at a single seat. Compressing by almost half what would otherwise be a four or five hour, multi-destination experience, young people and adults alike are afforded a huge convenience, which puts the idea of going to a movie much more in play. We currently operate 11 *Dine-In Theatres* in any combination of two formats: Cinema Suites, with a full chef-inspired menu and seat-side service in plush, mechanical recliners and Fork and Screens, with a casual menu in a more family-friendly atmosphere. Cash-on-cash returns for the eight locations deployed prior to October 1, 2012 averaged 11% in their first full year of operations. These increases in cash-on-cash returns were driven primarily by an increase in FBPH of $4.83. At our eight locations that were open prior to October 1, 2011, FBPH grew by 172% and revenues grew by 79% producing cash-on-cash returns of 40% in the second full year of operations as consumer awareness increased. Today, *Dine-In Theatres* represent 3% of our total theatres but generated 9% of our circuit-wide food and beverage revenues. We expect that *Dine-In Theatres* and recliner re-seats will be deployed in approximately 17% of our theatres by the end of 2013. We plan to open 20 more *Dine-In Theatres* in the next 5 years.

Building on the success of our full-service *Dine-In Theatres,* we are under construction with an emerging concept, *DIT Express*. *DIT Express* emphasizes freshness, speed and convenience. Customers place their orders at a central station and the order is delivered to our customers at their reserved seat. *DIT Express* was developed in conjunction with Union Square Events (a division of Union Square Hospitality Group). Like our other food and beverage concepts, we believe that *DIT Express* will become an important part of our toolkit.

In this most important area of profitability for any exhibition circuit, we believe that our ability to innovate concepts, adapt those concepts to specific buildings and generate incremental revenue differentiates us from our peers and provides us with a competitive advantage. This is in part due to our core geographic markets' larger, more diverse and more affluent customer base; in part due to our management team's demonstrated and extensive experience in food, beverages and hospitality; and in part due to our three-plus year head start in this difficult to execute space.

We believe significant financial opportunities exist as we have a substantial pipeline of investments to take advantage of incremental attendance-generating and revenue-generating prospects by deploying

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building-by-building solutions from a proprietary menu of proven, customer-approved food and beverage concepts. To date, although most of our buildings have had at least one of the above eight concepts installed, less than 1/4th of our screens have been benefitted from the much higher yielding Marketplaces, MacGuffins and Dine-In Theatres.

3) Greater Engagement & Loyalty We believe that in the theatrical exhibition business, as in all consumer-oriented businesses, engagement and loyalty are the hallmarks of winning organizations.

Our brand is the most recognizable in the business, with over 80% awareness in the United States according to an Ipsos Omnibus survey completed July 2013 far above any competitor. We build on that strength by seeking engagement and loyalty from our customers in four measurable, specific and inter-related ways. At the top of the pyramid is *AMC Stubs*®, the industry's most sophisticated loyalty program. At the base of the pyramid are our mobile apps, website (www.amctheatres.com) and social media outreach, which combined seek to drive engagement to levels unprecedented in the movie exhibition industry. We believe there is incremental attendance potential to be gained from avid movie-goers who generate a disproportionate share of industry revenues and who state that the quality of the movie-going experience directly influences their movie-going habits.

AMC Stubs® is the industry's first program of its kind. Fee-based (consumers pay $12/year to belong), it rewards loyalists with in-theatre value ($10 for every $100 spent) instead of hard to track "points". The program is fully automated and user-friendly from a customer perspective. As of September 2013 we had 2.5 million member households, which represent approximately 20% of our total weekly box office revenues. Transaction data from this loyal customer base are mined for consumer insights that are used to develop targeted, relevant customer offers, leading to increased attendance and sales. The program increases switching costs (the negative monetary (annual fee) and psychological (lost reward potential) costs associated with choosing a competitive theatre exhibitor) especially for those patrons located near competitors' theatres. We believe that increased switching costs dissuade customers from choosing a competitor's theatre and lead to higher loyalty.

Our www.amctheatres.com state-of-the-art *website*, leverages adaptive technology that optimizes the users' experience regardless of platform (phone, tablet, laptop, etc.) and has nearly 9 million visits per month, with peak months over 12 million, generating up to almost 300 million page visits per year. The website generates ticket sales and higher conversion rates by simplifying customers' purchasing decision and process.

The *AMC mobile apps*, available for iOS, Android and Windows devices have been downloaded nearly 2.1 million times since launch, generating almost a half million sessions per week. This convenient way to purchase tickets also features *Enhanced Maps,* which allows customers to browse for their nearest AMC theatre or favorite AMC theatre amenity, and *My AMC,* which allows customers to generate a personalized movie queue of coming releases.

On the *social media* front, our Facebook 'Likes', recently at 4 million and growing, are more than all our peer competitors counts combined. We are similarly engaged on Twitter (over 215,000 followers), Pinterest, Instagram and YouTube. Our participation in these social networks keeps movie-going top of mind and allows targeted campaigns and offers with clear 'calls to action' that generate incremental attendance and incremental revenues per patron.

The competitive advantage in greater customer engagement and loyalty includes the ability to use market intelligence to better anticipate customers' needs and desires and to capture incremental share of entertainment dollars and time. Observing actual (not self-reported or aspirational) behaviors through AMC Stubs® is an asset leveraged by AMC, its suppliers and partners.

4) Premium Sight & Sound At its core, our business is a visual and aural medium. The quality of projection and sound is therefore mission critical, and has improved significantly with the advent of *digital systems*. Today, our conversion to these digital systems is substantially complete and 4,835 or 98% of our screens employ state-of-the-art Sony 4K or similar digital projectors. Importantly, the digital conversions enabled *3D exhibition*, and today 2,370 screens (48% of total) are so enabled. We have at least one 3D enabled screen in 98% of our locations.

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In sight and sound, we believe that size is critical in our customers' decision-making. Consistent with this belief, we are the world's largest *IMAX* exhibitor, with 136 screens, all 3D-enabled, with nearly twice the screen count of our closest competitor and representing a 44% market share in the United States (as of September 30, 2013). In addition, we currently have our own private label large format, marketed as *ETX*, in 15 locations (also all 3D enabled). Combined, these 151 screens represent only 3% of our total screens and 7% of our total box office revenues, yet on the weekends when big movies open, as much as 19% of our box office flows from them.

The premium sight and sound experiences 3D, ETX and IMAX give our customers more options and earn incremental pricing from our customers. On average, pricing premiums currently amount to $4.09 per patron, driving better economics for us and the Hollywood studios while also delivering our audience a superior experience. For context, box office gross profit for patron on premium formats averages 12% more than gross profit per patron for conventional 2D formats. We anticipate increasing our premium large-format screen count by 34 screens.

Further, we do not expect technology advances to cease. Sound quality, for example, continues to improve, as our recent tests of Dolby ATMOS demonstrate (AMC theatres were among the very few selected for pilot tests). And, laser projection technology, the next level in clarity, brightness and sharpness, is evolving as well. While all of these will require some level of capital investments, the promise of strong customer relevance is significant.

5) Targeted Programming The core of our business, historically and now, is Hollywood movies. We play all varieties, from adrenaline-filled action movies to heart-warming family films, laugh out loud comedies and terrifying horror flicks. We play them in 2D, 3D, IMAX, ETX and even closed captioned and sometimes with subtitles. If a movie is commercially available, it is likely to be playing at an AMC theatre today or tonight, because we schedule shows in the morning, afternoon and even at midnight or later, just to make sure it is convenient for our customers.

Increasingly, we are playing movies and other content originating from more sources. We believe that as diversity grows in the United States, the ability to adapt and target programming for a fragmented audience will grow increasingly critical. We believe this is something we already do very well. As measured by an Insight Strategy Group survey conducted November 2011, approximately 51% of our audience was Latino or African American. Latino families are Hollywood's, and our, best customers. They go to the movies 6.4x per year (56% more than average), and 65% of Latinos live within 20 miles of an AMC theatre. For movies targeted at these diverse audiences, we frequently experience attendance levels greater than our average, national market share. For example, AMC recently captured 28% market share of the 2013 Spanish-titled movie *Instructions Not Included*. Tyler Perry's latest three films, which are targeted towards African American audiences, have produced industry box office of over $125 million and an average market share for AMC of over 23% during the twelve months ended September 30, 2013. Additionally, during the twelve months ended September 30, 2013, we exhibited 80 Bollywood movies in 31 theatres capturing an above average 30% market share and generating nearly $11 million in box office revenues. Given the population growth patterns from the last US census, we believe that our ability to effectively serve these communities will help strengthen our competitive position.

Through AMC Independent, we have also reached into the independent (or "indie") production and distribution community. Growing quickly, from its inception three years ago, we played 263 films during the twelve months ended September 30, 2013 from this very creative community, generating $31 million in U.S. box office revenue.

Open Road, our joint venture with another major exhibitor, is similarly an effort to grow our sources of content and provide access to our screens for content that may not otherwise find its way there.

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We believe AMC is a vital exhibitor for Hollywood studios and for independent distributors because we generate more box office revenue per theatre and provide stronger in-theatre and online promotional exposure for movies. Theatres are a content owner's highest quality revenue stream because every customer pays every time they watch the content. Among all theatres, AMC's venues are the most valuable to content owners. Due to the studios' fixed distribution cost per licensed film, their product is never more productive than at an AMC theatre. When our scale and Wanda's growth are taken into account, AMC is the most efficient and effective partner a content owner has.

Our Competitive Strengths

We believe we have the following competitive strengths:

Leading Market Share in Important, Affluent & Diverse Markets Across the country's three biggest metropolitan markets New York, Los Angeles and Chicago, representing 20% of the country's total box office we hold a 36% combined market share. We have theatres located in 24 of the top 25 U.S. markets, holding the #1 or #2 position in 20 of those markets based on box office revenue. On any given weekend, half of the top ten theatres for the #1 opening movie title in the United States are AMC theatres. We believe our strong presence in these top markets makes our theatres highly visible and therefore strategically more important to content providers, who rely on the large audiences and marketing momentum provided by major markets to drive opinion-making and deliver a movie's overall box office results.

Our customers are concentrated in major metropolitan markets and are generally more affluent and culturally diverse than those in smaller markets. There are inherent complexities in effectively and efficiently serving them. In some of our more densely populated major metropolitan markets, there is also a scarcity of attractive retail real estate opportunities. Taken together, these factors solidify our market share position. Further, our history and strong presence in these markets have created a greater opportunity to introduce our enhanced customer experience concepts and exhibit a broad array of programming and premium formats, all of which we believe drive higher levels of attendance and higher revenues at our theatres.

Well Located, Highly Productive Theatres Our theatres are generally located in the top retail centers across the United States. We believe this provides for long-term visability and higher productivity, and is a key element in the success of our Enhanced Food & Beverage and More Comfort & Convenience initiatives. Our location strategy, combined with our strong major market presence and our focus on a superior customer experience, enable us to deliver industry-leading theatre-level productivity. During the twelve months ended September 30, 2013, seven of the ten highest grossing theatres in the United States were AMC theatres. During the same period our average total revenues per theatre were $8.1 million. This per unit productivity is important not only to content providers, but also to developers and landlords, for whom per location and per square foot sales numbers are critical measures. The net effect is a close relationship with the commercial real estate community, which gives us first-look and preferred tenant status on emerging opportunities.

Selectively Participating in a Consolidating Industry Throughout the last two decades, AMC has been an active participant in our industry's consolidation. In that span, we have acquired and successfully integrated Loews, General Cinema, Kerasotes and more recently, select operations of Rave Digital Media and Rave Review Cinemas. We intend to remain an active participant in consolidation, and selectively pursue acquisitions where the characteristics of the location, overall market and facilities further enhance the quality of our theatre portfolio.

Additionally, our focus on improving the customer experience and our strong relationships with landlords and developers have provided opportunities to expand our footprint in existing markets by acquiring competitors' existing theatres at the end of their lease term at little or no cost. We believe that our More Comfort & Convenience and Enhanced Food & Beverage concepts have high appeal to landlords wanting to increase traffic and sales in their retail centers. These "spot acquisitions" have given us the ability to bolster our presence in existing markets at relatively low cost and more quickly (weeks, months) as compared to new builds (months, years).

Substantial Operating Cash Flow For the nine months ended September 30, 2013, the period from August 31, 2012 to December 31, 2012, the period from March 30, 2012 through August 30, 2012 and the fiscal year ended March 29, 2012 our net cash provided by operating activities totaled $204.7 million, $73.9 million, $76.4 million and $137.0 million, respectively. We believe that our strategic initiatives, highly productive theatre circuit and continued focus on cost control will enable us to generate sufficient cash flow provided by operating activities to fund the deployment of capital to execute our strategy to grow our revenues, maintain our facilities, service our indebtedness and pay dividends to our stockholders. We expect that our capital expenditures will be approximately $245 million in each of the next three calendar years.

Experienced and Dynamic Team Our senior management team, led by Gerardo (Gerry) Lopez, President and Chief Executive Officer, has the expertise that will be required to transform movie-going from a commodity to a differentiated entertainment experience. A dynamic and balanced team of executives combines long-tenured leaders in operations, real estate and finance who contributed to building AMC's hard earned reputation for operations excellence with creative entertainment and restaurant industry executives in marketing, programming and food & beverage who bring to AMC business acumen and experience that support innovation in theatrical exhibition.

We anticipate that, in connection with this offering we will implement a significant equity based compensation plan that will align management's interests with those of our shareholders.

In July 2013, AMC relocated its Theatre Support Center to a new, state-of-the-art facility in Leawood, Kansas. With a technology platform that provides for real-time monitoring of AMC screens across the country and a workplace conducive to collaboration and teamwork, AMC's management team has the organization well aligned with its strategy.

Furthermore, we believe that our people, the nearly 19,000 AMC associates, constitute an essential strength of our Company. They strive to make movie-going experiences at AMC always a treat. Our auditoriums offer clear and bright projection, our food is hot and our drinks are cold. Our doors, lobbies, hallways and bathrooms are clean and we select and train our people to make smiles happen. We create events and want our customers to always feel special at an AMC theatre. This is an experience delivered almost 200 million times a year.

Over the past three years together, this group has enhanced quality and increased variety at our food & beverage stands, introduced in-theatre dining options in many markets, revitalized over 40 theatres, launched our industry-leading loyalty program, *AMC Stubs*, and achieved our Company's highest ever ratings for top-box overall customer satisfaction. We feel like this is only the beginning.

Key Strategic Shareholder In August 2012, AMC was acquired by the Wanda Group ("Wanda"), one of the largest, privately-held conglomerates in China. In addition to its core business as a prominent developer and owner of commercial real estate, Wanda also owns related businesses in entertainment, hospitality and retail. Wanda is the largest theatre exhibition operator in China through its controlling ownership interest in Wanda Cinema Line. The combined ownership and scale of AMC and Wanda Cinema Line, has enabled us to enhance relationships and obtain better terms from important food & beverage, lighting and theatre supply vendors, and to expand our strategic partnership with IMAX. Wanda and AMC are also working together to offer Hollywood studios and other production companies valuable access to our industry-leading promotion and distribution platforms, with the goal of gaining greater access to content and playing a more important role in the industry going forward. Wanda is controlled by its chairman, Mr. Jianlin Wang.

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Film Licensing

We predominantly license "first-run" motion pictures from distributors owned by major film production companies and from independent distributors. We license films on a film-by-film and theatre-by-theatre basis. We obtain these licenses based on several factors, including number of seats and screens available for a particular picture, revenue potential and the location and condition of our theatres. We pay rental fees on a negotiated basis.

During the period from 1990 to 2012, the annual number of first-run motion pictures released by distributors in the United States ranged from a low of 370 in 1995 to a high of 677 in 2012, according to the Motion Picture Association of America 2012 Theatrical Market Statistics and prior reports.

North American film distributors typically establish geographic film licensing zones and generally allocate available films to one theatre within each zone. Film zones generally encompass a radius of three to five miles in metropolitan and suburban markets, depending primarily upon population density. In film zones where we are the sole exhibitor, we obtain film licenses by selecting a film from among those offered and negotiating directly with the distributor. As of September 30, 2013, approximately 93% of our screens in the United States were located in film licensing zones where we are the sole exhibitor.

Our licenses typically state that rental fees are based on either aggregate terms established prior to the opening of the picture or on a mutually agreed settlement upon the conclusion of the picture run. Under an aggregate terms formula, we pay the distributor a specified percentage of box office receipts or pay based on a scale of percentages tied to different amounts of box office gross. The settlement process allows for negotiation based upon how a film actually performs.

There are several distributors which provide a substantial portion of quality first-run motion pictures to the exhibition industry. These include Paramount Pictures, Twentieth Century Fox, Warner Bros. Distribution, Buena Vista Pictures (Disney), Sony Pictures Releasing, Universal Pictures, and Lionsgate. Films licensed from these distributors accounted for approximately 90% of our U.S. admissions revenues during calendar 2012. Our revenues attributable to individual distributors may vary significantly from year to year depending upon the commercial success of each distributor's motion pictures in any given year. In calendar 2012, no single distributor accounted for more than 18% of our box office admissions.

Food & Beverage

Food & beverage sales are our second largest source of revenue after box office admissions. Food & beverage items include popcorn, soft drinks, candy, hot dogs, premium food & beverage items, specialty drinks (including premium beers, wine and mixed drinks), healthy choice items and made to order hot foods including menu choices such as curly fries, chicken tenders and mozzarella sticks. Different varieties of food & beverage items are offered at our theatres based on preferences in that particular geographic region. As of September 30, 2013, we have implemented dine-in theatre concepts at 11 locations, which feature full kitchen facilities, seat-side servers and a separate bar and lounge area.

Our strategy emphasizes prominent and appealing food & beverage counters designed for rapid service and efficiency, including a customer friendly grab and go experience. We design our megaplex theatres to have more food & beverage capacity to make it easier to serve larger numbers of customers. Strategic placement of large food & beverage stands within theatres increases their visibility, aids in reducing the length of lines, allows flexibility to introduce new concepts and improves traffic flow around the food & beverage stands.

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We negotiate prices for our food & beverage products and supplies directly with food & beverage vendors on a national or regional basis to obtain high volume discounts or bulk rates and marketing incentives.

Our entertainment and dining experience at certain theatres features casual and premium upscale dine-in theatre options as well as bar and lounge areas.

Properties

The following table sets forth the general character and ownership classification of our theatre circuit, excluding unconsolidated joint ventures and managed theatres, as of September 30, 2013:

Property Holding Classification	Theatres	Screens
Owned	18	169
Leased pursuant to ground leases	6	73
Leased pursuant to building leases	312	4,618
Total	336	4,860

Our theatre leases generally have initial terms ranging from 15 to 20 years, with options to extend the leases for up to 20 additional years. The leases typically require escalating minimum annual rent payments and additional rent payments based on a percentage of the leased theatre's revenue above a base amount and require us to pay for property taxes, maintenance, insurance and certain other property-related expenses. In some instances, our escalating minimum annual rent payments are contingent upon increases in the consumer price index. In some cases, our rights as tenant are subject and subordinate to the mortgage loans of lenders to our lessors, so that if a mortgage were to be foreclosed, we could lose our lease. Historically, this has never occurred.

We lease our corporate headquarters in Leawood, Kansas.

Currently, the majority of the food & beverage, seating and other equipment required for each of our theatres are owned. The majority of our digital projection equipment is leased from DCIP.

Employees

As of September 30, 2013, we employed approximately 900 full-time and 18,100 part-time employees. Approximately 45% of our U.S. theatre associates were paid the minimum wage.

Fewer than 2% of our U.S. employees are represented by unions. We believe that our relationships with these unions are satisfactory. We consider our employee relations to be good.

Theatrical Exhibition Industry and Competition

Movie going is embedded in the American social fabric. For over 100 years people young and old, of all races and socio-economic levels have enjoyed the entertainment that motion pictures offer.

In the United States, the movie exhibition business is large, stable and mature. While in any given calendar quarter the quantity and quality of movies can drive volatile results, box office revenues have advanced from 2011 to 2012. Calendar year 2012 was, in fact, the industry's best ever, with box office revenues of $10.8 billion, (6.5% growth over 2011) and with over 1.3 billion admissions in the U.S. and Canada.

The movie exhibition business has survived the booms and busts of economic cycles and has adapted to myriad changes in technology and customer behavior. There is great value for the entertainment dollar in movie going, and no replacement has been invented for the escape and fun that a night at the movies represents.

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We believe the exhibition business is in the early stages of a transition. After decades of economic models driven by *quantity* (number of theatres, screens and seats), it is the *quality* of the movie going experience that will define future success. Whether in enhanced food and beverage options (*Food & Beverage Kiosks, Marketplaces, Coke Freestyle, MacGuffins* or *Dine-in Theatres*); more comfort and convenience (recliner re-seats, open-source internet ticketing, reserved seating); engagement and loyalty (*AMC Stubs*, open-source internet ticketing, mobile apps, social media) or sight and sound (digital projectors, 3D, our own ETX format or IMAX); it is the ease of use and the amenities that these innovations bring to customers that will drive sustained profitability in the years ahead. As this transition accelerates, we believe movie exhibition's attraction as an investment will grow.

The following table represents information about the exhibition industry obtained from the National Association of Theatre Owners ("NATO") and Box Office Mojo.

Calendar Year	Box Office Revenues (in millions)	Attendance (in millions)	Average Ticket Price	Number of Theatres	Indoor Screens	Screens Per Theatre
2012	$ 10,836	1,361	$ 7.96	5,317	39,056	7.3
2011	10,174	1,283	7.93	5,331	38,974	7.3
2010	10,566	1,339	7.89	5,399	38,902	7.2
2009	10,596	1,413	7.50	5,561	38,605	6.9
2008	9,631	1,341	7.18	5,403	38,201	7.1
2007	9,664	1,405	6.88	5,545	38,159	6.9
2006	9,210	1,406	6.55	5,543	37,765	6.8
2005	8,841	1,379	6.41	5,713	37,040	6.5

According to the most recently available information from NATO, there are approximately 1,089 companies competing in the U.S./Canada theatrical exhibition industry, approximately 597 of which operate four or more screens. Industry participants vary substantially in size, from small independent operators to large international chains. Based on information obtained from Rentrak, we believe that the four largest exhibitors (in terms of box office revenue) generated approximately 62% of the box office revenues in 2012. This statistic is up from 35% in 2000 and is evidence that the theatrical exhibition business in the United States has been consolidating. According to NATO, average screens per theatre have increased from 6.5 in 2005 to 7.3 in 2012, which we believe is indicative of the industry's development of megaplex theatres.

Our theatres are subject to varying degrees of competition in the geographic areas in which they operate. Competition is often intense with respect to attracting patrons, licensing motion pictures and finding new theatre sites. Where real estate is readily available, it is easier to open a theatre near one of our theatres, which may adversely affect operations at our theatre. However, in certain of our densely populated major metropolitan markets, we believe a scarcity of attractive retail real estate opportunities enhances the strategic value of our existing theatres. We also believe the complexity inherent in operating in these major metropolitan markets is a deterrent to other less sophisticated competitors, protecting our market share position.

The theatrical exhibition industry faces competition from other forms of out-of-home entertainment, such as concerts, amusement parks and sporting events, and from other distribution channels for filmed entertainment, such as cable television, pay-per-view and home video systems, as well as from all other forms of entertainment.

Movie-going is a compelling consumer out-of-home entertainment experience. Movie theatres currently garner a relatively small share of overall consumer entertainment time and spend, leaving significant room for further expansion and growth in the United States. In addition, our industry benefits from available capacity to satisfy additional consumer demand without capital investment.

As major studio releases have declined in recent years, we believe companies like Open Road Films could fill an important gap that exists in the market today for consumers, movie producers and theatrical exhibitors by providing a broader availability of movies to consumers. Theatrical exhibitors are uniquely positioned to not only support, but also benefit from new distribution companies and content providers.

Regulatory Environment

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. The consent decrees, resulting from one of those cases to which we were not a party, have a material impact on the industry and us. Those consent decrees bind certain major motion picture distributors and require the motion pictures of such distributors to be offered and licensed 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.

Our theatres must comply with Title III of the Americans with Disabilities Act, or 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, and awards of damages to private litigants or additional capital expenditures to remedy such noncompliance. As an employer covered by the ADA, we must make reasonable accommodations to the limitations of employees and qualified applicants with disabilities, provided that such reasonable accommodations do not pose an undue hardship on the operation of our business. In addition, many of our employees are covered by various government employment regulations, including minimum wage, overtime and working conditions regulations.

Our operations also are subject to federal, state and local laws regulating such matters as construction, renovation and operation of theatres as well as wages and working conditions, citizenship, health and sanitation requirements and licensing. We believe our theatres are in material compliance with such requirements.

We also own and operate theatres and other properties which may be subject to federal, state and local laws and regulations relating to environmental protection. Certain of these laws and regulations may impose joint and several liability on certain statutory classes of persons for the costs of investigation or remediation of contamination, regardless of fault or the legality of original disposal. We believe our theatres are in material compliance with such requirements.

Significant Acquisitions and Dispositions

In December 2012, we completed the acquisition of 4 theatres and 61 screens from Rave Review Cinemas, LLC and 6 theatres and 95 screens from Rave Digital Media, LLC. On May 24, 2010, we completed the acquisition of 92 theatres and 928 screens from Kerasotes. Additionally, during the fourth quarter of our fiscal year ended March 31, 2011, management decided to permanently close 73 underperforming screens and auditoriums. For more information on both of these acquisitions and the screen closures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Events."

We have divested of the majority of our investments in international theatres in Canada, UK, Japan, Hong Kong, Spain, Portugal, France, Argentina, Brazil, Chile, and Uruguay over the past several years as part of our overall business strategy.

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Seasonality

Our revenues are dependent upon the timing of motion picture releases by distributors. The most marketable motion pictures are usually released during the summer and the year-end holiday seasons. Therefore, our business is highly seasonal, with higher attendance and revenues generally occurring during the summer months and holiday seasons. Our results of operations may vary significantly from quarter to quarter.

Legal Proceedings

In the normal course of business, we are party to various ordinary course claims from vendors (including an online ticketing vendor, food & beverage suppliers and film distributors), landlords and other legal proceedings. If management believes that a loss arising from these actions is probable and can reasonably be estimated, the Company records the amount of the loss, or the minimum estimated liability when the loss is estimated using a range and no point is more probable than another. As additional information becomes available, any potential liability related to these actions is assessed and the estimates are revised, if necessary. Management believes that the ultimate outcome of such matters, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations. However, litigation and claims are subject to inherent uncertainties and unfavorable outcomes could occur. An unfavorable outcome could include monetary damages. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the results of operations in the period in which the outcome occurs or in future periods.

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MANAGEMENT

Our business and affairs are managed by our board of directors currently consisting of five members. Within one year after the consummation of this offering, we intend to appoint enough additional independent persons to our board of directors to meet SEC and NYSE guidelines. The full composition of the board of directors will be determined at that time. Gerardo I. Lopez, our Chief Executive Officer, is a director, and Lin Zhang is our Chairman of the board of directors and a non-employee director.

We intend to avail ourselves of the "controlled company" exception under the NYSE rules, which eliminates the requirement that we have a majority of independent directors on our board of directors and that we have compensation and nominating committees composed entirely of independent directors, but retains the requirement that we have an audit committee composed entirely of independent members. Our board of directors currently consists of five directors. Following the offering, we expect that our board will ultimately consist of nine directors, including Mr. Lopez, Mr. Zhang, the three other current members of our board, Mr. Anthony J. Saich, Mr. Chaohui Liu and Mr. Ning Ye, the two director nominees identified herein, Mr. Lloyd Hill and Mr. Jian Wang, and two other directors. Three of our directors will be independent. We intend to have two independent directors, Mr. Hill and Mr. Saich, at the time we consummate this offering. We will add a third independent director to our board within one year after the consummation of this offering.

Pursuant to our amended and restated certificate of incorporation, our board of directors will be divided into three classes. The members of each class will serve for a staggered, three-year term. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of stockholders in the year in which their term expires. The classes will be composed as follows:

- Mr. Saich and Mr. Wang will be Class I directors, whose terms will expire at the 2014 annual meeting of stockholders;

- Mr. Hill, Mr. Ye and the one additional independent director we expect to be designated to our board of directors within one year after the closing of this offering will be Class II directors, whose terms will expire at the 2015 annual meeting of stockholders; and

- Mr. Liu, Mr. Lopez and Mr. Zhang will be Class III directors, whose terms will expire at the 2016 annual meeting of stockholders.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of our directors. This classification of our board of directors may have the effect of delaying or preventing changes in control of our company.

If at any time we cease to be a "controlled company" under the NYSE rules, the board of directors will take all action necessary to comply with NYSE rules, including appointing a majority of independent directors to the board and establishing certain committees composed entirely of independent directors.

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The following table sets forth certain information regarding our current directors and executive officers as of November 1, 2013:

Name	Age	Position(s) Held
Lin Zhang	41	Chairman of the Board and Director (Parent and AMCE)
Gerardo I. Lopez	54	Chief Executive Officer, President and Director (Parent, AMCE and American Multi-Cinema, Inc.)
Anthony J. Saich	60	Director (Parent and AMCE)
Chaohui Liu	40	Director (Parent and AMCE)
Ning Ye	40	Director (Parent and AMCE)
Lloyd Hill	69	Director Nominee (Parent and AMCE)
Jian Wang	42	Director Nominee (Parent and AMCE)
Craig R. Ramsey	62	Executive Vice President and Chief Financial Officer (Parent, AMCE and American Multi-Cinema, Inc.); Director (American Multi-Cinema, Inc.)
Elizabeth Frank	44	Executive Vice President, Chief Content & Programming Officer (Parent, AMCE and American Multi-Cinema, Inc.)
John D. McDonald	56	Executive Vice President, U.S. Operations (Parent, AMCE and American Multi-Cinema, Inc.); Director (American Multi-Cinema, Inc.)
Mark A. McDonald	55	Executive Vice President, Global Development (Parent, AMCE and American Multi-Cinema, Inc.)
Stephen A. Colanero	47	Executive Vice President and Chief Marketing Officer (Parent, AMCE and American Multi-Cinema, Inc.)
Kevin M. Connor	50	Senior Vice President, General Counsel and Secretary (Parent, AMCE and American Multi-Cinema, Inc.)
Chris A. Cox	47	Senior Vice President and Chief Accounting Officer (Parent, AMCE and American Multi-Cinema, Inc.)
Christina Sternberg	41	Senior Vice President, Corporate Strategy (AMCE)
Keith P. Wiedenkeller	53	Senior Vice President, Chief People Officer (Parent, AMCE and American Multi-Cinema, Inc.)

All our current executive officers hold their offices at the pleasure of our board of directors, subject to rights under their respective employment agreements in some cases. There are no family relationships between or among any directors and executive officers, except that Messrs. John D. McDonald and Mark A. McDonald are brothers.

Mr. Lin Zhang has served as Chairman and a Director of Parent and AMCE since Wanda acquired Parent in August 2012. Mr. Zhang also serves as Chairman of Sunseeker International (Holding) Limited, a board member of Wanda Group, Wanda Commercial Properties (Group) Co., Ltd. and Wanda Cinema Line Co., Ltd and Executive President of Beijing Wanda Culture Industry Group with $5 billion in assets. Since March 2000, Mr. Zhang had been assigned in the positions of General Manager of Nanjing Wanda Project Company, General Manager of Shenyang Wanda Project Company, General Manager of Chengdu Wanda Project Company, Financial Director of Wanda, consecutively. Prior to joining Wanda, Mr. Zhang served as Vice President of Dalian Tax Exempt-zone Accounting Firm and Vice President of Dalian North Tax Agency. Mr. Zhang has over 15 years of experience in financial management and operation management of large companies, especially in corporate strategy and investment. Mr. Zhang received a MBA from Peking University and a bachelor degree in Accounting from Dongbei University of Finance and Economics. Mr. Zhang is a non-practicing member of the Chinese Institute of Certified Public Accountant ("CICPA") and non-practicing member of the Chinese Charted Tax Agent Association ("CCTAA").

Mr. Gerardo I. Lopez has served as Chief Executive Officer, President and a Director of Parent and AMCE since March 2009. Prior to joining the Company, Mr. Lopez served as Executive Vice President of Starbucks Coffee Company and President of its Global Consumer Products, Seattle's Best Coffee and Foodservice divisions from September 2004 to March 2009. Prior thereto, Mr. Lopez served as President of the Handleman Entertainment Resources division of Handleman Company from November 2001 to September 2004. Mr. Lopez also serves on the boards of directors of Recreational Equipment, Inc., Brinker International, DCIP and Open Road Films. Mr. Lopez holds a B.S. degree in Marketing from George Washington University and a M.B.A. in Finance from Harvard Business School. Mr. Lopez has over 28 years of experience in marketing, sales and operations and management in public and private companies. His prior experience includes management of multi-billion-dollar operations and groups of over 2,500 associates.

Mr. Anthony J. Saich has served as a Director of Parent and AMCE since December 2012. Mr. Saich currently serves as the Director of the Ash Center for Democratic Governance and Innovation and Daewoo Professor of International Affairs at Harvard University. In his capacity as Ash Center Director, Mr. Saich also serves as the director of the Rajawali Foundation Institute for Asia and the faculty chair of the China Public Policy Program, the Asia Energy Leaders Program and the Leadership Transformation in Indonesia Program. Mr. Saich also serves on the board of the China Medical Board, and International Bridges to Justice and is also the US Secretary-General of the China United States Strategic Philanthropy. Mr. Saich sits on the executive committees of the John King Fairbank Center for Chinese Studies and the Asia Center, both at Harvard University, and serves as the Harvard representative of the Kennedy Memorial Trust. Mr. Saich previously served as the representative for the Ford Foundations China Office from 1994 to 1999. Prior to this, he was director of the Sinological Institute at Leiden University in the Netherlands. Mr. Saich holds a bachelor's degree in politics and geography from the University of Newcastle, UK, a master's degree in politics with special reference to China from the School of Oriental and African Studies, London University, and has a Ph.D. from the Faculty of Letters, University of Leiden, the Netherlands. Mr. Saich has over 25 years of experience in international affairs.

Mr. Chaohui Liu has served as a Director of Parent and AMCE since Wanda acquired Parent in August 2012. Mr. Liu also serves as Senior Assistant to the President and General Manager of Investment Management Center of Wanda Group, and serves on the board of directors of Wanda Cinema Line Co., Ltd. and Sunseeker International (Holding) Limited, and as executive board director of Wanda Commercial Properties (Group) Co., Ltd. Since October 2002, Mr. Liu had been assigned in the positions of Financial Manager, and subsequently Financial Director, of Dalian Wanda Commercial Development Co. and, General Manger of the Investment and Securities Department of Dalian Wanda Commercial Properties Co., consecutively. Prior to joining Wanda, Mr. Liu worked at China Construction Bank, Xiamen Branch, from 1996-2001. Mr. Liu has over 10 years of experience in financial analysis and investment in public and private companies and led the due diligence and transition of Wanda's acquisition of AMC, and he provides our board with insight into strategic and financial matters of interest to AMC's management and shareholders. Mr. Liu holds a PhD degree in management from Xiamen University. He is also a non-practicing member of Chinese Institute of Certified Public Accountants.

Mr. Ning Ye has served as a Director of Parent and AMCE since Wanda acquired Parent in August 2012. Mr. Ye also serves as Vice President of Beijing Wanda Culture Industry Group and has sat on the board of directors of Wanda Cinema Line Co., Ltd since 2008. Since he joined Wanda in 2001, Mr. Ye had been assigned in the positions of General Manager of the Development Department in Dalian Wanda Commercial Development Co. and General Manager of Wanda Cinema Company. Prior to that, Mr. Ye served at Shenzhen Nanyou Real Estate Company since 1998. Mr. Ye has extensive experience with corporate operation and management, market insights and industry judgment, and has led Wanda Cinema Line Co., Ltd to become the No. 1 movie exhibitor in China. Mr. Ye obtained a Master's degree in Economics and Management from Chongqing University of Architecture and he is also a Registered Cost Engineer.

Mr. Lloyd Hill has agreed to serve as a Director of Parent and AMCE effective upon the consummation of this offering. Prior to his retirement in 2006, Mr. Hill served as the CEO and Chairman of Applebee's International, Inc. Mr. Hill currently serves on the board of directors of Saint Luke's South Hospital, the audit committee for the Saint Luke's Health System and the development board for the University of Texas Medical Branch. Mr. Hill also serves on the board of directors and as chairman of the compensation committee of Red Robin Gourmet Burgers, Inc and on the board of directors of E.E. Newcomer Enterprises, Inc. Mr. Hill holds a Masters degree in Business Administration from Rockhurst University in Kansas City, Missouri.

Mr. Jian Wang has agreed to serve as a Director of Parent and AMCE effective upon the consummation of this offering. Mr. Wang also serves as the General Manager of the Capital Markets Department of the Investment Management Center of Wanda. Prior to joining Wanda, Mr. Wang held positions at Bank of America Merrill Lynch and CITIC Securities International in Hong Kong from 2008 to 2012. From 1999 to 2006, Mr. Wang worked in the mainland China's Capital Markets at CITIC Securities and as the Secretary of the board for Central Brilliance S&T Co., Ltd. Mr. Wang has over ten years of experience in cross border capital market transactions and public company operations. Mr. Wang holds an M.B.A from the Schulich School of Business at York University in Toronto, Canada.

Mr. Craig R. Ramsey has served as Executive Vice President and Chief Financial Officer of Parent since June 2007. Mr. Ramsey has served as Executive Vice President and Chief Financial Officer of AMCE and American Multi-Cinema, Inc. since April 2003. Previously, Mr. Ramsey served as Executive Vice President, Chief Financial Officer and Secretary of AMCE and American Multi-Cinema, Inc. since April 2002. Mr. Ramsey served as Senior Vice President, Finance, Chief Financial Officer and Chief Accounting Officer, of AMCE and American Multi-Cinema, Inc. from August 1998 until May 2002. Mr. Ramsey has served as a Director of American Multi-Cinema, Inc. since September 1999. Mr. Ramsey was elected Chief Accounting Officer of AMCE and American Multi-Cinema, Inc. in February 2000. Mr. Ramsey served as Vice President, Finance from January 1997 to October 1999 and prior thereto, Mr. Ramsey served as Director of Information Systems and Director of Financial Reporting since joining American Multi-Cinema, Inc. in February 1995. Mr. Ramsey has over 30 years of experience in finance in public and private companies. Mr. Ramsey serves on the board of directors for Open Road Films and NCM. Mr. Ramsey holds a B.S. degree in Accounting and Business Administration from the University of Kansas.

Ms. Elizabeth Frank has served as Executive Vice President, Chief Content & Programming Officer for AMCE since July 2012. Between August 2010 and July 2012, Ms. Frank served as Senior Vice President, Strategy and Strategic Partnerships. Prior to joining AMCE, Ms. Frank served as Senior Vice President of Global Programs for AmeriCares. Prior to AmeriCares, Ms. Frank served as Vice President of Corporate Strategic Planning for Time Warner Inc. Prior to Time Warner Inc., Ms. Frank was a partner at McKinsey & Company for nine years. Ms. Frank serves on the board of directors of Open Roads Releasing, LLC. Ms. Frank holds a Bachelor of Business Administration degree from Lehigh University and a Masters of Business Administration from Harvard University.

Mr. John D. McDonald has served as Executive Vice President, U.S. Operations of Parent and AMCE since July 2009. Mr. McDonald has served as Director of American Multi-Cinema, Inc. since November 2007 and has served as Executive Vice President, U.S. Operations of American Multi-Cinema, Inc. since July 2009. Prior to July 2009, Mr. McDonald served as Executive Vice President, U.S. and Canada Operations of American Multi-Cinema, Inc. effective October 1998. Mr. McDonald served as Senior Vice President, Corporate Operations from November 1995 to October 1998. Mr. McDonald is a member of the National Association of Theatre Owners Advisory board of directors, Chairman of the Technology Committee for the National Association of Theatre Owners, and member of the board of directors for DCIP. Mr. McDonald has successfully managed the integration for the Gulf States, General Cinema, Loews, and Kerasotes mergers and acquisitions. Mr. McDonald attended California State Polytechnic University where he studied economics and history.

Mr. Mark A. McDonald has served as Executive Vice President, Global Development since July 2009 of Parent and AMCE. Prior thereto, Mr. McDonald served as Executive Vice President, International Operations of Parent, Holdings and AMCE from October 2008 to July 2009. Mr. McDonald has served as Executive Vice President, International Operations of American Multi-Cinema, Inc., and AMC Entertainment International, Inc. ("AMCEI"), a former subsidiary of American Multi-Cinema, Inc., since March 2007 and December 1998, respectively. Prior thereto, Mr. McDonald served as Senior Vice President, Asia Operations from November 1995 until his appointment as Executive Vice President, International Operations and Film in December 1998. Mr. McDonald served on the board of directors of AMCEI from March 2007 to May 2010. Mr. McDonald holds a B.A. degree from the University of Southern California and a M.B.A. from the Anderson School at University of California Los Angeles.

Mr. Stephen A. Colanero has served as Executive Vice President and Chief Marketing Officer of Parent and AMCE since December 2009. Prior to joining AMC, Mr. Colanero served as Vice President of Marketing for RadioShack Corporation from April 2008 to December 2009. Mr. Colanero also served as Senior Vice President of Retail Marketing for Washington Mutual Inc. from February 2006 to August 2007 and as Senior Vice President, Strategic Marketing for Blockbuster Inc. from November 1994 to January 2006. Mr. Colanero holds a B.S. degree in Accounting from Villanova University and a M.B.A. in Marketing and Strategic Management from The Wharton School at the University of Pennsylvania.

Mr. Kevin M. Connor has served as Senior Vice President, General Counsel and Secretary of Parent since June 2007. Mr. Connor has served as Senior Vice President, General Counsel and Secretary of AMCE and American Multi-Cinema, Inc. since April 2003. Prior to April 2003, Mr. Connor served as Senior Vice President, Legal of AMCE and American Multi-Cinema, Inc. beginning November 2002. Prior thereto, Mr. Connor was in private practice in Kansas City, Missouri as a partner with the firm Seigfreid, Bingham, Levy, Selzer and Gee from October 1995. Mr. Connor holds a Bachelor of Arts degree in English and History from Vanderbilt University, a Juris Doctorate degree from the University of Kansas School of Law and a LLM in Taxation from the University of Missouri Kansas City.

Mr. Chris A. Cox has served as Senior Vice President and Chief Accounting Officer of Parent since June 2010. Prior thereto Mr. Cox served as Vice President and Chief Accounting Officer of Parent and Holdings since June 2007 and December 2004, respectively. Mr. Cox has served as Vice President and Chief Accounting Officer of AMCE and American Multi-Cinema, Inc. since May 2002. Prior to May 2002, Mr. Cox served as Vice President and Controller of American Multi-Cinema, Inc. since November 2000. Previously, Mr. Cox served as Director of Corporate Accounting for the Dial Corporation from December 1999 until November 2000. Mr. Cox holds a Bachelor's of Business Administration in Accounting and Finance degree from the University of Iowa.

Ms. Christina Sternberg has served as Senior Vice President, Corporate Strategy of Parent, AMCE and AMC since August 2012. Previously, Ms. Sternberg served as Senior Vice President, Design, Construction and Development of Parent, AMCE and AMC from December 2009 to August 2012. Ms. Sternberg served as Senior Vice President, Domestic Development of Parent and AMCE from December 2009 to August 2012 and AMC from July 2009 to August 2012. Ms. Sternberg served as Senior Vice President, Design, Construction and Facilities of AMC from April 2009 to July 2009. Ms. Sternberg served as Vice President, Design, Construction and Facilities of AMC from April 2005 to April 2009. Ms. Sternberg began her career at AMC in 1998 as a controller. Ms. Sternberg is a member of the International Council of Shopping Centers and the Urban Land Institute. Ms. Sternberg holds a

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B.S. from the University of California-Davis and an MBA from the Kellogg School of Management at Northwestern University. Ms. Sternberg is a member of the National Association of Theatre Owners.

Mr. Keith P. Wiedenkeller has served as Senior Vice President and Chief People Officer of Parent and AMCE since July 2009. Prior thereto, Mr. Wiedenkeller served as Senior Vice President, Human Resources of Parent and AMCE from October 2002 to July 2009. Mr. Wiedenkeller started in "the movie business" as an usher in 1975. Mr. Wiedenkeller began his career with AMC as a manager in 1985, working his way up through various operations, training and human resources roles before being named to his current role in 2002. Mr. Wiedenkeller holds a Bachelor of Arts degree from the University of Missouri Kansas City.

Committees of the Board of Directors

Audit Committee

Upon consummation of this offering, our audit committee will consist of Mr. Hill, Mr. Saich and Mr. Zhang (the "Audit Committee"). The board of directors has determined that Mr. Hill qualifies as an Audit Committee financial expert as defined in Item 401(h) of Regulation S-K. Mr. Hill and Mr. Saich are independent as independence is defined in Rule 10A-3(b)(i) under the Exchange Act or under the applicable section of the NYSE rules. Within one year of the closing of this offering, we will nominate one additional independent director to replace Mr. Zhang on the Audit Committee so that our Audit Committee will be comprised of three independent members, all of whom will be financially literate.

The principal duties and responsibilities of our Audit Committee are as follows:

- to monitor our financial reporting process and internal control system;
- to appoint and replace our independent registered public accounting firm from time to time, determine their compensation and other terms of engagement and oversee their work;
- to oversee the performance of our internal audit function; and
- to oversee our compliance with legal, ethical and regulatory matters.

The Audit Committee will have the power to investigate any matter brought to its attention within the scope of its duties. It will also have the authority to retain counsel and advisors to fulfill its responsibilities and duties.

Compensation Committee

Upon consummation of this offering, our compensation committee will consist of Mr. Liu, Mr. Ye and Mr. Hill (the "Compensation Committee").

The principal duties and responsibilities of our Compensation Committee are as follows:

- to provide oversight on the development and implementation of the compensation policies, strategies, plans and programs for our key employees and outside directors and disclosure relating to these matters;
- to review and approve the compensation of our chief executive officer and the other executive officers of us and our subsidiaries; and
- to provide oversight concerning the compensation of our chief executive officer, succession planning, performance of the chief executive officer and related matters.

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Nominating & Corporate Governance Committee

Upon consummation of this offering, our nominating committee will consist of Mr. Saich, Mr. Wang and Mr. Zhang.

The principal duties and responsibilities of the nominating committee will be as follows:

- to establish criteria for board and committee membership and recommend to our board of directors proposed nominees for election to the board of directors and for membership on committees of the board of directors; and
- to make recommendations to our board of directors regarding board governance matters and practices.

Code of Business Conduct and Ethics

We have a Code of Business Conduct and Ethics that applies to all of our associates, including our principal executive officer, principal financial officer and principal accounting officer, or persons performing similar functions. These standards are designed to deter wrongdoing and to promote honest and ethical conduct. The Code of Business Conduct and Ethics, which address the subject areas covered by the SEC's rules, may be obtained free of charge through our website: www.amctheatres.com under "Investor Relations Corporate Governance." Any substantive amendment to, or waiver from, any provision of the Code of Business Conduct and Ethics with respect to any senior executive or financial officer shall be posted on this website. **The information contained on our website is not part of this prospectus**.

COMPENSATION DISCUSSION AND ANALYSIS

This section discusses the material elements of compensation awarded to, earned by or paid to our principal executive officer, our principal financial officer and our three other most highly compensated executive officers. These individuals are referred to as the "Named Executive Officers."

Our executive compensation programs are determined and approved by our Compensation Committee. None of the Named Executive Officers are members of the Compensation Committee or otherwise had any role in determining the compensation of other Named Executive Officers, although the Compensation Committee does consider the recommendations of our Chief Executive Officer in setting compensation levels and bonuses for our executive officers other than the Chief Executive Officer.

Executive Compensation Program Objectives and Overview

The goals of the Compensation Committee with respect to executive compensation are to attract, retain, motivate and reward talented executives, to tie annual and long-term compensation incentives to the achievement of specified performance objectives, and to achieve long-term creation of value for our stockholders by aligning the interests of these executives with those of our stockholders. To achieve these goals, we endeavor to maintain compensation plans that are intended to tie a substantial portion of executives' overall compensation to key strategic, operational and financial goals such as achievement of budgeted levels of net income, and other non-financial goals that the Compensation Committee deems important. From time to time, the Compensation Committee evaluates individual executive performance with a goal of setting compensation at levels they believe, based on industry comparables and their general business and industry knowledge and experience, are comparable with executives in other companies of similar size and stage of development operating in the retail, entertainment and food service industries, while taking into account our relative performance and our own strategic goals.

We conduct a periodic review of the aggregate level of our executive compensation as part of the annual budget review and annual performance review processes, which includes determining the operating metrics and non-financial elements used to measure our performance and to compensate our executive officers. This review is based on our knowledge of how other theatrical exhibition industry and similar retail type businesses measure their executive performance and on the key operating metrics that are critical in our effort to increase the value of our company.

Current Executive Compensation Program Elements

Our executive compensation program consists of the elements described in the following sections. The Compensation Committee determines the portion of compensation allocated to each element for each individual Named Executive Officer. Our Compensation Committee expects to continue these policies in the short term but will reevaluate the current policies and practices as it considers advisable.

The Compensation Committee believes, based on general business and industry experience and knowledge of its members, that the use of the combination of base salary, annual performance bonuses, and long-term incentives offers the best approach to achieving our compensation goals, including attracting and retaining talented and capable executives and motivating our executives and other officers to expend maximum effort to improve the business results, earnings and overall value of our business.

Base Salaries

Base salaries for our Named Executive Officers are established based on the scope of their responsibilities, taking into account competitive market compensation for similar positions, as well as seniority of the individual, our ability to replace the individual and other primarily judgmental factors deemed relevant by the Compensation Committee. Periodically, the Company obtains information regarding the salaries of employees at companies of similar size with which we compete for employees, including approximately 150 multi-unit businesses in the retail, entertainment and food service industries. Following the offering, we plan to adopt a new peer group of companies as a reference to provide a broad perspective on competitive pay levels. See " Post-offering Compensation Adoption of a New Peer Group." Generally, we believe that executive base salaries should be targeted at a level that is competitive with salaries for executives in similar positions with similar responsibilities at companies of similar size with which we compete for employees, in line with our compensation philosophy, but we do not make any determinations or changes in compensation in reaction to market data alone. However, the Compensation Committee retains flexibility within the compensation program to respond to and adjust for specific circumstances and our evolving business environment. Base salaries for our Named Executive Officers are reviewed from time to time by the Compensation Committee and adjusted based in part on this review after taking into account individual responsibilities, performance and experience. Base salaries for our Named Executive Officers increased between 3.0% and 4.93% from March 29, 2012 to December 31, 2012, and one Named Executive Officer received a 44.2% increase due to a promotion.

Annual Performance Bonus

The Compensation Committee has the authority to award annual performance bonuses to our Named Executive Officers. Under the current employment agreements, each Named Executive Officer is eligible for an annual bonus based on our annual incentive compensation program ("AIP"), as it may exist from time to time. We believe that annual bonuses based on performance serve to align the interests of management and stockholders, and our annual bonus program is primarily designed to reward increases in net income (as described below). Individual bonuses are performance based and, as such, can be highly variable from year to year. The annual incentive bonuses for our Named Executive Officers are determined by our Compensation Committee and, except with respect to his own bonus, our Chief Executive Officer, based on our annual incentive compensation program as it may exist from time to time. For the Transition Period, the annual incentive compensation program was based on a company component and an individual component. The company component was based on attainment of a net income target of at least $1.0 million during the twelve months ended December 31, 2012. The plan guideline was that no company performance component of the bonus would be paid below attainment of 100% of targeted net income and that upon attainment of 100% of targeted net income, each Named Executive Officer would receive 100% of his/her assigned bonus target. For each $1.0 million of additional net income generated in the calendar year (amounts in excess of $1.0 million of net income but not exceeding $21.0 million of net income), 5% of additional AIP payout would be awarded up to a maximum award of 200% of the target payout. The individual component of the bonus does not have a net income threshold but is based on achievement of key performance measures and overall performance and contribution to our strategic and financial goals. Under the annual incentive compensation program, our Compensation Committee and, except with respect to his/her own bonus, Chief Executive Officer, retain certain discretion to decrease or increase bonuses relative to the guidelines based on qualitative or other subjective factors deemed relevant by the Compensation Committee.

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The following table summarizes the company component upon attainment of 100% of targeted net income and the individual component of the annual performance bonus plan at the target level for calendar 2012:

	Company Component at 100% Target	Individual Component
Gerardo I. Lopez	$ 434,600	$ 108,650
Craig R. Ramsey	231,400	57,850
Elizabeth Frank	162,000	108,000
John D. McDonald	226,200	56,550
Mark A. McDonald	117,000	78,000

Our annual bonuses have historically been paid in cash and traditionally have been paid in a single installment in the first quarter following the completion of a given year following issuance of our annual audit report. Pursuant to current employment agreements, each Named Executive officer is eligible for an annual bonus pursuant to the annual incentive plan in place at the time. The Compensation Committee has discretion to increase the annual bonus paid to our Named Executive Officers using its judgment if the Company exceeds certain financial goals, or to reward for achievement of individual annual performance objectives. Our Compensation Committee and the Board of Directors have approved bonus amounts to be paid in calendar 2013 for the performance during calendar 2012. The Company obtained a net income of over 200% of target for calendar 2012, which is equivalent to a 200% payout of the assigned bonus target. The individual component of the bonus, which was subject to the approval by the Compensation Committee and the Board of Directors, was determined following a review of each Named Executive Officer's individual performance and contribution to our strategic and financial goals. The individual performance review has been conducted during the first quarter of calendar 2013 and the individual component bonuses were finalized and approved by the Compensation Committee and the Board of Directors. Following the offering, we expect to make certain changes to the AIP, including with respect to bonus targets and how we determine the company component described above. See " Post-offering Compensation Changes to Our Annual Incentive Compensation Program."

Special Incentive Bonuses

Pursuant to his employment agreement, Mr. Gerardo Lopez is entitled to a one-time Special Incentive Bonus of $2.0 million that vests at the rate of $400,000 per year over five years, effective March 2009, provided that he remains employed on each vesting date. The first four installments of the Special Incentive Bonus were paid as of March 2013 and the fifth installment is payable upon vesting. The remaining unpaid Special Incentive Bonus of $800,000 shall immediately vest in full upon Mr. Lopez's involuntary termination within twelve months after a change of control, as defined in his employment agreement.

Pursuant to the Merger agreement, the Named Executive Officers received a one-time special incentive bonus ("Management Bonus") which was paid in cash at the closing of the Merger. The Management Bonus provided to each Named Executive Officer is reported in the Bonus column of the "Summary Compensation Table" below.

Long Term Incentive Equity Awards

The Company has no stock-based compensation arrangements of its own, but prior to the Merger, Parent had approved an amended and restated 2004 Stock Option Plan ("2004 Stock Option Plan") and a 2010 Equity Incentive Plan ("2010 Equity Incentive Plan"). On July 23, 2010, the Board of Directors determined that the Company would no longer grant any additional awards of shares of

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common stock of the Company under the 2004 Stock Option Plan. The 2004 Stock Option Plan provided for the grant of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code) and non-qualified stock options to acquire Parent common stock. Options granted under the plan were to vest in equal installments over three to five years from the grant date, subject to the optionee's continued service with Parent or one of its subsidiaries. As a result of the Merger and change of control on August 30, 2012, Holders of such vested and unvested options received payments for each option equal to the difference (if any) between the $9.88 per share consideration received in the Merger and the exercise price of their options. Amounts received are reflected in the "Option Exercises and Stock Vested Transition Period" table below.

Prior to the Merger, the 2010 Equity Incentive Plan provided for grants of non-qualified stock options, restricted stock awards, other stock-based awards and performance-based compensation awards. During fiscal 2011, the Compensation Committee approved grants of stock options, restricted stock (time vesting), and restricted stock (performance vesting) to the Named Executive Officers, which generally had the following features:

Non-Qualified Stock Option Award Agreement: Twenty-five percent of the options were to vest on each of the first four anniversaries of the date of grant. The stock options had a ten year term from the date of grant. The vested and unvested stock options were cancelled immediately prior to the closing of the Merger on August 30, 2012. Holders of such options received payments for each option equal to the difference (if any) between the $9.88 per share consideration received in the Merger and the exercise price of their options. Amounts received for these options in connection with the Merger are reflected in the "Option Exercises and Stock Vested Transition Period" table below. The grant date fair value for the options granted in fiscal 2011 was included in the Summary Compensation Table in fiscal 2011.

Restricted Stock Award Agreement (Time Vesting): The restricted shares were to vest on the fourth anniversary of the date of grant. The restricted stock (time vesting) awards were cancelled immediately prior to the closing of the Merger. Holders of such restricted stock (time vesting) received payments for each restricted share equal to the $9.88 per share consideration received in the Merger. Amounts received for these restricted shares are reflected in the "Option Exercises and Stock Vested Transition Period" table below. The grant date fair value for the restricted stock (time vesting) awards granted in fiscal 2011 was included in the Summary Compensation Table in fiscal 2011.

Restricted Stock Award Agreement (Performance Vesting): The award agreements for the restricted shares (performance vesting) generally provided that 25% of the restricted shares awarded would become vested in each year over a four-year period upon the Company meeting certain pre-established annual performance targets. Because each annual performance target was set at the start of each respective single-fiscal year performance period, only twenty-five percent of the total restricted shares (performance vesting) awarded are deemed granted each year over the four-year period in accordance with Accounting Standards Codification 718-10-55-95. Grants of the restricted stock (performance vesting) made in fiscal 2012 and fiscal 2011 did not vest as the Company did not meet the adjusted EBITDA target established by the Compensation Committee.

The fiscal 2013 and fiscal 2014 restricted stock (performance vesting) had not been granted per ASC 718-10-55-95 as the Compensation Committee did not approve the performance target for the restricted stock due to the Merger. The unvested restricted stock (performance vesting) awards for fiscal 2013 and fiscal 2014 were cancelled immediately prior to the closing of the Merger. Holders of unvested restricted stock awards (performance vesting) received payments for each restricted share equal to the $9.88 per share consideration received in the Merger. The fair value of the settlement for each of the fiscal 2013 and fiscal 2014 shares were included in the Summary Compensation Table during the current Transition Period. The grant date fair value for the first year's performance period, fiscal 2011, and the second year's performance period, fiscal 2012, was included in the Summary Compensation Table during fiscal 2011 and fiscal 2012, respectively. Following the offering, we expect to adopt a new equity incentive plan, see " Post-offering Compensation 2013 Equity Incentive Plan."

Payment and Release of Escrowed Funds. In connection with the closing of the Merger and as defined in the Merger Agreement, $35.0 million of consideration otherwise payable to equity holders was deposited in an Indemnity Escrow Fund and $2.0 million otherwise payable to equity holders was deposited in an account designated by the Stockholder Representative. On or following the Indemnity Escrow Termination Date and the release of all amounts remaining in the Indemnity Escrow Fund and the release of any portion of the Stockholder Representative Reserve the Named Executive Officers would receive a maximum settlement in the future year as follows:

	2004 Stock Option Plan(1)	2004 Stock Option Plan(1)	Restricted Stock (Time Vesting)(1)	Restricted Stock (Performance Vesting)(2)
Gerry Lopez	$ 269,635	$ 179,757	$ 29,471	$ 14,749
Craig Ramsey	106,536		17,689	8,844
Elizabeth Frank			5,906	2,938
John McDonald	53,268		17,689	8,844
Mark McDonald	53,268		5,906	2,938

(1) The value of the shares shown in these columns were included in the "Stock Awards" and "Option Awards" column of the Summary Compensation Table in prior years based on grant date fair values.

(2) The amount in this column represents the maximum amount that will be included in the "All Other Compensation" column of the Summary Compensation Table in the year the Named Executive Officer receives payment.

Management Profit Sharing Plan

Pursuant to the Merger agreement, Wanda and Parent entered into a management profit sharing plan, ("MPSP"). The long term incentive plan awards are payable in cash (or such other form as may be determined by the Board of Directors with the consent of designated participant representatives) on an annual basis and are subject to the Company achieving a predetermined adjusted net income target (as defined in the plan) for each plan year ending on December 31, 2012, 2013, 2014, and 2015. Wanda and Parent agreed to increase or decrease the calculation of net income, as described in the plan, for certain predefined exclusions and transactions ("adjusted net income"). (As described in the plan, adjusted net income is calculated by adjusting net income for any increases or decreases resulting from any capital contributions, interest reductions, disposition of certain equity method investments or strategic assets, push down accounting adjustments directly related to the Merger, MPSP bonuses, and increased by 20% of dividends paid by the Company.) The MPSP was based on attainment of an adjusted net income target of $10.0 million during the twelve months ended December 31, 2012. The plan guideline provides that no MPSP incentive bonus would be paid below attainment of 100% of targeted adjusted net income (unless it qualifies as a Catch-Up Payment as described below) and that upon attainment of 100% of targeted adjusted net income target, each Named Executive Officer would receive 100% of his/her assigned bonus target. If the adjusted net income is equal to or exceeds 100% of targeted adjusted net income, the Company will pay 10% of the adjusted net income and each Named Executive Officer will receive a pro rata amount of the total award based on the proportion of his/her targeted bonus amount to the aggregate of the targeted bonus amounts for all participants. The MPSP bonus for each plan year shall be unlimited.

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The following table shows the potential lump-sum cash MPSP bonus for each Named Executive Officer assuming attainment of 100% of the targeted adjusted net income for the plan year ended December 31, 2012:

	MPSP Incentive Bonus at 100% Target
Gerardo I. Lopez	$ 204,128
Craig R. Ramsey	79,156
Elizabeth Frank	79,156
John D. McDonald	79,156
Mark A. McDonald	79,156

If the Company fails to achieve the applicable adjusted net income target for one or more plan years, each Named Executive Officer shall be eligible to receive a Catch-Up Payment. A Catch-Up Payment shall be paid in addition to the MPSP bonus for such plan years when the Company obtains an adjusted net income in excess of 100% of target and the surplus is applied to a plan year(s) for which the adjusted net income target was less than 100%, in order to obtain an adjusted net income target of 100% for that prior plan year. Also, in order to be eligible to receive a MPSP bonus or a Catch-Up Payment, a Named Executive Officer must remain employed by the Company through the first business day following the end of the plan year to which the MPSP bonus relates or through the first business day following the end of the plan year in which the Catch-Up Payment is earned, as applicable.

If the Company achieves at least 80% of the adjusted net income target for each of the 5 plan years and the total amount of the MPSP bonuses and Catch-Up payments paid for such plan years are less than $50.0 million for all participants per the plan, then each participant or Named Executive Officer who has been continuously employed by the Company from the Merger date at August 30, 2012 through the first business day of calendar 2016 shall be entitled to receive an additional incentive bonus award equal to his/her pro rata share for the difference between the $50.0 million for all participants less the total for all MPSP bonuses and Catch-up payments made.

The Chief Executive Officer can make proposals on who is eligible to participate in the management profit sharing plan and the participant's pro rata allocation or assigned bonus target, subject to the recommendation of the Compensation Committee and the approval by the Board of Directors. The management profit sharing plan is administered by the Board of Directors and any action of the Board of Directors shall be final and binding. The Compensation Committee believes the long-term incentive bonus awards allow the Company to attract, retain and provide incentives to a talented management team, which together with the Company stock actually owned by its executives, appropriately links the long-term interests of executives and stockholders. For the plan year ended December 31, 2012, the Company obtained an adjusted net income of $25.5 million. The Compensation Committee approved the MPSP bonus of 10% for the Transition Period and each Named Executive Officer received a pro rata amount of the total award based on the proportion of his/her targeted bonus amount to the aggregate of the targeted bonus amounts for all participants. Following the offering, and in connection with our expected adoption of a new equity incentive plan, we plan to terminate the MPSP with respect to the Named Executive Officers and other MPSP participants who consent to such termination. See "Post-offering Compensation Termination of Management Profit Sharing Plan."

Retirement Benefits

We provide retirement benefits to the Named Executive Officers under both qualified and non-qualified defined-benefit and defined-contribution retirement plans. The Defined Benefit

Retirement Income Plan for Certain Employees of American Multi-Cinema, Inc. ("AMC Defined Benefit Retirement Income Plan") and the AMC 401(k) Savings Plan are both tax-qualified retirement plans in which the Named Executive Officers participate on substantially the same terms as our other participating employees. However, due to maximum limitations imposed by the Employee Retirement Income Security Act of 1974 ("ERISA") and the Internal Revenue Code on the annual amount of a pension which may be paid under a qualified defined-benefit plan and on the maximum amount that may be contributed to a qualified defined-contribution plan, the benefits that would otherwise be payable to the Named Executive Officers under the Defined Benefit Retirement Income Plan are limited. Because we did not believe that it was appropriate for the Named Executive Officers' retirement benefits to be reduced because of limits under ERISA and the Internal Revenue Code, we had established non-qualified supplemental defined-benefit plans that permit the Named Executive Officers to receive the same benefit that would be paid under our qualified defined-benefit plan up to the old IRS limit, as indexed, as if the Omnibus Budget Reconciliation Act of 1993 had not been in effect. On November 7, 2006, our Board of Directors approved a proposal to freeze the AMC Defined Benefit Retirement Income Plan and the AMC Supplemental Executive Retirement Plan, effective as of December 31, 2006. The Compensation Committee determined that this type of plan is not as effective as other elements of compensation in aligning executives' interests with the interests of stockholders. As a result, the Compensation Committee determined to freeze these plans. Benefits no longer accrue under the AMC Defined Benefit Retirement Income Plan or the AMC Supplemental Executive Retirement Plan for our Named Executive Officers or for other participants.

Effective January 1, 2011, under the Company's 401(k) Savings Plan, the Company began to match 100% of each eligible employee's elective contributions up to 3% and 50% of contributions up to 5% of the employee's eligible compensation. During fiscal 2010 and the first three quarters of fiscal 2011, the Company matched 50% of each eligible employee's elective contributions up to 6% of the employee's eligible compensation.

The "Pension Benefits" table and related narrative section "Pension and Other Retirement Plans" below describes our qualified and non-qualified defined-benefit plans in which our Named Executive Officers participate.

Non-Qualified Deferred Compensation Program

Named Executive Officers are permitted to elect to defer base salaries and their annual bonuses and MPSP under the AMC Non-Qualified Deferred Compensation Plan. Amounts deferred under the plans are credited with an investment return determined as if the participant's account were invested in one or more investment funds made available by the Committee and selected by the participant. The Company may, but need not, credit the deferred compensation account of any participant with a discretionary or profit sharing credit as determined by the Company. We believe that providing the Named Executive Officers with deferred compensation opportunities is a cost-effective way to permit officers to receive the tax benefits associated with delaying the income tax event on the compensation deferred, even though the related deduction for the Companies is also deferred.

The "Non-Qualified Deferred Compensation" table and related narrative section "Non-Qualified Deferred Compensation Plan" below describe the non-qualified deferred compensation plan and the benefits thereunder.

Severance and Other Benefits Upon Termination of Employment

We believe that severance protections, particularly in the context of a change of control transaction, can play a valuable role in attracting and retaining key executive officers. Accordingly, we provide such protections for each of the Named Executive Officers and for other of our senior officers in their respective employment agreements. The Compensation Committee evaluates the level of

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severance benefits provided to Named Executive Officers on a case-by-case basis. We consider these severance protections consistent with competitive practices.

As described in more detail below under "Potential Payments Upon Termination or Change of Control" pursuant to their employment agreements, each of the Named Executive Officers would be entitled to severance benefits in the event of termination of employment by AMCE without cause and certain Named Executive Officers would be entitled to severance benefits due to death or disability. In the case of Mr. Lopez, resignation for good reason would also entitle the employee to severance benefits. We have determined that it is appropriate to provide these executives with severance benefits under these circumstances in light of their positions with AMCE and as part of their overall compensation package.

We believe that the occurrence, or potential occurrence, of a change of control transaction will create uncertainty regarding the continued employment of our executive officers. This uncertainty results from the fact that many change of control transactions result in significant organizational changes, particularly at the senior executive level. In order to encourage certain of our executive officers to remain employed with us during an important time when their prospects for continued employment following the transaction are often uncertain, we provide the executives with severance benefits if they terminate their employment within a certain number of days following specified changes in their compensation, responsibilities or benefits following a change of control. The severance benefits for these executives are generally determined as if they continued to remain employed by us for two years following their actual termination date.

All Other Compensation

The other compensation provided to each Named Executive Officer is reported in the All Other Compensation column of the "Summary Compensation Table" below, and is further described in footnote (9) to that table. All other compensation during the period March 30, 2012 through December 31, 2012 consists of Company matching contributions under our 401(k) savings plan, which is a qualified defined contribution plan, life insurance premiums, amusement park passes, and amounts received upon cancellation of unvested restricted stock (performance vesting) awards in connection with the Merger. All other compensation is benchmarked and reviewed, revised and approved by the Compensation Committee every year.

Policy with Respect to Section 162(m)

Section 162(m) of the Internal Revenue Code generally disallows publicly held companies a tax deduction for compensation in excess of $1.0 million paid to their chief executive officers and the four other most highly compensated executive officers unless certain performance and other requirements are met. Our intent generally is to design and administer executive compensation programs in a manner that will preserve the deductibility of compensation paid to our executive officers, and we believe that a substantial portion of our current executive compensation program satisfies the requirements for exemption from the $1.0 million deduction limitation. However, we reserve the right to design programs that recognize a full range of performance criteria important to our success, even where the compensation paid under such programs may not be deductible. The Compensation Committee will continue to monitor the tax and other consequences of our executive compensation program as part of its primary objective of ensuring that compensation paid to our executive officers is reasonable, performance-based and consistent with the goals of the Company and its stockholders.

Post-offering Compensation

We anticipate that at the time of, or shortly after, completion of this offering, we will make changes to certain of our compensation arrangements, including those covering our Named Executive Officers and members of our Board of Directors.

In developing these changes, we retained Pay Governance, LLC ("Pay Governance") to advise management and provide recommendations for a compensation program designed to retain and motivate management following this offering.

Adoption of a Peer Group

We expect to adopt a peer group of companies as a reference group to provide a broad perspective on competitive pay levels and practices. Based on recommendations from Pay Governance, we anticipate that our peer group will contain the following companies: Brinker International, Inc., Carmike Cinemas Inc., The Cheesecake Factory Incorporated, Chipotle Mexican Grill, Inc., Cinemark Holdings Inc., DreamWorks Animation SKG Inc., IMAX Corporation, Lions Gate Entertainment Corp., Netflix, Inc., Panera Bread Co., Regal Entertainment Group, SIRIUS XM Radio Inc. and Wynn Resorts Ltd.

2013 Equity Incentive Plan

We expect to adopt a 2013 Equity Incentive Plan (the "2013 Plan"). The following is a summary of certain features of the 2013 Plan.

Reservation of Shares. Subject to adjustments as described below, the maximum aggregate number of shares of Class A common stock that may be issued pursuant to awards granted under the 2013 Plan will be equal to 10% of the total number of shares of the Company (i.e. shares of Class A common stock and shares of Class B common stock) outstanding immediately following consummation of this offering. Any shares of Class A common stock delivered under the 2013 Plan will consist of authorized and unissued shares, or treasury shares. In the event of any recapitalization, reclassification, stock dividend, extraordinary dividend, stock split, reverse stock split, or other distribution with respect to common stock, or any merger, reorganization, consolidation, combination, spin-off or other similar corporate change, or any other change affecting common stock, appropriate and equitable adjustments will be made to the number and kind of shares of common stock available for grant, as well as to other maximum limitations under the 2013 Plan, and the number and kind of shares of common stock or other terms of the awards that are affected by the event.

Share Counting. Awards that are required to be paid in cash pursuant to their terms will not reduce the share reserve. To the extent that an award granted under the 2013 Plan is canceled, expired, forfeited, surrendered, settled by delivery of fewer shares than the number underlying the award or otherwise terminated without delivery of the shares to the participant, the shares of common stock retained by or returned to the Company will become available for future awards under the 2013 Plan. In addition, shares that are withheld or separately surrendered in payment of the exercise or purchase price or taxes relating to such an award or are not issued or delivered as a result of the net settlement of an outstanding stock option or stock appreciation right will become available for future awards under the 2013 Plan. Awards assumed or substituted for in a merger, consolidation, acquisition of property or stock or reorganization will not reduce the share reserve.

Administration. The 2013 Plan will be administered by the Compensation Committee. Subject to the limitations set forth in the 2013 Plan, the Compensation Committee has the authority to determine the persons to whom awards are to be granted, prescribe the restrictions, terms and conditions of all awards, interpret the 2013 Plan and adopt rules for the administration, interpretation and application of the 2013 Plan.

Eligibility. Awards under the 2013 Plan may be granted to any employees, directors, consultants or other personal service providers of Company.

Stock Options. Stock options granted under the 2013 Plan may be issued as either incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, or as nonqualified stock options. The exercise price of an option will be not less than 100% of the fair market value of a share of Class A common stock on the date of the grant of the option. The Compensation Committee will determine the vesting and/or exercisability requirements and the term of exercise of each option, including the effect of termination of service of a participant or a change in control. The vesting requirements may be based on the continued employment or service of the participant for a specified time period or on the attainment of specified business performance goals established by the Compensation Committee. The maximum term of an option will be ten years from the date of grant. To exercise an option, the participant must pay the exercise price, subject to specified conditions, (i) in cash, (ii) in shares of common stock, (iii) through an open-market broker-assisted transaction, (iv) by reducing the number of shares of common stock otherwise deliverable upon the exercise of the stock option, (v) by combination of any of the above methods, or (vi) by such other method approved by the Compensation Committee, and must pay any required tax withholding amounts. All options generally are nontransferable. Dividends may not be paid and dividend equivalent rights may not be granted with respect to the shares of stock subject to stock options.

Stock Appreciation Rights. A stock appreciation right may be granted either in tandem with an option or without a related option. A stock appreciation right entitles the participant, upon settlement or exercise, to receive a payment based on the excess of the fair market value of a share of common stock on the date of settlement or exercise over the base price of the right, multiplied by the number of shares of common stock as to which the right is being settled or exercised. Stock appreciation rights may be granted on a basis that allows for the exercise of the right by the participant or that provides for the automatic payment of the right upon a specified date or event. The base price of a stock appreciation right may not be less than the fair market value of a share of common stock on the date of grant. The Compensation Committee will determine the vesting requirements and the term of exercise of each stock appreciation right, including the effect of termination of service of a participant or a change in control. The vesting requirements may be based on the continued employment or service of the participant for a specified time period or on the attainment of specified business performance goals established by the Compensation Committee. The maximum term of a stock appreciation right will be ten years from the date of grant. Stock appreciation rights may be payable in cash or in shares of common stock or in a combination of both. Dividends may not be paid and dividend equivalent rights may not be granted with respect to the shares of stock subject to Stock Appreciation Rights.

Restricted Stock Awards. A restricted stock award represents shares of common stock that are issued subject to restrictions on transfer and vesting requirements. The vesting requirements may be based on the continued service of the participant for a specified time period or on the attainment of specified performance goals established by the Compensation Committee, and vesting may be accelerated in certain circumstances, as determined by the Compensation Committee. Unless otherwise set forth in an award agreement, restricted stock award holders will have all of the rights of a stockholder of the Company, other than the right to receive dividends, during the restricted period. Any dividends with respect to a restricted stock award that is subject to performance-based vesting will be subject to the same restrictions on transfer and vesting requirements as the underlying restricted stock award.

Restricted Stock Units and Performance Stock Units. An award of restricted stock units, or "RSUs", and an award of performance stock units, or "PSUs", provides the participant the right to receive a payment based on the value of a share of common stock. RSUs and PSUs may be subject to

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vesting requirements, restrictions and conditions to payment. RSUs may vest based solely on the continued service of the participant for a specified time period. PSUs may vest in whole or in part based on the attainment of specified performance goals established by the Compensation Committee. The vesting of RSUs and PSUs may be accelerated in certain circumstances, as determined by the Compensation Committee. RSU and PSU awards will become payable to a participant at the time or times determined by the Compensation Committee and set forth in the award agreement, which may be upon or following the vesting of the award. RSU and PSU awards are payable in cash or in shares of Class A common stock or in a combination of both. RSUs and PSUs may be granted together with a dividend equivalent right with respect to the shares of common stock subject to the award. Dividend equivalent rights will be subject to vesting conditions that apply to the underlying RSUs or PSUs.

Stock Awards. A stock award represents shares of common stock that are issued free of restrictions on transfer and free of forfeiture conditions and to which the participant is entitled all incidents of ownership. A stock award may be granted for past services, in lieu of bonus or other cash compensation, directors' fees or for any other valid purpose as determined by the Compensation Committee. The Compensation Committee will determine the terms and conditions of stock awards, and such stock awards may be made without vesting requirements. Upon the issuance of shares of common stock under a stock award, the participant will have all rights of a shareholder with respect to such shares of common stock, including the right to vote the shares and receive all dividends and other distributions on the shares.

Cash Performance Awards. A performance award is denominated in a cash amount (rather than in shares) and is payable based on the attainment of pre-established business and/or individual performance goals. The requirements for vesting may be also based upon the continued service of the participant during the performance period, and vesting may be accelerated in certain circumstances, as determined by the Compensation Committee. The maximum amount of cash compensation that may be paid to a participant during any one calendar year under all cash performance awards is $3.0 million.

Performance Criteria. For purposes of cash performance awards, as well as for any other awards under the 2013 Plan intended to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code, the performance criteria will be one or any combination of the following, for the Company or any identified Subsidiary or business unit, as determined by the Compensation Committee at the time of the award: (i) total stockholder return; (ii) such total stockholder return as compared to total return (on a comparable basis) of a publicly available index such as, but not limited to, the Standard & Poor's 500 Stock Index; (iii) net income; (iv) pretax earnings; (v) adjusted earnings before interest expense, taxes, depreciation and amortization ("*EBITDA*"); (vi) pretax operating earnings after interest expense and before bonuses, service fees, and extraordinary or special items; (vii) operating margin; (viii) earnings per share; (ix) return on equity; (x) return on capital; (xi) return on investment; (xii) operating earnings; (xiii) working capital; (xiv) ratio of debt to stockholders' equity; (xv) revenue; (xvi) free cash flow (generally defined as adjusted EBITDA, less cash taxes, cash interest net capital expenditures, mandatory payments of principal under any credit facility, and payments under collateralized lease obligations and financing lease obligations); (xvii) industry attendance metrics; (xviii) cash flow from operating activities; and (xix) any combination of or a specified increase in any of the foregoing. Each of the performance criteria will be applied and interpreted in accordance with an objective formula or standard established by the Compensation Committee at the time of grant of the award including, without limitation, GAAP. The performance criteria may be applied on an absolute basis or relative to an identified index, peer group, or one or more competitors or other companies (including particular business segments or divisions of such companies), or may be applied after adjustment for non-controllable industry performance (such as industry attendance), as specified by the Compensation Committee.

At the time that an award is granted, the Compensation Committee may provide that performance will be measured in such objective manner as it deems appropriate, including, without limitation, adjustments to reflect charges for restructurings, non-operating income, the impact of corporate transactions or discontinued operations, extraordinary and other unusual or non-recurring items and the cumulative effects of accounting or tax law changes.

Further, the Compensation Committee shall, to the extent provided in an award agreement, have the right, in its discretion, to reduce or eliminate the amount otherwise payable to any participant under an award and to establish rules or procedures that have the effect of limiting the amount payable to any participant to an amount that is less than the amount that is otherwise payable under an award.

Following the conclusion of the performance period, the Compensation Committee shall certify in writing whether the applicable performance goals have been achieved.

Award Limitations. For purposes of complying with the requirements of Section 162(m) of the Internal Revenue Code, the maximum number of shares of common stock that may be subject to stock options, stock appreciation rights, performance-based restricted stock awards, performance-based RSUs and performance-based stock awards granted to any participant other than a non-employee director during any calendar year will be limited to 10% of the maximum aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2013 Plan.

Further, the maximum number of shares of common stock that may be subject to stock options, stock appreciation rights, restricted stock awards, RSUs. PSUs and stock awards granted to any non-employee director during any calendar year will be limited to 10% of the maximum aggregate number of shares of common stock that may be issued pursuant to awards granted under the 2013 Plan.

Effect of Change in Control. Upon the occurrence of a change in control, unless otherwise specifically prohibited under applicable law, or unless otherwise provided in the applicable award agreement, the Compensation Committee is authorized to make adjustments in the terms and conditions of outstanding awards, including without limitation the following (or any combination thereof): (i) continuation or assumption of such outstanding awards by the Company (if it is the surviving company or corporation) or by the surviving company or corporation or its parent; (ii) substitution by the surviving company or corporation or its parent of awards with substantially the same terms as such outstanding awards (excluding the consideration payable upon settlement of the awards); (iii) accelerated exercisability, vesting and/or payment; and (iv) if all or substantially all of the Company's outstanding shares of common stock transferred in exchange for cash consideration in connection with such change in control: (A) upon written notice, provide that any outstanding stock options and stock appreciation rights are exercisable during a reasonable period of time immediately prior to the scheduled consummation of the event or such other reasonable period as determined by the Compensation Committee (contingent upon the consummation of the event), and at the end of such period, such stock options and stock appreciation rights will terminate to the extent not so exercised within the relevant period; and (B) cancellation of all or any portion of outstanding awards for fair value, as determined in the sole discretion of the Compensation Committee.

Forfeiture. The Compensation Committee may specify in an award agreement that an award will be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, including termination of service for "cause" (as defined in the 2013 Plan), violation of material Company policies, breach of noncompetition, confidentiality or other restrictive covenants that may apply to the participant, or other conduct by the participant that is detrimental to the business or reputation of the Company. Unless otherwise provided by the Compensation Committee and set forth in an award agreement, if (i) a participant's service is terminated for "cause" or (ii) after termination of service for any other reason, the Compensation Committee determines in its discretion either that,

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(A) during the participant's period of service, the participant engaged in an act which would have warranted termination from service for "cause" or (B) after termination, the participant engaged in conduct that violates any continuing obligation or duty of the participant in respect of the Company or any of its subsidiaries, such participant's rights, payments and benefits with respect to such award may be subject to cancellation, forfeiture and/or recoupment.

Right of Recapture. If a participant receives compensation pursuant to an award based on financial statements that are subsequently required to be restated in a way that would decrease the value of such compensation, the participant will, upon the written request of the Company, forfeit and repay to the Company the difference between what the participant received and what the participant should have received based on the accounting restatement, in accordance with (i) the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time and (ii) any compensation recovery, "clawback" or similar policy made applicable by law including the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Tax Withholding. Participants in the 2013 Plan are responsible for the payment of any taxes or similar charges required by law to be paid or withheld from an award or an amount paid in satisfaction of an award.

Deferrals of Payment. The Compensation Committee may in its discretion permit participants in the 2013 Plan to defer the receipt of payment of cash or delivery of shares of common stock that would otherwise be due by virtue of the exercise of a right or the satisfaction of vesting or other conditions with respect to an award; provided, however, that such discretion shall not apply in the case of a stock option or stock appreciation right.

Term, Amendment and Termination. The term of the 2013 Plan is ten years from the date it was approved by the Board of Directors. The Board of Directors may amend, modify, suspend or terminate the 2013 Plan at any time. However, no termination or amendment of the 2013 Plan will adversely affect any award theretofore granted without the consent of the participant or the permitted transferee of the award. The Board of Directors may seek the approval of any amendment by the Company's shareholders to the extent it deems necessary or advisable for purposes of compliance with Section 162(m) or Section 422 of the Internal Revenue Code, the listing requirements of the New York Stock Exchange, or for any other purpose.

Anticipated Awards under the 2013 Plan

We anticipate that we will make the following grants under the 2013 Plan to our Named Executive Officers:

Awards in Connection with this Offering. In connection with this offering, participants in the MPSP, including our Named Executive Officers, will receive grants of fully vested shares of our Class A common stock (subject to the lock-up agreements with Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated described under "Underwriting" and shares withheld in order to satisfy withholding tax liability) in an aggregate amount of 666,675 shares. Each MPSP participant will be allocated a percentage of the pool of shares of our Class A common stock equal to such participant's percentage allocation under the MPSP. In addition, our Chief Executive Officer has discretion to allocate approximate 10% of the number of Offering Bonus Shares. The Named Executive

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Officers will receive the following grants of shares of our Class A common stock in connection with this offering:

	Number of Shares
Gerardo I. Lopez	120,000
Craig R. Ramsey	55,978
Elizabeth Frank	46,534
John D. McDonald	46,534
Mark A. McDonald	46,534

The number of shares shown in the above table has not been reduced by shares withheld to satisfy withholding tax liability.

Annual Equity Awards. In connection with this offering, we will adopt an equity-based long-term incentive program, pursuant to which we will make annual grants of RSUs and PSUs under the 2013 Plan to eligible employees, including our Named Executive Officers. With respect to our Named Executive Officers, 50% of each annual grant will consist of fully vested RSUs that will be settled on, and will be non-transferrable until, the third anniversary of the grant date (except that RSUs granted to our Named Executive Officers may be subject to forfeiture if the Company fails to achieve cash flow from operating activities of $100.0 million during the first fiscal year following the date of grant). The remaining 50% of the annual grant with respect to our Named Executive Officers will consist of PSUs. The PSUs will vest on the first anniversary of the grant date, subject to the holder's continuous service for the Company through such vesting date. The number of PSUs that will vest on the vesting date will range from 0% to 150% of the PSUs subject to the grant, with such percentage determined based on the free cash flow achieved by the Company, as measured against pre-established targets, during the one-year period following the grant of the PSUs. The PSUs will be settled and will be non-transferrable until the third anniversary of the grant date.

Termination of Management Profit Sharing Plan

The new equity-based long-term incentive program, as described above, is designed to replace the MPSP. Therefore, in connection with this offering, MPSP participants will be entitled to bonuses in respect of the plan year ending December 31, 2013 calculated as described above under "Management Profit Sharing Plan" and, subject to their consent, we will terminate the MPSP following such bonus payments.

Changes to Our Annual Incentive Compensation Program

Commencing in 2014, we will increase the target incentive under the AIP for certain employees, including certain Named Executive Officers. In the case of Mr. Lopez, his target incentive under the AIP will be increased from 70% of his base salary to 90% of his base salary. With respect to each of Mr. Ramsey and Mr. John McDonald, the target incentive under the AIP will be increased from 65% of base salary to 70% of base salary.

In addition, commencing in 2014, we will adjust how we measure performance for purposes of the AIP. We will change the company component of the performance measures from net income targets to Adjusted EBITDA targets, and we will include an annual industry attendance adjustment so that participants will not be penalized or rewarded for non-controllable industry results.

Changes to Executive Stock Ownership Guidelines

In connection with this offering, we will adopt new stock ownership guidelines for our executives, including our Named Executive Officers. Our chief executive officer will be required to acquire and hold shares of our common stock with a fair value at least equal to three times his base salary, and the other Named Executive Officers will be required to acquire and hold shares of our common stock with a fair value at least equal to two times their respective base salaries. Each Named Executive Officer will be required to achieve the applicable guideline ownership amount within three years following this offering.

Changes to Compensation for Members of Our Board of Directors

In connection with this offering, we will modify the compensation program for members of our Board of Directors. With respect to each member of our Board of Directors, we will reduce the annual cash retainer from $100,000 to $50,000, and we will eliminate all cash meeting fees. Each member of our Board of Directors will receive an annual RSU grant under the 2013 Plan with a value of $100,000. We will reduce the annual cash retainer for members of our Audit Committee and our Compensation Committee from $20,000 to $5,000, and members of our Nominating & Corporate Governance Committee will receive an annual cash retainer of $5,000. The chair of our Audit Committee will receive an annual cash retainer of $15,000, and the chairs of our Compensation Committee and our Nominating & Corporate Governance Committee each will receive an annual cash retainer of $10,000.

Changes to Stock Ownership Guidelines for Members of Our Board of Directors

In connection with this offering, we will adopt new stock ownership guidelines for members of our Board of Directors. Members of our Board of Directors will be required to hold at least the same number of shares of our common stock as they are granted during their first year of service.

New Employment Agreement for Mr. Lopez

In connection with the offering, we will enter into a new employment agreement with Mr. Lopez that will be effective upon consummation of the offering. The new employment agreement will contain terms similar to those under Mr. Lopez's current employment agreement, described below under "Description of Employment Agreements Salary and Bonus Amounts." Mr. Lopez's new employment agreement will include a three-year initial term, with automatic one-year extensions each year unless we or Mr. Lopez provides notice not to extend. The agreement also will continue his current annual base salary of $835,000, but will increase his target incentive bonus for fiscal year 2014 to 90% of his base salary. In addition, Mr. Lopez's agreement will provide for a special incentive bonus of $1.2 million that vests at the rate of $400,000 per year over three years, provided he remains employed on each applicable vesting date.

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Summary Compensation Table

The following table presents information regarding compensation of our principal executive officer, our principal financial officer, and our three other most highly compensated executive officers for services rendered during the Transition Period of March 30, 2012 through December 31, 2012. These individuals are referred to as "Named Executive Officers."

Name and Principal Position(1)	Year(2)	Salary ($)	Bonus ($)(3)	Stock Awards ($)(4)	Option Awards ($)(5)	Non-Equity Incentive Plan Compensation ($)(6)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(7)(8)	All Other Compensation ($)(9)	Total ($)
Gerardo I. Lopez	T2012	$ 567,150	$ 1,750,000	$	$	$ 1,520,698	$ 7,387	$ 257,793	$ 4,103,028
Chief Executive	FY2012	753,480	400,000	198,151		358,670		31,304	1,741,605
Officer, President and	FY2011	728,000	400,000	985,845	307,819	203,800		41,903	2,667,367
Director (Parent, AMCE and									
American Multi-Cinema, Inc.)									
Craig R. Ramsey	T2012	325,192	1,500,000			734,298	32,771	163,682	2,755,943
Executive Vice President	FY2012	428,505		118,815		203,335	61,184	17,177	829,016
and Chief Financial	FY2011	408,100		591,582	184,750	106,100	45,696	14,662	1,350,890
Officer (Parent, AMCE and									
American Multi-Cinema, Inc.)									
Elizabeth Frank	T2012	328,846	1,000,000			655,678		60,286	2,044,810
Executive Vice President and									
Chief Content and									
Programming Officer (Parent,									
AMCE and American									
Multi-Cinema, Inc.)									
John D. McDonald	T2012	317,885	350,000			722,338	131,409	161,784	1,683,416
Executive Vice President	FY2012	422,384		118,815		186,690	147,751	15,156	890,796
U.S. Operations (Parent,	FY2011	408,100		591,582	184,750	66,313	85,763	14,536	1,351,044
AMCE and American									
Multi-Cinema, Inc.)									
Mark A. McDonald	T2012	237,500	350,000			529,678	87,794	59,020	1,263,992
Executive Vice President,									
Global Development									
(Parent, AMCE and American									
Multi-Cinema, Inc.)									

(1) The principal positions shown are at December 31, 2012. Compensation amounts for Ms. Elizabeth Frank and Mr. Mark McDonald are only provided for years where they were a Named Executive Officer.

(2) The Transition Period ("T2012") reflects the compensation earned from March 30, 2012 through December 31, 2012. FY2012 and FY2011 represents the time period of the fifty-two weeks ended March 29, 2012 and March 31, 2011, respectively.

(3) The bonus activity in this column for T2012 reflects the one-time special incentive received by the Named Executive Officers for the Management Bonus. For fiscal 2012 and fiscal 2011, the bonus activity for Mr. Lopez reflects the vested portion of his Special Incentive Bonus.

(4) As required by SEC Rules, amounts shown in the column, "Stock Awards," for fiscal 2012 and fiscal 2011 presents the aggregate grant date fair value of restricted stock awards granted in the fiscal year in accordance with accounting rules ASC 718, *Compensation Stock Compensation*. The estimated fair value of the stock at the grant date was approximately $15.25 per share in fiscal 2012 and $752 per share in fiscal 2011 and was based upon a contemporaneous valuation reflecting market conditions. The valuation assumptions used for the restricted stock awards are provided in Note 10 Stockholders' Equity to the Company's audited Consolidated Financial Statements contained elsewhere in this prospectus. The restricted share (time vesting) grants, which were made in fiscal 2011, were to have vested on the fourth anniversary of the date of grant, subject to the Named Executive Officer's continued service with the Company. These awards were cancelled in connection with the Merger and holders received payments for each restricted share (time vesting) and fiscal 2013 and fiscal 2014 restricted stock (performance vesting) equal to the per share consideration received in the Merger. Amounts received for these restricted shares are reflected in the "Option Exercises and Stock Vested Transition Period" table

below. Of the total restricted share (performance vesting) awards approved by the Compensation Committee, approximately twenty-five percent of the total awards were to have been granted each year over a four-year period in accordance with ASC 718-10-55-95. The restricted share (performance vesting) grants for fiscal 2012 and fiscal 2011 had a vesting term of approximately one year upon the Company meeting a pre-established annual adjusted EBITDA target of $340.0 million and $387.8 million, respectively. The Named Executive Officers did not vest in the restricted share (performance vesting) grants for either fiscal 2012 or fiscal 2011 as the Company did not meet the adjusted EBITDA target established by the Compensation Committee.

(5) As required by SEC Rules, amounts shown in the column, "Option Awards," presents the aggregate grant date fair value of option awards granted in the fiscal year in accordance with accounting rules ASC 718, *Compensation Stock Compensation* . These amounts reflect the Company's cumulative accounting expense over the vesting period and do not correspond to the actual values that were to be realized by the Named Executive Officers. Options were to acquire shares of Parent common stock. The valuation assumptions used for the stock option awards are provided in Note 10 Stockholders' Equity to the audited Company's Consolidated Financial Statements contained elsewhere in this prospectus.

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In July 2010, the Named Executive Officers received a grant of non-qualified stock options under the 2010 Equity Incentive Plan. The options were to vest in four equal annual installments, subject to continued employment. The stock options were to expire after ten years from the date of the grant. The estimated grant date fair value of the options was $5.93 per share and was determined using the Black-Scholes option-pricing model. The option exercise price was $15.19 per share.

No option awards granted to Named Executive Officers in the above table were forfeited in fiscal 2012 or fiscal 2011. All vested and unvested stock options were cancelled in connection with the Merger and holders received payments for each option equal to the difference (if any) between the per share consideration received in the Merger and the exercise price of the options. Amounts received for these options in connection with the Merger are reflected in the "Option Exercises and Stock Vested Transition Period" table below.

(6)

For the Transition Period, bonus amounts were approved for both the company component bonus and the individual component bonus of the annual incentive compensation plan. The Company attained a net income of over 200% of target, which is equivalent to a 200% payout of the assigned bonus target for the company component. The individual component bonus of the AIP was approved during the first quarter of calendar 2013 following a review of each Named Executive Officer's individual performance and contribution to the Company's strategic and financial goals. For the MPSP plan year ended December 31, 2012, the Company obtained an adjusted net income of $25.5 million. The Compensation Committee approved the MPSP bonus of 10% for the Transition Period and each Named Executive Officer received a pro rata amount of the total award based on the proportion of his/her targeted bonus amount to the aggregate of the targeted bonus amounts for all participants. The following table shows the Non-Equity Incentive Plan Compensation provided to the Named Executive Officers for T2012:

	AIP Company Component	AIP Individual Component	MPSP	Total Non-Equity Incentive Plan Compensation
Gerardo I. Lopez	$ 869,200	$ 130,380	$ 521,118	$ 1,520,698
Craig R. Ramsey	462,800	69,420	202,078	734,298
Elizabeth Frank	324,000	129,600	202,078	655,678
John D. McDonald	452,400	67,860	202,078	722,338
Mark A. McDonald	234,000	93,600	202,078	529,678

For fiscal 2012, bonus amounts were approved for both the company component bonus and the individual component bonus of the AIP. The Company attained an adjusted EBITDA of 96% of target, which is equivalent to a 60% payout of the assigned bonus target for the company component. The individual component bonus of the annual incentive compensation plan was approved during the first quarter of fiscal 2013 following a review of each Named Executive Officer's individual performance and contribution to the Company's strategic and financial goals.

For fiscal 2011, the individual component bonus of the annual incentive compensation plan was approved during the first quarter of fiscal 2012 following a review of each Named Executive Officer's individual performance and contribution to the Company's strategic and financial goals. No company component bonuses were earned for fiscal 2011 under the annual incentive compensation program because the Company did not meet the minimum 90% of targeted adjusted EBITDA threshold. Further discussion on the annual incentive bonus program for the Named Executive Officers can be found in the Compensation Discussion and Analysis Annual Performance Bonus section.

(7)

This column includes the aggregate increases and decreases in actuarial present value of each officer's accumulated benefit amounts:

		Defined Benefit Plan	Supplemental Executive Retirement Plan
Craig R. Ramsey	T2012	$ 21,581	$ 11,190
	FY2012	39,071	20,258
	FY2011	17,441	9,043
John D. McDonald	T2012	84,072	43,591
	FY2012	97,301	50,450
	FY2011	44,869	23,264
Mark A. McDonald	T2012	53,717	26,053

(8)

This column also includes the nonqualified deferred compensation above market earnings for the difference between market interest rates determined pursuant to SEC rules and the interest contingently credited by the Company on salary deferred by the Named Executive Officers. For the Transition Period, the above market earnings of 4.9% to 7.8% for Mr. John McDonald, Mr. Mark McDonald, and Mr. Gerardo Lopez were $3,746, $8,024, and $7,387, respectively. For fiscal 2012, the above market earnings of 4.1% for Mr. Craig Ramsey were $1,855. For fiscal 2011, above market earnings of 17.6% to 23.8% for Mr. Craig Ramsey and Mr. John McDonald were $19,212 and $17,630, respectively. Further discussion on the nonqualified deferred compensation for the Named Executive Officers can be found in the *Compensation Discussion and Analysis* Nonqualified Deferred

Compensation section.

(9) All Other Compensation is comprised of Company matching contributions under our 401(k) savings plan which is a qualified defined contribution plan, life insurance premiums, amusement park passes, and amounts received upon cancellation of unvested restricted stock

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(performance vesting) awards in connection with the Merger. The following table summarizes "All Other Compensation" provided to the Named Executive Officers for the Transition Period:

	Company Matching Contributions to 401(k) Plan	Life Insurance Premiums	Amusement Park Pass	Imputed Earnings for Gift Card	Settlement of Restricted Stock (performance vesting)	Total
Gerardo I. Lopez	$	$ 1,311	$	$	$ 256,482	$ 257,793
Craig R. Ramsey	6,124	3,762		5	153,791	163,682
Elizabeth Frank	6,640	545	2,000		51,101	60,286
John D. McDonald	5,542	2,451			153,791	161,784
Mark A. McDonald	6,731	1,188			51,101	59,020

In connection with the change of control, this column also includes the fair value settlement of the fiscal 2013 and fiscal 2014 restricted stock (performance vesting) for T2012. The fiscal 2013 and fiscal 2014 restricted stock (performance vesting) had not been granted per ASC 718-10-55-95 as the Compensation Committee did not approved the performance target for the restricted stock (performance vesting) due to the Merger. The unvested restricted stock (performance vesting) awards for fiscal 2013 and fiscal 2014 were cancelled immediately prior to the closing of the Merger. Holders of unvested restricted stock (performance vesting) awards received payments for each restricted share equal to the per share consideration received in the Merger.

Compensation of Named Executive Officers

The Summary Compensation Table above quantifies the value of the different forms of compensation earned by or awarded to our Named Executive Officers during the Transition Period. The primary elements of each Named Executive Officer's total compensation reported in the table generally are base salary and annual bonus, although for the 2012 Transition Period the Management Bonus was a significant component of the Named Executive Officers' total compensation.

The Summary Compensation Table should be read in conjunction with the tables and narrative descriptions that follow. A description of the material terms of each Named Executive Officer's base salary and annual bonus is provided below.

The "Pension Benefits" table and related description of the material terms of our pension plans describe each Named Executive Officer's retirement benefits under the Companies' defined-benefit pension plans to provide context to the amounts listed in the Summary Compensation Table. The "Grant of Plan-based Awards" table and related footnotes provides material terms of the Company's annual incentive plan and MPSP plan. The discussion in the section "Potential Payments Upon Termination or Change of Control" explains the potential future payments that may become payable to our Named Executive Officers. The Management Bonus is discussed in "Current Executive Compensation Program Elements Special Incentive Bonuses" under "Compensation Discussion and Analysis".

Description of Employment Agreements Salary and Bonus Amounts

We have entered into employment agreements with each of Mr. Gerardo Lopez, Mr. Craig Ramsey, Ms. Elizabeth Frank, Mr. John McDonald, and Mr. Mark McDonald. Provisions of these agreements relating to an outstanding incentive award and post-termination of employment benefits are discussed below.

Gerardo I. Lopez. On February 23, 2009, AMC Entertainment Inc. entered into an employment agreement with Gerardo I. Lopez to serve as its Chief Executive Officer. The term of the agreement is for three years, with automatic one-year extensions each year. The agreement provides that Mr. Lopez will receive an initial annualized base salary of $700,000. The Board of Directors or Compensation Committee, based on its review, has discretion to increase (but not reduce) the base salary each year. The agreement also provides for annual bonuses for Mr. Lopez determined by the Board or Compensation Committee based on performance objectives established with respect to that particular year. In addition, Mr. Lopez is receiving a one-time special incentive bonus that vests at the rate of $400,000 per year over five years, effective March 2009, provided he remains employed on each vesting date. The first four installments of the special incentive bonus were paid as of March 2013 and the fifth installment is payable upon vesting. In making its determination with respect to salary and bonus levels, the Compensation Committee considers the factors discussed in the "Current Executive Compensation Program Elements" of the Compensation Discussion and Analysis above. The agreement also provides that Mr. Lopez will be eligible for benefits offered by the Company to other executive officers and will be entitled to reimbursements for expenses reasonably incurred in connection with related business expenses and travel. Change of control, severance arrangements and restrictive covenants in Mr. Lopez's employment agreement are discussed in detail below in the narrative section "Potential Payments Upon Termination or Change of Control." Following the offering, we plan to enter into a new employment agreement with Mr. Lopez. See "Post-offering Compensation New Employment Agreement for Mr. Lopez."

Craig R. Ramsey. On July 1, 2001, AMC and AMCE entered into an employment agreement with Craig R. Ramsey, who serves as the Executive Vice President and Chief Financial Officer of the Company and reports directly to AMCE's Chairman of the Board, President and Chief Executive Officer. The term of the agreement is for two years, with automatic one-year extensions each year. The agreement provides that Mr. Ramsey will receive an initial annualized base salary of $275,000. Subject to their review, the Chairman of the Board, President and Chief Executive Officer of AMCE and, if applicable, the Compensation Committee has discretion to increase the base salary each year. The agreement also provides for annual bonuses for Mr. Ramsey based on the applicable incentive compensation program of the Company and consistent with the determination of the Chairman of the Board, President and Chief Executive Officer of AMCE and, if applicable, the Compensation Committee. In making its determination with respect to salary and bonus levels, the Compensation Committee considers the factors discussed in the "Current Executive Compensation Program Elements" of the Compensation Discussion and Analysis above. In addition, the agreement provides that Mr. Ramsey will be eligible for benefits offered by the Company to other executive officers and will be entitled to reimbursements for expenses reasonably incurred in connection with business travel and entertainment. Change of control and severance arrangements in Mr. Ramsey's employment agreement are discussed in detail below in the narrative section "Potential Payments Upon Termination or Change of Control."

Elizabeth Frank. On August 18, 2010, AMC Entertainment Inc. entered into an employment agreement with Elizabeth Frank, who currently serves as the Executive Vice President and Chief Content and Programming Officer. The term of the agreement is for two years, with automatic one-year extensions each year. The agreement provides that Ms. Frank will receive an initial annualized base salary of $300,000. Subject to their review, the Board or the Compensation Committee has discretion to increase (but not reduce) the base salary each year. The agreement also provides for annual bonuses for Ms. Frank and the target incentive for a particular fiscal year of the Company shall be determined by the Board of Directors or the Compensation Committee, in its sole discretion, based on performance objectives. The target incentive bonus for each fiscal year during the period of employment shall equal 60% of the base salary. In making its determination with respect to salary and bonus levels, the Committee considers the factors discussed in the "Current Executive Compensation Program Elements" of the Compensation Discussion and Analysis above. In addition, the agreement provides that Ms. Frank will be eligible for benefits offered by the Company to other executive officers and will be entitled to reimbursements for expenses reasonably incurred in connection with carrying out the Executive's duties for the Company. Severance arrangements in Ms. Frank's employment agreement are discussed in detail below in the narrative section "Potential Payments Upon Termination or Change of Control."

John D. McDonald. On July 1, 2001, AMC and AMC Entertainment Inc. entered into an employment agreement with John D. McDonald, who serves as an Executive Vice President, U.S. Operations. Mr. McDonald reports directly to AMC's President and Chief Operating Officer or such officer's designee. The term of the agreement is for two years, with automatic one-year extensions each year. The agreement provides that Mr. McDonald will receive an initial annualized base salary of $275,000. Subject to their review, the President and Chief Operating Officer of AMC with the approval of AMC Entertainment's Chairman of the Board, President and Chief Executive Officer and, if applicable, the Compensation Committee have discretion to increase the base salary each year. The agreement also provides for annual bonuses for Mr. McDonald based on the applicable incentive compensation program of the Company and consistent with the determination of the President and Chief Operating Officer of AMC with the approval of AMC Entertainment's Chairman of the Board, President and Chief Executive Officer and, if applicable, the Compensation Committee. In making its determination with respect to salary and bonus levels, the Compensation Committee considers the factors discussed in the "Current Executive Compensation Program Elements" of the Compensation Discussion and Analysis above. In addition, the agreement provides that Mr. McDonald will be eligible for benefits offered by the Company to other executive officers and will be entitled to reimbursements for expenses reasonably incurred in connection with business travel and entertainment. Change of control and severance arrangements in Mr. McDonalds' employment agreements are discussed in detail below in the narrative section "Potential Payments Upon Termination or Change of Control."

Mark A. McDonald. On July 1, 2001, AMC Entertainment Inc. entered into an employment agreement with Mark A. McDonald who currently serves as the Executive Vice President of Global Development. The term of the agreement is for two years, with automatic one-year extensions each year. The agreement provides that Mr. McDonald will receive an initial annualized base salary of $225,000 subject to review by the Chairman of the Board, President and Chief Executive Officer of AMCE and, if applicable, the Compensation Committee. The agreement also provides for annual bonuses for Mr. McDonald based on the applicable incentive compensation program of the Company and consistent with the determination of the Chairman of the Board, President and Chief Executive Officer of AMCE and, if applicable, the Compensation Committee. In making its determination with respect to salary and bonus levels, the Committee considers the factors discussed in the "Current Executive Compensation Program Elements" of the Compensation Discussion and Analysis above. In addition, the agreement provides that Mr. McDonald will be eligible for benefits offered by the Company to other executive officers and will be entitled to reimbursements for expenses reasonably incurred in connection with business travel and entertainment. Change in control and severance arrangements in Mr. McDonald's employment agreement are discussed in detail below in the narrative section "Potential Payments Upon Termination or Change in Control."

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Grants of Plan-based Awards Transition Period

The following table summarizes plan-based awards granted to Named Executive Officers during the Transition Period of March 30, 2012 through December 31, 2012:

Name	Grant Date	Approval Date	Estimated Possible Future Payouts Under Non-Equity Incentive Plan Awards Threshold ($)	Target ($)	Maximum ($)	Estimated Possible Payouts Under Equity Incentive Plan Awards Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards
Gerardo I. Lopez												
AIP Company(1)	N/A	N/A	$	$ 434,600	$ 869,200						$	$
AIP Individual(2)	N/A	N/A		108,650	162,975							
MPSP(3)	N/A	N/A		204,128	521,118(4)							
Craig R. Ramsey												
AIP Company(1)	N/A	N/A		231,400	462,800							
AIP Individual(2)	N/A	N/A		57,850	86,775							
MPSP(3)	N/A	N/A		79,156	202,078(4)							
Elizabeth Frank												
AIP Company(1)	N/A	N/A		162,000	324,000							
AIP Individual(2)	N/A	N/A		108,000	162,000							
MPSP(3)	N/A	N/A		79,156	202,078(4)							
John D. McDonald												
AIP Company(1)	N/A	N/A		226,200	452,400							
AIP Individual(2)	N/A	N/A		56,550	84,825							
MPSP(3)	N/A	N/A		79,156	202,078(4)							
Mark A. McDonald												
AIP Company(1)	N/A	N/A		117,000	234,000							
AIP Individual(2)	N/A	N/A		78,000	117,000							
MPSP(3)	N/A	N/A		79,156	202,078(4)							

(1) The company component bonus of the annual incentive compensation program was based primarily on attainment of a net income target of $1.0 million for the 12 months ended December 31, 2012. The plan guideline was that no company performance component of the bonus would be paid below attainment of 100% of targeted net income and that upon attainment of 100% of targeted net income, each Named Executive Officer would receive 100% of his/her assigned bonus target. For each $1.0 million of additional net income generated in the calendar year (amounts in excess of $1.0 million of net income but not exceeding $21.0 million of net income), 5% of additional AIP payout would be awarded up to a maximum award of 200% of the target payout. The Compensation Committee approved the company component bonus of 200% for the Transition Period under the annual incentive compensation program.

(2) The individual component bonus of the annual incentive compensation plan for the Transition Period was determined during the first quarter of calendar 2013 following a review of each Named Executive Officer's individual performance and contribution to the Company's strategic and financial goals.

(3) The amounts shown in this row presents the management profit sharing plan, also known as MPSP, which was based on attainment of an adjusted net income target of $10.0 million for the plan year ended December 31, 2012. Upon attainment of 100% of targeted adjusted net income, each Named Executive Officer would receive 100% of his/her assigned bonus target. If the adjusted net income is equal to or exceeds 100% of targeted adjusted net income, the Company will pay 10% of the adjusted net income and each Named Executive Officer will receive a pro rata amount of the total award based on the proportion of his/her targeted bonus amount to the aggregate of the targeted bonus amounts for all participants. The MPSP bonus for each plan year is unlimited. For the plan year ended December 31, 2012, the Company obtained an adjusted net income of $25.5 million. The Compensation Committee approved the MPSP bonus of 10% for the Transition Period and each Named Executive Officer received his/her assigned pro rata bonus amount.

(4)

Amounts shown represent actual award as MPSP is based on 10% of adjusted net profit.

Outstanding Equity Awards at end of December 31, 2012

There were no outstanding equity awards of Parent's common stock held by our Named Executive Officers as of December 31, 2012.

Option Exercises and Stock Vested Transition Period

None of our Named Executive Officers exercised options during the Transition Period. Upon the change of control as a result of the Merger, all of the stock options and restricted stock interests under both the amended and restated 2004 Stock Option Plan and the 2010 Equity Incentive Plan were cancelled immediately prior to the closing of the Merger on August 30, 2012. Named Executive

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Officers who held such options received payments for each option equal to the difference (if any) between the per share consideration received in the Merger and the exercise price of their options. Named Executive Officers who held the unvested restricted stock awards received payments for each restricted share equal to the per share consideration received in the Merger. The following table summarizes the settlement payments made to the Named Executive Officers during the Transition Period:

	2004 Stock Option Settlement		2010 Stock Option Settlement		2010 Restricted Stock Settlement (Time Vesting)		2010 Restricted Stock Settlement (Performance Vesting)	
	Number of Shares Cancelled (#)	Value Realized on Settlement ($)(1)	Number of Shares Cancelled (#)	Value Realized on Settlement ($)(1)	Number of Shares Cancelled (#)	Value Realized on Settlement ($)(1)	Number of Shares Cancelled (#)	Value Realized on Settlement ($)(2)
Gerardo I. Lopez	15,980.5	$ 2,637,605	51,890.67		51,890.67	$ 512,474	25,970.09	$ 256,482
Craig R. Ramsey	4,092.3		31,144.31		31,144.31	307,582	15,572.15	153,791
Elizabeth Frank			10,397.94		10,397.94	102,690	5,174.21	51,101
John D. McDonald	2,046.1		31,144.31		31,144.31	307,582	15,572.15	153,791
Mark A. McDonald	2,046.1		10,397.94		10,397.94	102,690	5,174.21	51,101

(1) The value of the shares shown in these columns were included in the "Stock Awards" and "Option Awards" column of the Summary Compensation Table in prior years based on grant date fair values.

(2) The amount in this column is included in the All Other Compensation column of the Summary Compensation Table for T2012.

Payment and Release of Escrowed Funds. In connection with the closing of the Merger and as defined in the Merger Agreement, $35.0 million of consideration otherwise payable to equity holders was deposited in an Indemnity Escrow Fund and $2.0 million otherwise payable to equity holders was deposited in an account designated by the Stockholder Representative. On or following the Indemnity Escrow Termination Date and the release of all amounts remaining in the Indemnity Escrow Fund and the release of any portion of the Stockholder Representative Reserve, the Named Executive Officers would receive a maximum settlement in the future year as follows:

	2004 Stock Option Plan(1)	2004 Stock Option Plan	Restricted Stock (Time Vesting)(1)	Restricted Stock (Performance Vesting)(2)
Gerardo I. Lopez	$ 269,635	$ 179,757	$ 29,471	$ 14,749
Craig R. Ramsey	106,536		17,689	8,844
Elizabeth Frank			5,906	2,938
John D. McDonald	53,268		17,689	8,844
Mark A. McDonald	53,268		5,906	2,938

(1) The value of the shares shown in these columns were included in the "Stock Awards" and "Option Awards" column of the Summary Compensation Table in prior years based on grant date fair values.

(2) The amount in this column represents the maximum amount that will be included in the "All Other Compensation" column of the Summary Compensation Table in the year the Named Executive Officer receives payment.

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Pension Benefits

The following table presents information regarding the present value of accumulated benefits that may become payable to the Named Executive Officers under our qualified and nonqualified defined-benefit pension plans.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit(1) ($)	Payments During Transition Period ($)
Gerardo I. Lopez			$	
Craig R. Ramsey	Defined Benefit Retirement Income Plan	12.00	257,942	
	Supplemental Executive Retirement Plan	12.00	133,741	
Elizabeth Frank				
John D. McDonald	Defined Benefit Retirement Income Plan	31.05	544,113	
	Supplemental Executive Retirement Plan	31.05	282,118	
Mark A. McDonald	Defined Benefit Retirement Income Plan	26.60	429,560	
	Supplemental Executive Retirement Plan	26.60	208,342	

(1) The accumulated benefit is based on service and earnings considered by the plans for the period through December 31, 2012. The present value has been calculated assuming the Named Executive Officers will remain in service until age 65, the age at which retirement may occur without any reduction in benefits, and that the benefit is payable under the available forms of annuity consistent with the plans. The interest assumption is 4.17%. The post-retirement mortality assumption is based on the 2012 IRS Prescribed Mortality-Static Annuitant, male and female mortality table. See Note 12 Employee Benefit Plans of the Notes to the Company's audited Consolidated Financial Statements contained elsewhere in this prospectus for more information.

Pension and Other Retirement Plans

We provide retirement benefits to the Named Executive Officers under the terms of qualified and non-qualified defined-benefit plans. The AMC Defined Benefit Retirement Income Plan is a tax-qualified retirement plan in which the Named Executive Officers participate on substantially the same terms as our other participating employees. However, due to maximum limitations imposed by ERISA and the Internal Revenue Code on the annual amount of a pension which may be paid under a qualified defined-benefit plan, the benefits that would otherwise be payable to the Named Executive Officers under the Defined Benefit Retirement Income Plan are limited. Because we did not believe that it was appropriate for the Named Executive Officers' retirement benefits to be reduced because of limits under ERISA and the Internal Revenue Code, we have non-qualified supplemental defined-benefit plans that permit the Named Executive Officers to receive the same benefit that would be paid under our qualified defined-benefit plan up to the old IRS limit, as indexed, as if the Omnibus Budget Reconciliation Act of 1993 had not been in effect. On November 7, 2006, our Board of Directors approved a proposal to freeze the AMC Defined Benefit Retirement Income Plan and the AMC Supplemental Executive Retirement Plan, effective as of December 31, 2006. As amended, benefits do not accrue after December 31, 2006, but vesting continues for associates with less than five years of vesting service. The material terms of the AMC Defined Benefit Retirement Income Plan and the AMC Supplemental Executive Retirement Plan are described below.

AMC Defined Benefit Retirement Income Plan. The AMC Defined Benefit Retirement Income Plan is a non-contributory defined-benefit pension plan subject to the provisions of ERISA. As mentioned above, the plan was frozen effective December 31, 2006.

The plan provides benefits to certain of our employees based upon years of credited service and the highest consecutive five-year average annual remuneration for each participant. For purposes of calculating benefits, average annual compensation is limited by Section 401(a)(17) of the Internal Revenue Code, and is based upon wages, salaries and other amounts paid to the employee for personal services, excluding certain special compensation. Under the defined benefit plan, a participant earns a vested right to an accrued benefit upon completion of five years of vesting service.

AMC Supplemental Executive Retirement Plan. AMC also sponsors a Supplemental Executive Retirement Plan to provide the same level of retirement benefits that would have been provided under the retirement plan had the federal tax law not been changed in the Omnibus Budget Reconciliation Act of 1993 to reduce the amount of compensation which can be taken into account in a qualified retirement plan. The plan was frozen, effective December 31, 2006, and no new participants can enter the plan and no additional benefits can accrue thereafter.

Subject to the forgoing, any individual who is eligible to receive a benefit from the AMC Defined Benefit Retirement Income Plan after qualifying for early, normal or late retirement benefits thereunder, the amount of which is reduced by application of the maximum limitations imposed by the Internal Revenue Code, is eligible to participate in the Supplemental Executive Retirement Plan.

The benefit payable to a participant equals the monthly amount the participant would receive under the AMC Defined Benefit Retirement Income Plan without giving effect to the maximum recognizable compensation for qualified retirement plan purposes imposed by the Internal Revenue Code, as amended by Omnibus Budget Reconciliation Act of 1993, less the monthly amount of the retirement benefit actually payable to the participant under the AMC Defined Benefit Retirement Income Plan, each as calculated as of December 31, 2006. The benefit is an amount equal to the actuarial equivalent of his/her benefit, computed by the formula above, payable in either a lump sum (in certain limited circumstances, specified in the plan) or equal semi-annual installments over a period of two to ten years, with such form, and, if applicable, period, having been irrevocably elected by the participant.

If a participant's employment with AMC terminates for any reason (or no reason) before the earliest date he/she qualifies for early, normal or late retirement benefits under the AMC Defined Benefit Retirement Income Plan, no benefit is payable under the Supplemental Executive Retirement Plan.

Nonqualified Deferred Compensation

The following table presents information regarding the contributions to and earnings on the Named Executive Officers' deferred compensation balances during the Transition Period of March 30, 2012 through December 31, 2012:

Name	Executive Contributions in Last FY ($)(1)	Registrant Contributions in Last FY ($)	Aggregate Earnings in Last FY ($)(2)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)(3)
Gerardo I. Lopez	$ 131,347	$	$ 11,695	$	$ 160,773
Craig R. Ramsey	21,801		6,242		236,865
Elizabeth Frank					
John D. McDonald	44,021		9,237		199,237
Mark A. McDonald	36,956		19,387	(4,358)	412,581

(1) These amounts represent payroll deductions for the applicable executive and are therefore included in the Summary Compensation Table.

(2) Of the amounts shown in this column, the following amounts are reported as above-market earnings on deferred compensation in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column of the Summary Compensation Table: Mr. Gerardo Lopez $7,387 and Mr. John McDonald $3,746, and Mr. Mark McDonald $8,024.

(3) The amounts reported include amounts included in Summary Compensation Table for current and prior years.

Non-Qualified Deferred Compensation Plan

AMC permits the Named Executive Officers and other key employees to elect to receive a portion of their compensation reported in the Summary Compensation Table on a deferred basis. Deferrals of compensation during the Transition Period and in recent years have been made under the AMC Non-Qualified Deferred Compensation Plan. Participants of the plan are able to defer annual salary and bonus (excluding commissions, expense reimbursement or allowances, cash and non-cash fringe benefits and any stock-based incentive compensation). Amounts deferred under the plans are credited with an investment return determined as if the participant's account were invested in one or more investment funds made available by the Committee and selected by the participant. AMC may, but need not, credit the deferred compensation account of any participant with a discretionary or profit sharing credit as determined by AMC. The deferred compensation account will be distributed either in a lump sum payment or in equal annual installments over a term not to exceed 10 years as elected by the participant and may be distributed pursuant to in-service withdrawals pursuant to certain circumstances. Any such payment shall commence upon the date of a "Qualifying Distribution Event" (as such term is defined in the Non-Qualified Deferred Compensation Plan). The Qualifying Distribution Events are designed to be compliant with Section 409A of the Internal Revenue Code.

Pursuant to his employment agreement, Mr. Gerardo Lopez is entitled to a one-time special incentive bonus of $2.0 million that vests at the rate of $400,000 per year over five years, effective March 2009, provided that he remains employed on each vesting date. The first four installments of the special incentive bonus were paid as of March 2013 and the fifth installment is payable upon vesting.

Potential Payments Upon Termination or Change of Control

The following section describes the benefits that may become payable to certain Named Executive Officers in connection with a termination of their employment with Parent and/or a change of control of Parent, changes in responsibilities, salary or benefits.

Assumptions. As prescribed by the SEC's disclosure rules, in calculating the amount of any potential payments to the Named Executive Officers under the arrangements described below, we have assumed that the applicable triggering event (i.e., termination of employment and/or change of control) occurred on the last day of the Transition Period.

Gerardo I. Lopez

Mr. Lopez's employment agreement, described above under "Employment Agreements Salary and Bonus Payments," provides for certain benefits to be paid to Mr. Lopez in connection with a termination of his employment with AMC Entertainment Inc. under the circumstances described below.

Severance Benefits. In the event Mr. Lopez's employment is terminated during the employment term by AMC Entertainment without cause (other than due to death or "Disability"), or by Mr. Lopez pursuant to a termination for "Good Reason" or after a "Change of Control" (as those terms are defined in the employment agreement), Mr. Lopez will be entitled to severance pay equal to two times the sum of his base salary plus the average of each Annual Incentive Plan bonus paid to him during the 24 months preceding the severance date to be paid in equal installments over a period of twenty-four consecutive months. The remaining unpaid Special Incentive Bonus of $800,000 shall immediately vest in full upon Mr. Lopez's involuntary termination within twelve months after a change of control, as defined in the employment agreement.

If Mr. Lopez had his employment terminated with us on December 31, 2012 pursuant to his employment agreement under the circumstances described in the preceding paragraph, we estimate that he would have been entitled to a cash payment equal to $1.6 million. This amount is derived by multiplying two by the sum of $776,100, which represents Mr. Lopez's annualized base salary rate in effect on December 31, 2012. Mr. Lopez also would have been entitled to a cash payment equal to the average of each Annual Incentive Plan bonus paid during the past 24 months. Mr. Lopez received an Annual Incentive Plan bonus for the Transition Period, based on calendar 2012 results, and for fiscal 2012 of $999,580 and $358,670, respectively, which would entitle him to receive an average Annual Incentive Plan cash payment of $679,125. The remaining two-fifths of the Special Incentive Bonus of $2.0 million, or $800,000, shall immediately vest and be paid in full upon Mr. Lopez's involuntary termination within twelve months after a change of control.

Other Named Executive Officers

The employment agreements for each of the other Named Executive Officers, described above under "Employment Agreements Salary and Bonus Payments," provide for certain benefits to be paid to the executive in connection with a termination of his/her employment with AMC or AMC Entertainment under the circumstances described below and/or a change of control of AMC or AMC Entertainment.

Severance Benefits. In the event the executive's employment is terminated during the employment term as a result of the executive's death or "Disability" or by AMC or AMC Entertainment pursuant to a "Termination Without Cause" or by the executive following certain changes in his/her responsibilities, annual base salary or benefits, the executive (or his/her personal representative) will be entitled to a lump cash severance payment equal to two years of his/her base salary then in effect. Ms. Frank will be entitled to receive cash severance payments equal to two years of her individual base salary in equal installments over a period of twenty-four consecutive months and, pursuant to her employment agreement, is not entitled to severance benefits for an employment termination resulting from death or "Disability".

Upon a termination of employment with us on December 31, 2012 under the circumstances described in the preceding paragraph, we estimate that each Named Executive Officer (other than Mr. Lopez) would have been entitled to a lump sum cash payment as follows: Mr. Craig Ramsey $890,000; Ms. Elizabeth Frank $900,000; Mr. John McDonald $870,000; and Mr. Mark McDonald $650,000. These amounts are derived by multiplying the respective executive's annualized base salary rate in effect on December 31, 2012 by two.

Restrictive Covenants. Pursuant to each Named Executive Officer's employment agreement, the executive has agreed not to disclose any confidential information of AMC or AMC Entertainment at any time during or after his/her employment with AMC/AMC Entertainment.

Director Compensation Transition Period

The following section presents information regarding the compensation paid during Transition Period to members of our Board of Directors who are not our employees (referred to herein as "Non-Employee Directors"). The compensation paid to Mr. Gerardo I. Lopez, who is also an employee, is presented above in the Summary Compensation Table and the related explanatory tables. Mr. Lopez did not receive additional compensation for his service as a director.

Non-Employee Directors

One of our non-employee directors, Anthony J. Saich, receives an annual cash retainer of $100,000, plus an annual cash retainer of $20,000 for serving on an audit committee and an annual cash retainer of $20,000 for serving on a compensation committee, plus $2,500 for each board meeting or committee meeting. The other three non-employee directors do not receive any compensation from the Company. Prior to the Merger, we paid our directors an annual cash retainer of $50,000, plus $1,500 for each meeting of the board of directors they attended in person or by phone, plus $1,000 for each committee meeting they attended. We also reimbursed all directors for any out-of-pocket expenses incurred by them in connection with their services provided in such capacity. In connection with the offering, we will modify the compensation program for our directors, see " Post-offering Compensation Changes to Compensation for Members of our Board of Directors."

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The following table presents information regarding the compensation of our non-employee Directors from March 30, 2012 through December 31, 2012:

Name	Fees earned or paid in cash ($)	Stock Awards ($)	Option Awards ($)	Non-equity Incentive Plan Compensation ($)	Changes in Pension Value and Nonqualified Deferred Compensation ($)	All other Compensation ($)	Total ($)
Aaron J. Stone(1)	$ 1,500	$	$	$	$	$	$ 1,500
Dr. Dana B. Ardi(1)	1,500						1,500
Stephen P. Murray(1)	1,500						1,500
Philip H. Loughlin(1)	1,500						1,500
Eliot P. S. Merrill(1)	3,500						3,500
Brion B. Applegate(1)	3,500						3,500
Lee Solomon(1)	3,500						3,500
Lin Zhang(2)							
Chaohui Liu(2)							
Ning Ye(2)							
Anthony J. Saich(2)	91,666						91,666

(1) On August 30, 2012, in connection with the consummation of the Merger, Aaron J. Stone, Dana B. Ardi, Stephen P. Murray, Philip H. Loughlin, Eliot P.S. Merrill, Brion B. Applegate, and Lee Solomon resigned as members of the Boards of Directors.

(2) As a result of the Merger on August 30, 2012, Lin Zhang, Chaohui Liu, Ning Ye, and Anthony J. Saich were elected as members of the Company's Board of Directors.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee members whose names appear on the Compensation Committee Report were committee members during the period August 31, 2012 through December 31, 2012. Prior to the Merger, Stephen P. Murray, Aaron J. Stone, Eliot P.S. Merrill, and Philip Loughlin were Compensation Committee members during the period of March 30, 2012 through August 30, 2012. No member of the Compensation Committee who served at any time during the Transition Period is or has been a former or current executive officer of the Company or has had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related-party transactions. None of the Company's executive officers served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity that has one or more executive officers serving on our Board of Directors or on the Compensation Committee during the period March 30, 2012 through December 31, 2012.

Risk Oversight

The Board of Directors executes its oversight responsibility for risk management directly and through its Committees, as follows:

The Audit Committee has primary oversight responsibility with respect to financial and accounting risks. The Audit Committee discusses with management the Company's major financial risk exposures and the Company's risk assessment and risk management policies. Management provides to the Audit Committee periodic assessments of the Company's risk management processes and systems of internal control. The Chairman of the Audit Committee reports to the full Board regarding material risks as deemed appropriate.

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The Board's other Committees oversee risks associated with their respective areas of responsibility. For example, the Compensation Committee considers the risks associated with our compensation policies and practices, with respect to both executive compensation and compensation generally. The Board of Directors is kept abreast of its Committees' risk oversight and other activities via reports of the Committee Chairmen to the full Board. These reports are presented at every regular Board of Directors meeting and include discussions of Committee agenda topics, including matters involving risk oversight.

The Board of Directors considers specific risk topics, including risks associated with our Annual Operating Plan and our capital structure. In addition, the Board of Directors receives detailed regular reports from the members of our SLT that include discussions of the risks and exposures involved in their respective areas of responsibility. Further, the Board of Directors is routinely informed of developments that could affect our risk profile or other aspects of our business.

Policies and Practices as They Relate to Risk Management

The Compensation Committee believes the elements of the Company's executive compensation program effectively link performance-based compensation to financial goals and stockholders' interests without encouraging executives to take unnecessary or excessive risks in the pursuit of those objectives. The Compensation Committee believes that the overall mix of compensation elements is appropriately balanced and does not encourage the taking of short-term risks at the expense of long-term results. The long term incentive plan awards are payable in cash on an annual basis and are subject to the Company achieving a predetermined adjusted net profit target (as defined in the plan) for each plan year ending on December 31, 2012, 2013, 2014, and 2015. The Compensation Committee believes the long-term incentive bonus awards allow the Company to attract, retain and provide incentives to a talented management team, together with the Company stock owned by its executives, appropriately links the long-term interests of executives and stockholders, and balances the short-term nature of annual incentive cash bonuses and any incentives for undue risk-taking in our other compensation arrangements. Following the offering, we expect to adopt a new equity incentive plan. See " Post-offering Compensation 2013 Equity Incentive Plan."

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of our capital stock as of November 1, 2013 after giving effect to the Reclassification, with respect to:

- each person or group of affiliated persons known by us to own beneficially more than 5% of the outstanding shares of any class of its capital stock, together with their addresses;
- each of our directors and director nominees;
- each of our Named Executive Officers; and
- all directors and nominees and executive officers as a group.

Name and Address	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned Before Offering	Percentage of Shares Beneficially Owned After Offering
5% Beneficial Owners:			
Wanda America Investment Holding Co. Ltd., a wholly-owned indirect subsidiary of Dalian Wanda Group Co., Ltd.(1)	75,826,927	99.77%	80.03%(4)
Directors, Director Nominees and Named Executive Officers:			
Gerardo I. Lopez(2)	102,692	*	*
Craig R. Ramsey(2)	15,646	*	*
Elizabeth Frank(2)	4,258	*	*
John D. McDonald(2)	14,210	*	*
Mark A. McDonald(2)	5,644	*	*
Lin Zhang(3)		*	*
Anthony J. Saich		*	*
Chaohui Liu(3)		*	*
Lloyd Hill		*	*
Ning Ye(3)		*	*
Jian Wang(3)		*	*
All directors, director nominees and executive officers as a group (16 persons)	142,450	*	*

* less than 1%

(1) Wanda is beneficially owned by Mr. Jianlin Wang.

The address of Wanda America Investment Holding Co. Ltd. is c/o The Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware 19801.

(2) The address of such person is c/o AMC Entertainment Holdings, Inc., 11500 Ash Street, Leawood, Kansas 66211.

(3) Mr. Zhang, Mr. Liu, Mr. Ye and Mr. Wang are employees of Dalian Wanda Group Co., Ltd., an affiliate of Wanda America Investment Holding Co. Ltd. None of them have the power to dispose or vote any of our capital stock held by Wanda America Investment Holding Co. Ltd. Wanda America Investment Holding Co. Ltd.'s ownership of our shares is set forth in the table above

under the caption "Principal Stockholders." The address of each of Mr. Zhang, Mr. Liu, Mr. Ye and Mr. Wang is c/o Wanda America Investment Holding Co. Ltd. c/o the Corporation Trust Company, 1209 Orange Street, Wilmington, Delaware.

(4) Includes 360,172 shares of Class A common stock that we anticipate will be issued to members of management upon the consummation of this offering. See "Compensation Discussion & Analysis Post-offering Compensation Anticipated Awards under the 2013 Plan."

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DESCRIPTION OF CERTAIN INDEBTEDNESS

As of September 30, 2013 we had $2.2 billion of outstanding indebtedness. The following is a summary of provisions relating to our indebtedness.

Senior Secured Credit Facility

On April 30, 2013, AMCE entered into a new $925.0 million senior secured credit facility, the proceeds of which were used to repay its prior credit facility, for the payment of related fees and expenses and for working capital and general corporate purposes including acquisitions. The senior secured credit facility is comprised of:

- a $775.0 million term loan, maturing on April 30, 2020; and
- a $150.0 million revolving credit facility maturing on April 30, 2018.

As of September 30, 2013, $771.1 million of principal was outstanding on the term loan and approximately $11.5 million in letters of credit issued under the senior secured credit facility were outstanding, leaving $138.5 million available under our revolving credit facility.

Interest Rate and Fees

The borrowings under the senior secured credit facility bear interest at a rate equal to an applicable margin plus, at our option, either (a) a base rate determined by reference to the highest of (and subject to a 1.75% base rate floor) (1) the base rate of Citibank, N.A., (2) the federal funds rate plus $^1/_2$ of 1% and (3) the LIBOR rate described below for an interest period of one month plus 1.00% or (b) a LIBOR rate (subject to a 0.75% LIBOR floor) determined by reference to the offered rate for deposits in U.S. dollars appearing on the applicable Reuters screen for the interest period relevant to such borrowing adjusted for certain additional reserves. The current applicable margin for borrowings under the revolving credit facility is 1.50% with respect to base rate borrowings and 2.50% with respect to LIBOR borrowings (which margins may be reduced subject to our attaining certain net senior secured leverage ratios), the applicable margin for borrowings under the term loan is 1.75% with respect to base rate borrowings and 2.75% with respect to LIBOR borrowings.

In addition to paying interest on outstanding principal under the senior secured credit facility, AMCE is required to pay a quarterly unused commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder at a rate equal to 0.50% per annum.

Prepayments

The senior secured credit facility requires AMCE to prepay outstanding term loans, subject to certain exceptions, with:

- Commencing with the fiscal year ended on or about December 31, 2014, 50% of AMCE's excess cash flow for each fiscal year if AMCE's net senior secured leverage ratio is greater than a certain threshold as of the last day of such fiscal year, if and to the extent excess cash flow exceeds $20.0 million for such fiscal year;
- 100% of the net cash proceeds of all non-ordinary course asset sales and casualty and condemnation events, subject to certain reinvestment rights, exceptions and limitations; and
- 100% of the net proceeds of any incurrence of debt other than debt permitted under the senior secured credit facility.

Subject to a 101% "soft call" with respect to any prepayment or refinancing of the term loans prior to October 30, 2010, AMCE may voluntarily repay outstanding loans under the senior secured

credit facility at any time without premium or penalty, other than customary "breakage" costs with respect to LIBOR loans.

Amortization

Balances under the term loan amortize each year in amounts equal to 1.00% of the initial principal balance of the term loans, payable in equal quarterly installments, with the remaining balance payable at maturity.

Guarantee and Security

All obligations under the senior secured credit facility are unconditionally guaranteed by, subject to certain exceptions, each of AMCE's existing and future direct and indirect wholly-owned domestic subsidiaries.

All obligations under the senior secured credit facility, and the guarantees of those obligations (as well as cash management obligations and any interest hedging or other swap agreements with lenders and their affiliates), are secured by a pledge of substantially all of AMCE's assets as well as those of each subsidiary guarantor, including, but not limited to, the following, and subject to certain exceptions:

- a pledge of 100% of the equity interests of substantially all of AMCE's domestic subsidiaries and 65% of the voting (and 100% of the non-voting) equity interests of AMCE's "first-tier" foreign subsidiaries; and
- a security interest in substantially all of AMCE's tangible and intangible assets as well as those of each subsidiary guarantor.

Certain Covenants and Events of Default

The senior secured credit facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, AMCE's ability, and the ability of AMCE's subsidiaries, to:

- sell assets;
- incur additional indebtedness;
- prepay other indebtedness (including the Notes due 2020);
- pay dividends and distributions or repurchase its capital stock;
- create liens on assets;
- make investments;
- make certain acquisitions;
- engage in mergers or consolidations;
- engage in certain transactions with affiliates;

- amend certain charter documents and material agreements governing its subordinated indebtedness;
- change the business conducted by AMCE and its subsidiaries; and
- enter into agreements that restrict dividends from subsidiaries.

In addition, the senior secured credit facility requires AMCE to maintain a maximum net senior secured leverage ratio as long as the commitments under the revolving credit facility remain outstanding.

The senior secured credit facility also contains certain customary affirmative covenants and events of default.

Parent is not a party to the senior secured credit facility and as a result is not subject to the covenants listed above.

Notes due 2019, Notes due 2020

On June 9, 2009, AMCE sold $600.0 million aggregate principal amount of its Notes due 2019. The Notes due 2019 bear interest at the rate of 8.75% per annum, payable in June and December of each year. The Notes due 2019 are redeemable at our option, in whole or in part, at any time on or after June 1, 2014 at 104.375% of the principal amount thereof, declining ratably to 100% of the principal amount thereof on or after June 1, 2017, plus interest accrued to the redemption date. The Notes due 2019 are unsecured and rank equally with all of AMCE's existing and future senior indebtedness (as defined in the indenture for the Notes due 2019). As of September 30, 2013, we had $649.5 million carrying value outstanding under our Notes due 2019.

On December 15, 2010, AMCE sold $600.0 million aggregate principal amount of its Notes due 2020. The Notes due 2020 bear interest at a rate of 9.75% per annum, payable in June and December of each year. The Notes due 2020 are redeemable at our option, in whole or in part, at any time on or after December 1, 2015 at 104.875% of the principal amount thereof, declining ratably to 100% of the principal amount thereof on or after December 1, 2018. In addition, AMCE may redeem up to 35% of the aggregate principal amount of the Notes due 2020 using net proceeds from certain equity offerings completed on or prior to December 1, 2013. As of September 30, 2013, we had $656.8 million carrying value outstanding under our Notes due 2020.

The indentures relating to the outstanding notes allow AMCE to incur all permitted indebtedness (as defined therein) without restriction, which includes all amounts borrowed under the senior secured credit facility. The indentures also allow AMCE to incur additional debt as long as it can satisfy the coverage ratio of each indenture after giving effect thereto on a pro forma basis.

The indentures also contain covenants limiting dividends, purchases or redemptions of stock, transactions with affiliates and mergers and sales of assets, and require AMCE to make an offer to purchase such notes upon the occurrence of a change in control, as defined in the indentures. These covenants are substantially similar to the covenants in all the indentures are subject to a number of important qualifications. The indentures do not impose any limitation on the incurrence of liabilities that are not considered "indebtedness" under the indentures, such as certain sale/leaseback transactions; nor do the note indentures impose any limitation on the amount of liabilities incurred by our subsidiaries, if any, that might be designated as "unrestricted subsidiaries" (as defined in the indentures). Furthermore, AMCE is not restricted from making advances to, or investing in, other entities (including unaffiliated entities) and its subsidiaries are not restricted from entering into agreements restricting its ability to pay dividends or otherwise transfer funds to it.

The indenture relating to the Notes due 2020, also contains provisions subordinating AMCE's obligations under those notes to its obligations under its existing senior secured credit facility and other senior indebtedness. These include a provision that applies if there is a payment default under its existing senior secured credit facility or other senior indebtedness and one that applies if there is a non-payment default that permits acceleration of indebtedness under its existing senior secured credit facility. If there is a payment default under the senior secured credit facility or other senior indebtedness, generally no payment may be made on any of the Notes due 2020 until such payment default has been cured or waived or such senior indebtedness had been discharged or paid in full. If there is a non-payment default under the senior secured credit facility, or with respect to designated senior indebtedness (as defined), if any, that would permit the lenders to accelerate the maturity date of the existing senior secured credit facility or any such designated senior indebtedness, no payment may be made on the Notes due 2020 for a period (a "payment blockage period") commencing upon the receipt by the indenture trustees for the Notes due 2020 of notice of such default and ending up to 179 days thereafter. Not more than one payment blockage period may be commenced during any period of 365 consecutive days. AMCE's failure to make payment on the Notes due 2020 when due or within any applicable grace period, whether or not occurring under a payment blockage period, will be an event of default with respect to such existing Notes due 2020.

The proceeds of this offering will be used for general corporate purposes, which may include, among other things, capital expenditures and retirement of outstanding indebtedness, which may include our 8.75% Senior Fixed Rate Notes due 2019. However, we have not made a definitive determination as to how to allocate these proceeds among these and other possible general corporate purposes and we do not anticipate doing so prior to the completion of this offering. See "Risk Factors We may apply the proceeds of this offering to uses that do not improve our operating results or increase the value of your investment." See "Use of Proceeds."

As of September 30, 2013, AMCE was in compliance with all financial covenants relating to the senior secured credit facility, the Notes due 2019, and the Notes due 2020.

Parent is not a party to the indentures relating to the outstanding notes and as a result is not subject to the covenants listed above.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

As a public company we will have a policy that will ensure that all transactions with related parties are fair, reasonable and in the parties' best interest. In this regard, generally the board of directors or one of the committees reviews material transactions between the Company and related parties to determine that, in their best business judgment, such transactions meet that standard. We believe that each of the transactions described below is on terms at least as favorable to it as could have been obtained from an unaffiliated third party. Set forth below is a description of certain transactions which have occurred since April 2, 2010 or which involve obligations that remain outstanding as of September 30, 2013.

For a description of certain employment agreements between us and Messrs. Gerardo I. Lopez, John D. McDonald, Craig R. Ramsey, Elizabeth Frank and Mark A. McDonald see "Compensation Discussion and Analysis Compensation of Named Executive Officers."

Merger Agreement

As part of the Merger, we entered into an Agreement and Plan of Merger with Wanda (the "Merger Agreement"). Pursuant to the agreement, at the effective time of the merger, Wanda Film Exhibition Co. Ltd., an entity indirectly owned by Wanda was merged with and into the Company. As a result of the merger, Wanda, became our majority stockholder. For further information about the Merger, see Note 2 Merger of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

Subscription Agreement

On the Closing Date of the Merger, Parent and certain members of management (the "Management Shareholders") entered into Management Subscription Agreements (the "Subscription Agreements"). Pursuant to the Subscription Agreement, each Management Shareholder agreed to purchase Class N shares of Parent at the price paid by Wanda for the Class A shares of Parent purchased in connection with the Merger.

Management Stockholders Agreement

On the closing of the Merger, Parent and Wanda entered into a management stockholders agreement with members of management.

Transfer Restrictions. Under the management stockholders agreement, each management shareholder agreed, subject to customary exceptions, not to transfer any shares of Parent acquired in connection with the Merger or acquired after the date of the Merger without the written consent of Wanda prior to the earliest to occur of (i) January 1, 2016 or (ii) the date on which Parent consummates its initial public offering (the "Release Date"). Until the second anniversary following the Release Date, each management shareholder agreed to restrictions on the number of shares of Parent common stock they may transfer.

Put Rights. During the period beginning on January 1, 2016 (or upon the termination of a management stockholder's employment by us without cause, by the management stockholder for good reason, or due to the management stockholder's death or disability) and ending on the earlier of (i) January 1, 2019 and (ii) the date of a qualified public offering, the management shareholders have the right to require Parent to purchase their shares at a price equal to the price per share paid by such management shareholder pursuant to their Subscription Agreement, with appropriate adjustments for any subsequent events such as dividends, splits, combinations and the like (the "Purchase Price per Share"). If Parent has not consummated a qualified public offering by January 1, 2019, then during the period beginning on January 1, 2019 and ending on the date of a qualified public offering, the management shareholders have the right to require Parent to purchase their shares at a price equal to the greater of (i) the fair market value of the shares and (ii) the Purchase Price per Share. Following a qualified public offering, the Management Shareholders will have the right, in limited circumstances, to require Parent to purchase shares of Parent that are not fully and freely tradeable

Tag-Along Rights. Prior to a qualified public offering, the management shareholders each have customary tag-along rights, which are the rights to include its shares of Parent, on the same terms and conditions, in any sale by Wanda or its affiliates to an independent third party, on a proportional basis based on relative ownership levels at that time.

Drag-Along Rights. Prior to a qualified public offering, in connection with the transfer by Wanda and its affiliates of at least 75% of the shares of Parent held by them to an independent third party, Wanda may require that the management shareholders transfer a proportionate number shares of Parent in that sale at the same purchase price as received by Wanda.

Piggyback Registration Rights. Subject to specified limitations, all management shareholders have unlimited piggyback registration rights. Parent has agreed to pay all registration expenses relating to these registrations.

Registration Rights Agreement

At the time of the Offering, we expect to enter into a registration rights agreement with Wanda (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, the Company will agree to use its best efforts to effect registered offerings upon request from Wanda and to grant incidental or "piggyback" registration rights with respect to any registrable securities held by Wanda.

The obligation to effect any demand for registration by Wanda will be subject to certain conditions, including limitations on the number of demand registrations and limitations on the minimum value of securities to be registered. In connection with any registration effected pursuant to the terms of the Registration Rights Agreement, we will be required to pay for all of the fees and expenses incurred in connection with such registration, including registration fees, filing fees and printing fees. However, the underwriting discounts and selling commissions payable in respect of registrable securities included in any registration are to be paid by Wanda. We have also agreed to indemnify the holders of registrable securities against all claims, losses, damages and liabilities with respect to each registration effected pursuant to the Registration Rights Agreement.

Capital Contributions

On August 31, 2012, Wanda made a capital contribution of $50.0 million in cash to us, in exchange for 4,787,409.5 shares of our Class B common stock.

On September 27, 2012, Wanda made a capital contribution of $50.0 million in cash to us, in exchange for 4,787,409.5 shares of our Class B common stock.

Tax Sharing Agreement

At the time of the Offering, we expect to enter into a tax agreement with a U.S. subsidiary of Wanda. Pursuant to the tax agreement, for any period that we were members of any consolidated or other tax group of which the Wanda subsidiary was the common parent, we will pay the group's tax liabilities attributable to our activities up to the amount that would be payable by us if Parent were the common parent of the consolidated or other tax group and, in addition, we will have the right to control the filing of tax returns, audits and other tax matters of any such consolidated or other tax group.

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Amended and Restated Fee Agreement

Prior to the Merger, Parent was owned by the Former Sponsors, other co-investors and by certain members of management as follows: JPMP (20.834%); Apollo (20.834%); Bain (15.126%); Carlyle (15.126%); Spectrum (9.788%); Weston Presidio Capital IV, L.P. and WPC Entrepreneur Fund II, L.P. (3.909%); Co-Investment Partners, L.P. (3.909%); Caisse de Depot et Placement du Quebec (3.127%); AlpInvest Partners CS Investments 2003 C.V., AlpInvest Partners Later Stage Co-Investments Custodian II B.V. and AlpInvest Partners Later Stage Co-Investments Custodian IIA B.V. (2.736%); SSB Capital Partners (Master Fund) I, L.P. (1.955%); CSFB Strategic Partners Holdings II, L.P., CSFB Strategic Partners Parallel Holdings II, L.P., and GSO Credit Opportunities Fund (Helios), L.P. (1.564%); Credit Suisse Anlagestiftung, Pearl Holding Limited, Vega Invest (Guernsey) Limited and Partners Group Private Equity Performance Holding Limited (0.782%); Screen Investors 2004, LLC (0.152%); and current and former members of management (0.158%).

Prior to the Merger, we were party to an Amended and Restated Fee Agreement with the Former Sponsors, which provided for an annual management fee of $5 million, payable quarterly and in advance to each Former Sponsor, on a pro rata basis, until the 12th anniversary from December 23, 2004, and such time as the Former Sponsors own less than 20% in the aggregate of our company. In addition, the fee agreement provided for reimbursements by us to the Former Sponsors for their out-of-pocket expenses. The Amended and Restated Agreement terminated on June 11, 2007, in connection with a separate transaction, and was superseded by a substantially identical agreement entered into by us, the Former Sponsors and our other stockholders.

Upon the consummation of a change of control transaction or an initial public offering, each of the Former Sponsors were entitled to receive, in lieu of quarterly payments of an annual management fee of $5.0 million, a fee equal to the net present value of the aggregate annual management fee that would have been payable to the Former Sponsors during the remainder of the term of the fee agreement (assuming a twelve year term from the date of the original fee agreement), calculated using the treasury rate having a final maturity date that is closest to the twelfth anniversary of the date of the original fee agreement date. The Former Sponsors waived their right to the payment referred to above that was triggered by the Merger. As a result of the Merger, we ceased paying the annual management fee of $5.0 million to the Former Sponsors.

DESCRIPTION OF CAPITAL STOCK

Authorized Capital

The following description of material terms of our capital stock and certain provisions of our certificate of incorporation and bylaws, each of which will be in effect on the closing of this offering, are summaries and are qualified by reference to the certificate of incorporation and the bylaws, copies of which have been filed as exhibits to the registration statement, of which this prospectus forms a part.

Our authorized capital stock consists of:

- shares of Class A common stock, par value $0.01 per share;
- shares of Class B common stock, par value $0.01 per share; and
- shares of preferred stock, par value $0.01 per share.

Common Stock

At the completion of this offering, there will be 18,921,691 shares of Class A common stock issued and outstanding and 75,826,927 shares of Class B common stock issued and outstanding.

Voting Rights

Holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to three votes per share. Holders of shares of Class A common stock and Class B common stock will vote together as a single class on all matters submitted to a vote of stockholders, unless otherwise required by law.

Our directors will be elected by all of our common stockholders voting together as a single class.

Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of our outstanding voting power. Except as otherwise required by the DGCL, our certificate of incorporation or the voting rights granted to any preferred stock we subsequently issue, the holders of outstanding shares of common stock and preferred stock entitled to vote thereon, if any, will vote as one class with respect to all matters to be voted on by our stockholders. Under the DGCL, amendments to our certificate of incorporation that would alter or change the powers, preferences or special rights of the common stock so as to affect them adversely also must be approved by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class.

Conversion

Our Class A common stock is not convertible into any other shares of our capital stock.

Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. In addition, each share of Class B common stock shall convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain transfers described in our certificate of incorporation.

All authorized shares of Class B common stock shall automatically convert to Class A common stock if and when the holders of our Class B common stock collectively hold less than 30% of the aggregate number of outstanding shares of our common stock. Once transferred and converted into Class A common stock, the Class B common stock shall not be reissued. No class of common stock may be subdivided or combined unless the other class of common stock concurrently is subdivided or combined in the same proportion and in the same manner.

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Dividends

Holders of our Class A common stock and Class B common stock will share ratably (based on the number of shares of common stock held) in any dividend declared by our board of directors, subject to any preferential rights of any outstanding preferred stock.

Other Rights

Upon our liquidation, dissolution or winding up, after payment in full of the amounts required to be paid to holders of preferred stock, if any, all holders of common stock, regardless of class, will be entitled to share ratably in any assets available for distribution to holders of shares of common stock. No shares of any class of common stock are subject to redemption or have preemptive rights to purchase additional shares of common stock.

Preferred Stock

Upon the closing of this offering, our board of directors will be authorized, without further stockholder approval, to issue from time to time up to an aggregate of 50,000,000 shares of preferred stock in one or more series and to fix or alter the designations, preferences, rights and any qualifications, limitations or restrictions of the shares of each such series thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption (including sinking fund provisions), redemption price or prices, liquidation preferences and the number of shares constituting any series or designations of such series. Upon the closing of this offering, there will be no shares of preferred stock outstanding. We have no present plans to issue any shares of preferred stock. See " Anti-Takeover Effects of Certain Provisions of Delaware Law, the Certificate of Incorporation and the Bylaws."

Anti-Takeover Effects of Certain Provisions of Delaware Law, the Certificate of Incorporation and the Bylaws

Certain provisions of our amended and restated certificate of incorporation and bylaws may be considered to have an anti-takeover effect and may delay or prevent a tender offer or other corporate transaction that a stockholder might consider to be in its best interest, including those transactions that might result in payment of a premium over the market price for our shares. These provisions are designed to discourage certain types of transactions that may involve an actual or threatened change of control of us without prior approval of our board of directors. These provisions are meant to encourage persons interested in acquiring control of us to first consult with our board of directors to negotiate terms of a potential business combination or offer. We believe that these provisions protect against an unsolicited proposal for a takeover of us that might affect the long term value of our stock or that may be otherwise unfair to our stockholders. For example, our amended and restated certificate of incorporation and bylaws:

- provide for a classified board of directors, pursuant to which our board of directors will be divided into three classes whose members will serve three-year staggered terms;

- provide that the size of the board of directors will be set by members of the board, and any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors then in office;

- do not permit stockholders to take action by written consent unless Wanda owns shares of our outstanding common stock representing at least 50.1% of the total voting power;

- provide that, except as otherwise required by law, special meetings of stockholders can only be called by our board of directors;

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- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to our board of directors;

- limit consideration by stockholders at annual meetings to only those proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors or by a stockholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting;

- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares or establish a stockholders rights plan making a takeover more difficult and expensive; and

- do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

Our amended and restated certificate of incorporation expressly states that we have elected not to be governed by Section 203 of the DGCL, which prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the time the stockholder became an interested stockholder, subject to certain exceptions, including if, prior to such time, the board of directors approved the business combination or the transaction which resulted in the stockholder becoming an interested stockholder. "Business combinations" include mergers, asset sales and other transactions resulting in a financial benefit to the "interested stockholder." Subject to various exceptions, an "interested stockholder" is a person who, together with his or her affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These restrictions generally prohibit or delay the accomplishment of mergers or other takeover or change-in-control attempts that are not approved by a company's board of directors. Although we have elected to opt out of the statute's provisions, we could elect to be subject to Section 203 in the future.

Special Meeting of Stockholders

Special meetings of our stockholders may be called only by a majority of our directors.

Actions by Written Consent

Stockholder action by written consent in lieu of a meeting may only be taken so long as Wanda owns common stock representing a majority of our outstanding voting power. Thereafter, stockholder action can be taken only at an annual or special meeting of stockholders.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our bylaws provide that stockholders seeking to bring business before an annual meeting of stockholders, or to nominate candidates for election as directors at an annual meeting of stockholders, must provide timely notice thereof in writing. To be timely, a stockholder's notice generally must be delivered to and received at our principal executive offices, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, that in the event that the date of such meeting is advanced more than 30 days prior to, or delayed by more than 30 days after, the anniversary of the preceding year's annual meeting of our stockholders, a stockholder's notice to be timely must be so delivered not earlier than the close of business on the 120th day prior to such meeting and not later than the close of business on the later of the 90th day prior to such meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Our bylaws also specify certain requirements as to the form and content of a stockholder's notice. These provisions may preclude stockholders from bringing matters before an

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annual meeting of stockholders or from making nominations for directors at an annual meeting of stockholders.

Authorized But Unissued Shares

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval. These additional shares may be used for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued shares of common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Amendments to Certificate of Incorporation or Bylaws

Our certificate of incorporation provides that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend our certificate of incorporation or bylaws. In addition, under the DGCL, an amendment to our certificate of incorporation that would alter or change the powers, preferences or special rights of the common stock so as to affect them adversely also must be approved by a majority of the votes entitled to be cast by the holders of the shares affected by the amendment, voting as a separate class. Subject to our bylaws, our board of directors may from time to time make, amend, supplement or repeal our bylaws by vote of a majority of our board of directors.

Registration Rights

Pursuant to the management stockholders agreement, described above in "Certain Relationships and Related Party Transactions Management Stockholders Agreement," certain members of management who will hold in the aggregate approximately 140,466 shares of our Class A common stock, will have the right subject to various conditions and limitations, to include such shares of our common stock in future registration statements relating to our Class A common stock. These registration rights of our stockholders could impair the prevailing market price and impair our ability to raise capital by depressing the price at which we could sell our common stock.

Limitation of Liability and Indemnification of Directors and Officers

As permitted by the Delaware General Corporation Law, or DGCL, we have adopted provisions in our certificate of incorporation that limit or eliminate the personal liability of our directors and officers for monetary damages for a breach of their fiduciary duty of care as a director or officer. The duty of care generally requires that, when acting on behalf of the corporation, directors and officers exercise an informed business judgment based on all material information reasonably available to them. Consequently, a director or officer will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director or officer, except for liability for:

- any breach of the person's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any act related to unlawful stock repurchases, redemptions or other distributions or payment of dividends; or
- any transaction from which the person derived an improper personal benefit.

These limitations of liability do not generally affect the availability of equitable remedies such as injunctive relief or rescission.

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As permitted by the DGCL, our certificate of incorporation and bylaws provide that:

we will indemnify our current and former directors and officers and anyone who is or was serving at our request as the director or officer of, or our legal representative in, another entity, and may indemnify our current or former employees and other agents, to the fullest extent permitted by the DGCL, subject to limited exceptions; and

we may purchase and maintain insurance on behalf of our current or former directors, officers, employees or agents against any liability asserted against them and incurred by them in any such capacity, or arising out of their status as such.

We currently maintain liability insurance for our directors and officers.

Our certificate of incorporation requires us to advance expenses to our directors and officers in connection with a legal proceeding, subject to receiving an undertaking from such director or officer to repay advanced amounts if it is determined he or she is not entitled to indemnification. Our bylaws provide that we may advance expenses to our employees and other agents, upon such terms and conditions, if any, as we deem appropriate.

We intend to enter into separate indemnification agreements with each of our directors and officers, which may be broader than the specific indemnification provisions contained in the DGCL. These indemnification agreements may require us, among other things, to indemnify our directors and officers against liabilities that may arise by reason of their status or service as directors or officers, other than liabilities arising from willful misconduct. These indemnification agreements may also require us to advance any expenses incurred by the directors or officers as a result of any proceeding against them as to which they could be indemnified and to obtain directors' and officers' insurance, if available on reasonable terms.

Currently, to our knowledge, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification by us is sought, nor are we aware of any threatened litigation or proceeding that may result in a claim for indemnification.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers and controlling persons under the foregoing provisions or otherwise, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Provisions of our Certificate of Incorporation Relating to Corporate Opportunities

To address situations in which officers or directors have conflicting duties to affiliated corporations, Section 122(17) of the Delaware General Corporation Law allows a corporation to renounce, in its certificate of incorporation or by action of its board of directors, any interest or expectancy of the corporation in specified classes or categories of business opportunities. As such, and in order to address potential conflicts of interest between us and Wanda and its subsidiaries, our Certificate of Incorporation contains provisions regulating and defining, to the fullest extent permitted by law, the conduct of our affairs as they may involve Wanda and its officers and directors.

Our Certificate of Incorporation provides that, subject to any written agreement to the contrary, Wanda will have no duty to refrain from engaging in the same or similar activities or lines of business that we engage in, and, except as set forth in our Certificate of Incorporation, neither Wanda nor its officers or directors will be liable to us or our stockholders for any breach of any fiduciary duty due to any such activities of Wanda.

Our Certificate of Incorporation also provides that we may from time to time be or become a party to and perform, and may cause or permit any subsidiary to be or become a party to and perform, one or more agreements (or modifications or supplements to pre-existing agreements) with Wanda. With limited exceptions, to the fullest extent permitted by law, no such agreement, nor the performance thereof in accordance with its terms by us or any of our subsidiaries or Wanda, shall be considered contrary to any fiduciary duty to us or our stockholders of any director or officer of ours who is also a director, officer or employee of Wanda. With limited exceptions, to the fullest extent permitted by law, no director or officer of ours who is also a director, officer or employee of Wanda shall have or be under any fiduciary duty to us or our stockholders to refrain from acting on behalf of us or any of our subsidiaries or on behalf of Wanda in respect of any such agreement or performing any such agreement in accordance with its terms.

Our Certificate of Incorporation further provides that if one of our directors or officers who is also a director or officer of Wanda acquires knowledge of a potential transaction or matter that may be a corporate opportunity for both Wanda and us, the director or officer will have satisfied his or her fiduciary duty to us and our stockholders with respect to that corporate opportunity if he or she acts in a manner consistent with the following policy:

- a corporate opportunity offered to any person who is an officer of ours and who is also a director but not an officer of Wanda, will belong to us unless the opportunity is expressly offered to that person in a capacity other than such person's capacity as one of our officers, in which case it will not belong to us;

- a corporate opportunity offered to any person who is a director but not an officer of ours, and who is also a director or officer of Wanda, will belong to us only if that opportunity is expressly offered to that person in that person's capacity as one of our directors; and

- a corporate opportunity offered to any person who is an officer of both Wanda and us will belong to us only if that opportunity is expressly offered to that person in that person's capacity as one of our officers.

Notwithstanding these provisions, our Certificate of Incorporation does not prohibit us from pursuing any corporate opportunity of which we become aware.

These provisions in our Certificate of Incorporation will no longer be effective on the date that none of our directors or officers are also directors or officers of Wanda.

If our Certificate of Incorporation did not include provisions setting forth the circumstances under which opportunities will belong to us and regulating the conduct of our directors and officers in situations where their duties to us and Wanda conflict, the actions of our directors and officers in each such situation would be subject to the fact-specific analysis of the corporate opportunity doctrine as articulated under Delaware law. Under Delaware law, a director of a corporation may take a corporate opportunity, or divert it to another corporation in which that director has an interest, if (i) the opportunity is presented to the director or officer in his or her individual capacity, (ii) the opportunity is not essential to the corporation, (iii) the corporation holds no interest or expectancy in the opportunity and (iv) the director or officer has not wrongfully employed the resources of the corporation in pursing or exploiting the opportunity. Based on Section 122(17) of the Delaware General Corporation Law, we do not believe the corporate opportunity guidelines set forth in our Certificate of Incorporation conflict with Delaware law. If, however, a conflict were to arise between the provisions of our Certificate of Incorporation and Delaware law, Delaware law would control.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock will be Computershare Trust Company, N.A.

Listing

Our Class A common stock has been approved for listing on the New York Stock Exchange under the symbol "AMC".

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SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our Class A common stock, and no predictions can be made about the effect, if any, that market sales of shares of our Class A common stock or the availability of such shares for sale will have on the market price prevailing from time to time. Nevertheless, the actual sale of, or the perceived potential for the sale of, our Class A common stock in the public market may have an adverse effect on the market price for our Class A common stock and could impair our ability to raise capital through future sales of our securities. See "Risk Factors Risks Related to this Offering Future sales or the possibility of future sales of a substantial amount of our common stock may depress the price of shares of our common stock."

Sale of Restricted Shares and Lock-Up Agreements

Upon completion of this offering, we will have an aggregate of 18,921,691 shares of our Class A common stock outstanding and 75,826,927 share of our Class B common stock outstanding.

Of these shares, the 18,421,053 shares of our Class A common stock to be sold in this offering, or 21,052,632 shares if the underwriters' option to purchase additional shares is exercised in full, will be freely tradable without restriction or further registration under the Securities Act, except for any shares which may be acquired by any of our "affiliates" as that term is defined in Rule 144 under the Securities Act, which will be subject to the resale limitations of Rule 144.

A further 140,466 shares of our Class A common stock will be restricted securities, as that term is defined in Rule 144, and may in the future be sold without restriction under the Securities Act to the extent permitted by Rule 144 or any applicable exemption under the Securities Act, subject to the contractual provisions of our agreements with Wanda. See "Certain Relationships and Related Party Transactions Management Stockholders Agreement."

Wanda, who would hold all of our Class B common stock, and our directors and officers who would hold in the aggregate 361,348 shares of our Class A common stock (not including any Offering Bonus Shares that may be allocated by the Chief Executive Officer), are subject to various lock-up agreements that prohibit the holders from offering, selling, contracting to sell, granting an option to purchase, making a short sale or otherwise disposing of any shares of our common stock or any option to purchase shares of our common stock or any securities exchangeable for or convertible into shares of common stock for a period of 365 days and 180 days, respectively, after the date of the final prospectus for this offering.

In the event that either (1) during the last 17 days of the applicable "lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the applicable "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the applicable "lock-up" period, then in either case the expiration of the applicable "lock-up" will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable.

Equity Incentive Plan

We intend to file one or more registration statements on Form S-8 under the Securities Act to register shares of our Class A common stock issued, including the Offering Bonus Shares, or reserved for issuance under our new equity incentive plan we intend to adopt in connection with this offering. The first such registration statement is expected to be filed soon after the date of this prospectus and will automatically become effective upon filing with the SEC. Accordingly, shares registered under such registration statement will be available for sale in the open market following the effective date, unless

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such shares are subject to vesting restrictions with us, Rule 144 restrictions applicable to our affiliates or the lock-up restrictions described above.

Rule 144

In general, under Rule 144 under the Securities Act, a person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of ours at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months (including any period of consecutive ownership of preceding non-affiliated holders) would be entitled to sell those shares, subject only to the availability of current public information about us. A non-affiliated person who has beneficially owned restricted securities within the meaning of Rule 144 for at least one year would be entitled to sell those shares without regard to the provisions of Rule 144.

A person (or persons whose shares are aggregated) who is deemed to be an affiliate of ours and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the then outstanding shares of our Class A common stock or the average weekly trading volume of our Class A common stock during the four calendar weeks preceding such sale. Such sales are also subject to certain manner of sale provisions, notice requirements and the availability of current public information about us.

Registration Rights

Pursuant to the management stockholders agreement, described above in "Certain Relationships and Related Party Transactions Management Stockholders Agreement," certain members of management who will hold in the aggregate approximately 140,466 shares of our Class A common stock, will have the right subject to various conditions and limitations, to include such shares of our common stock in future registration statements relating to our Class A common stock. These registration rights of our stockholders could impair the prevailing market price and impair our ability to raise capital by depressing the price at which we could sell our common stock.

Pursuant to the registration rights agreement described above in "Certain Relationships and Related Party Transactions Registration Rights Agreement," Wanda will have the right subject to various conditions and limitations, to request that the Company effect registered offerings of any registrable securities held by Wanda and will have incidental or "piggyback" registration rights with respect to the registrable securities it holds.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS TO NON-U.S. HOLDERS

The following discussion describes U.S. federal income and, to a limited extent, certain estate tax consequences to Non-U.S. Holders (as defined below) of ownership and disposition of our Class A common stock. This discussion is limited to Non-U.S. Holders who hold our Class A common stock as capital assets within the meaning of section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). This description is based on the Code, administrative pronouncements, judicial decisions and existing and proposed Treasury regulations, and interpretations of the foregoing, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein. The description does not discuss all of the tax consequences that may be relevant to Non-U.S. Holders in light of their particular circumstances. In addition, this summary does not address the Medicare tax on certain investment income, any state, local or foreign taxes or any U.S. federal tax laws other than U.S. federal income tax laws and, to a limited extent, certain estate tax laws (such as gift tax laws).

You are urged to consult with your own tax advisor concerning the U.S. federal income tax consequences of acquiring, owning and disposing of our Class A common stock, as well as the application of any state, local, and foreign income and other tax laws.

As used in this section, a "Non-U.S. Holder" is a beneficial owner of our Class A common stock that is not, for U.S. federal income tax purposes:

- any individual who is a citizen or resident of the United States,
- a corporation (or other entity taxable as a corporation) created or organized in or under the laws of the United States, any State thereof or the District of Columbia,
- any estate the income of which is subject to U.S. federal income taxation regardless of its source, or
- any trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are an individual, you may, in certain cases, be deemed to be a resident alien, as opposed to a nonresident alien, by virtue of being present in the United States (i) for at least 183 days during the calendar year, or (ii) for at least 31 days in the calendar year and for an aggregate of at least 183 days during the 3-year period ending in the current calendar year. For purposes of (ii), all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year are counted. Resident aliens are subject to U.S. federal income tax as if they were U.S. citizens.

If any entity or arrangement treated as a partnership for U.S. federal income tax purposes is a beneficial owner of our Class A common stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Special rules may apply if a Non-U.S. Holder is a "controlled foreign corporation" or "passive foreign investment company," as defined under the Code, and to certain expatriates or former long-term residents of the U.S. If you fall within any of the foregoing categories, you should consult with your own tax advisor about the tax consequences of acquiring, holding, and disposing of our Class A common stock.

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U.S. Trade or Business Income

For purposes of the discussion below, dividends and gains on the sale, exchange or other disposition of our Class A common stock will be considered to be "U.S. trade or business income" if such income or gain is:

- effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business, and

- in the case of a treaty resident, attributable to a permanent establishment (or, in the case of an individual, a fixed base) maintained by the Non-U.S. Holder in the United States.

Generally, U.S. trade or business income is subject to U.S. federal income tax on a net income basis at regular graduated U.S. federal income tax rates. Any U.S. trade or business income received by a Non-U.S. Holder that is a corporation also may, under specific circumstances, be subject to an additional "branch profits tax" at a 30% rate (or a lower rate that may be specified by an applicable tax treaty).

Distributions on Class A Common Stock

Distributions paid on our Class A common stock will be treated as dividends for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes ("Tax E&P"). If a distribution exceeds our Tax E&P, such excess will constitute a return of capital that reduces, but not below zero, a Non-U.S. Holder's tax basis in our Class A common stock. Any remainder will constitute gain from the sale or exchange of our Class A common stock. Dividends, if any, that are paid to a Non-U.S. Holder of our Class A common stock generally will be subject to withholding tax at a 30% rate or a reduced rate specified by an applicable income tax treaty. However, dividends that are U.S. trade or business income are not subject to the withholding tax. To claim an exemption from withholding in the case of U.S. trade or business income, or to claim the benefits of an applicable tax treaty, a Non-U.S. Holder must provide us or our paying agent with a properly executed Internal Revenue Service ("IRS") Form W-8ECI (in the case of U.S. trade or business income) or IRS Form W-8BEN (in the case of a treaty), or any successor form that the IRS designates, as applicable, prior to the payment of the dividends. These IRS forms must be periodically updated.

Because it will generally not be known, at the time a Non-U.S. Holder receives any distribution on our Class A common stock, whether the distribution was paid out of our Tax E&P and therefore whether the distribution will be treated as a dividend for U.S. federal income tax purposes, we expect that a withholding agent will deduct and withhold U.S. tax at the applicable rate on all distributions that a Non-U.S. Holder receives on our Class A common stock. If it is later determined that a distribution on our Class A common stock was not a dividend, in whole or in part, a Non-U.S. Holder may be entitled to claim a refund of the U.S. tax withheld with respect to that portion of the distribution, provided that the required information is timely furnished to the IRS. We will notify the holders of our Class A common stock if we make a distribution on our Class A common stock that was not a dividend either by (i) delivering a copy of IRS Form 8937 ("Report of Organizational Actions Affecting Basis of Securities"), which will also be filed with the IRS, to holders of record of our Class A common stock or (ii) posting a copy of the completed form on our website.

Dispositions of Class A Common Stock

Subject to the discussion below on backup withholding and other withholding requirements, gain realized by a Non-U.S. Holder on a sale, exchange or other disposition of our Class A common stock generally will not be subject to U.S. federal income or withholding tax, unless:

- the gain is U.S. trade or business income,

- the Non-U.S. Holder is an individual who is present in the United States for 183 or more days in the taxable year of such disposition and certain other conditions are met, or

- we are, or have been, a U.S. real property holding corporation (a "USRPHC") for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition of our Class A common stock and the Non-U.S. Holder's holding period for our Class A common stock.

Generally, a corporation is a USRPHC if the fair market value of its "United States real property interests" equals 50% or more of the sum of the fair market value of (a) its worldwide real property interests and (b) its other assets used or held for use in a trade or business. The tax relating to stock in a USRPHC does not apply to a Non-U.S. Holder whose holdings, actual and constructive, amount to 5% or less of our Class A common stock at all times during the applicable period, provided that our Class A common stock is regularly traded on an established securities market. We believe we have not been and are not currently a USRPHC, and do not anticipate being a USRPHC in the future. No assurance can be given, however, that we will not be a USRPHC or that our Class A common stock will be considered regularly traded on an established securities market when a Non-U.S. Holder disposes of shares of our Class A common stock. Non-U.S. Holders should consult with their tax advisors about the tax consequences that could result if we are, or become, a USRPHC.

Federal Estate Taxes

Individual Non-U.S. Holders and entities the property of which is potentially includible in such an individual's gross estate for U.S. federal estate tax purposes (for example, a trust funded by such an individual and with respect to which the individual has retained certain interests or powers), should note that, absent an applicable treaty benefit, our Class A common stock will be treated as U.S. situs property subject to U.S. federal estate tax.

Backup Withholding and Information Reporting

Any dividends that are paid to a Non-U.S. Holder must be reported annually to the IRS and to the Non-U.S. Holder. Copies of these information returns also may be made available to the tax authorities of the country in which the Non-U.S. Holder resides under the provisions of various treaties or agreements for the exchange of information. Unless the Non-U.S. Holder is an exempt recipient, dividends paid on our Class A common stock and the gross proceeds from a taxable disposition of our Class A common stock may be subject to additional information reporting and may also be subject to U.S. federal backup withholding (at a rate of 28%) if such Non-U.S. Holder fails to comply with applicable U.S. information reporting and certification requirements. Provision of any IRS Form W-8 appropriate to the Non-U.S. Holder's circumstances will satisfy the certification requirements necessary to avoid the backup withholding tax as well.

Backup withholding is not an additional tax. Any amounts so withheld under the backup withholding rules will be refunded by the IRS or credited against the Non-U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Other Withholding Requirements

Non-U.S. Holders of our Class A common stock may be subject to U.S. withholding tax at a rate of 30% under sections 1471 through 1474 of the Code (commonly referred to as "FATCA"). This withholding tax may apply if a Non-U.S. Holder (or any foreign intermediary that receives a payment on a Non-U.S. Holder's behalf) does not comply with certain U.S. informational reporting requirements. The payments potentially subject to this withholding tax include dividends on, and gross proceeds from the sale or other disposition of, our Class A common stock. If FATCA is not complied with, the withholding tax described above will apply to dividends paid on or after July 1, 2014, and to gross proceeds from the sale or other disposition of our Class A common stock on or after January 1, 2017. Non-U.S. Holders should consult their tax advisors regarding the possible implications of FATCA for their investment in our Class A common stock.

You should consult your own tax advisor as to particular tax consequences to you of acquiring, holding, and disposing of our Class A common stock, including the applicability and effect of other U.S. federal, state, local or foreign tax laws, and of any proposed changes in applicable law.

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UNDERWRITING

Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as joint book-running managers of the offering and as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

Underwriter	Number of Shares of Class A Common Stock
Citigroup Global Markets Inc.	4,789,474
Merrill Lynch, Pierce, Fenner & Smith Incorporated	4,789,474
Barclays Capital Inc.	2,947,369
Credit Suisse Securities (USA) LLC	2,947,369
B. Riley & Co., LLC	405,263
Barrington Research Associates, Inc.	405,263
FBR Capital Markets & Co.	405,263
HSBC Securities (USA) Inc.	405,263
LOYAL3 Securities, Inc.	110,526
Piper Jaffray & Co.	405,263
Stifel, Nicolaus & Company, Incorporated	405,263
Wedbush Securities Inc.	405,263
Total	18,421,053

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the underwriters' option to purchase additional shares) if they purchase any of the shares.

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price not to exceed $0.513 per share. If all the shares are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The representatives have advised us that the underwriters do not intend to make sales to discretionary accounts.

If the underwriters sell more shares than the total number set forth in the table above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 2,631,579 additional shares at the public offering price less the underwriting discount. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment. Any shares issued or sold under the option will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

We and our officers and directors have agreed that, for a period of 180 days from the date of the final prospectus for this offering, and Wanda has agreed for a period of 365 days from the date of the final prospectus for this offering we and they will not, without the prior written consent of Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock subject to certain exceptions. Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated in their sole discretion may release any of the securities subject to these lock-up agreements at any time, which, in the case of officers and directors, shall be with notice. Notwithstanding the foregoing, if

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(i) during the last 17 days of the 180-day 365-day, as the case may be, restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the 180-day or 365-day, as the case may be, restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day or 365-day, as the case may be, restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Prior to this offering, there has been no public market for our shares. Consequently, the initial public offering price for the shares was determined by negotiations among us and the representatives. Among the factors considered in determining the initial public offering price were our results of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. We cannot assure you, however, that the price at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our shares will develop and continue after this offering.

Our Class A common stock has been approved for listing on the New York Stock Exchange under the symbol "AMC."

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. In addition, we have agreed to reimburse the underwriters for certain expenses in connection with this offering, including up to $30,000 in accountable expenses.

	Paid by AMC	
	No Exercise	**Full Exercise**
Per share	$ 0.945	$ 0.945
Total	$ 17,407,895	$ 19,894,737

We estimate that the total expenses of this offering, exclusive of the underwriting discounts and commissions, will be approximately $9 million.

In connection with the offering, the underwriters may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the underwriters' option to purchase additional shares, and stabilizing purchases.

- Short sales involve secondary market sales by the underwriters of a greater number of shares than they are required to purchase in the offering.
  - "Covered" short sales are sales of shares in an amount up to the number of shares represented by the underwriters' option to purchase additional shares.
  - "Naked" short sales are sales of shares in an amount in excess of the number of shares represented by the underwriters' option to purchase additional shares.
- Covering transactions involve purchases of shares either pursuant to the underwriters' option to purchase additional shares or in the open market in order to cover short positions.
  - To close a naked short position, the underwriters must purchase shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that

there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

To close a covered short position, the underwriters must purchase shares in the open market or must exercise the underwriters' option to purchase additional shares. In determining the source of shares to close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the underwriters' option to purchase additional shares.

Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Other Relationships

The underwriters are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The underwriters and their respective affiliates have in the past performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses and may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. In addition, affiliates of some of the underwriters are lenders, and in some cases agents or managers for the lenders, under our credit facility. Certain of the underwriters or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. A typical such hedging strategy would include these underwriters or their affiliates hedging such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

The LOYAL3 Platform

At our request, the underwriters have reserved up to 110,527 shares, or 0.6%, of the Class A common stock offered by this prospectus for sale at the public offering price through the LOYAL3 platform. Purchases through the LOYAL3 platform will be in dollar amounts and may include fractional shares. The LOYAL3 platform is designed to facilitate participation of individual purchasers in initial public offerings in amounts of between $100 and $2,500. Any purchase of our Class A common stock in this offering through the LOYAL3 platform will be at the same initial public offering price, and at the same time, as any other purchases in this offering, including purchases by institutions and other large investors. Individual investors in the United States who have been invited to purchase our Class A common stock in this offering through the LOYAL3 platform must go to LOYAL3's website for information about how to open a LOYAL3 account, which is required to purchase common shares through the LOYAL3 platform. The LOYAL3 platform is available fee-free to investors, and is administered by LOYAL3 Securities, Inc., which is a U.S.-registered broker-dealer unaffiliated with our company. Sales of our Class A common stock by investors using the LOYAL3 platform will be completed through a batch or combined order process typically only once per day. The LOYAL3 platform and the information on the LOYAL3 website do not form a part of this prospectus.

Additionally, the underwriters have reserved up to 230,264 shares, or 1.25%, of the Class A common stock offered by this prospectus for sale at the public offering price to persons who are directors, officers or employees, or who are otherwise associated with us through a directed share program to be administered via the LOYAL3 platform. The number of shares available for sale to the general public will be reduced by the number of directed shares purchased by participants in the program. For certain officers and directors purchasing shares through the directed share program, the lock-up agreements contemplated in the fifth paragraph under the heading "Underwriting" shall govern with respect to their purchases. Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated in their sole discretion may release any of the securities subject to these lock-up agreements at any time, which, in the case of officers and directors, shall be with notice. Any directed shares not purchased will be offered by the underwriters to the general public on the same basis as all other shares offered. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sales of the directed shares.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus may not be made to the public in that relevant member state other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by us for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an "offer of securities to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in the relevant member state. The expression 2010 PD Amending Directive means Directive 2010/73/EU.

The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares as contemplated in this prospectus. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of the shares on behalf of the sellers or the underwriters.

Notice to Prospective Investors in the United Kingdom

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in France

Neither this prospectus nor any other offering material relating to the shares described in this prospectus has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers.* The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus nor any other offering material relating to the shares has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

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Notice to Prospective Investors in Hong Kong

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The shares offered in this prospectus have not been and will not be registered under the Financial Instruments and Exchange Law of Japan. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (including any corporation or other entity organized under the laws of Japan), except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

  - to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

where no consideration is or will be given for the transfer; or

where the transfer is by operation of law.

Notice to Prospective Investors in Australia

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia ("Corporations Act")) in relation to the shares has been or will be lodged with the Australian Securities & Investments Commission ("ASIC"). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) you confirm and warrant that you are either:

  (i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act;

  (ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;

  (iii) a person associated with the company under section 708(12) of the Corporations Act; or

  (iv) a "professional investor" within the meaning of section 708(11)(a) or (b) of the Corporations Act, and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this document is void and incapable of acceptance; and

(b) you warrant and agree that you will not offer any of the shares for resale in Australia within 12 months of that shares being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

Notice to Prospective Investors in Chile

The shares are not registered in the Securities Registry (Registro de Valores) or subject to the control of the Chilean Securities and Exchange Commission (Superintendencia de Valores y Seguros de Chile). This prospectus and other offering materials relating to the offer of the shares do not constitute a public offer of, or an invitation to subscribe for or purchase, the shares in the Republic of Chile, other than to individually identified purchasers pursuant to a private offering within the meaning of Article 4 of the Chilean Securities Market Act (Ley de Mercado de Valores) (an offer that is not "addressed to the public at large or to a certain sector or specific group of the public").

Notice to Prospective Investors in Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing

prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering has been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

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LEGAL MATTERS

The validity of the shares of Class A common stock offered hereby will be passed upon for us by Weil, Gotshal & Manges LLP. Paul, Weiss, Rifkind, Wharton & Garrison LLP advised the underwriters in connection with the offering of our Class A common stock.

EXPERTS

The consolidated financial statements of AMC Entertainment Holdings, Inc. as of December 31, 2012 and March 29, 2012, and for the August 31, 2012 to December 31, 2012 period, the 22-week period ended August 30, 2012, and each of the 52-week periods ended March 29, 2012 and March 31, 2011, have been included herein and in the registration statement in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the December 31, 2012 consolidated financial statements contains an explanatory paragraph that states that the Company had a change of controlling ownership effective August 30, 2012, and as a result, the consolidated financial information after August 30, 2012 is presented on a different costs basis than that for the period before the change of control and, therefore, is not comparable.

The financial statements of National CineMedia, LLC as of December 27, 2012 and December 29, 2011 and for the three fiscal years ended December 27, 2012 included in this prospectus have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report appearing herein. Such financial statements are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Digital Cinema Implementation Partners, LLC as of December 31, 2012 and 2011 and for each of the years in the three-year period ended December 31, 2012 included in this prospectus have been audited by CohnReznick LLP, independent auditors, as stated in their report appearing herein. Such financial statements are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of Open Road Releasing, LLC as of December 31, 2012 and December 31, 2011 and for each of the years in the two-year period ended December 31, 2012, have been included herein and in the registration statement in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the Class A common stock offered by this prospectus. This prospectus is a part of the registration statement and, as permitted by the SEC's rules, does not contain all of the information presented in the registration statement. For further information with respect to us and our Class A common stock offered hereby, reference is made to the registration statement and the exhibits and any schedules filed therewith. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance, if such contract or document is filed as an exhibit, reference is made to the copy of such contract or other document filed as an exhibit to the registration statement, each statement being qualified in all respects by such reference. A copy of the registration statement, including the exhibits and schedules thereto, may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at www.sec.gov, from which interested persons can electronically access the registration statement, including the exhibits and any schedules thereto.

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Because certain of our subsidiaries already have public debt and also due to this offering, they are subject to the informational requirements of the Exchange Act. They fulfill their obligations with respect to such requirements by filing periodic reports, proxy statements and other information with the SEC. We intend to furnish our stockholders with annual reports containing consolidated financial statements certified by an independent registered public accounting firm. We also maintain an Internet site at *www.amctheatres.com*. **Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which this prospectus forms a part, and you should not rely on any such information in making your decision whether to purchase our securities**.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands)

	Nine Months Ended (unaudited)		
	Nine Months Ended September 30, 2013 (Successor)	From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Revenues			
Admissions	$ 1,365,178	$ 76,356	$ 1,241,857
Food and beverage	589,026	32,365	513,729
Other theatre	82,247	5,785	86,929
Total revenues	2,036,451	114,506	1,842,515
Operating costs and expenses			
Film exhibition costs	718,725	34,659	657,730
Food and beverage costs	80,032	4,778	69,946
Operating expense	534,059	46,059	468,680
Rent	339,213	33,493	299,805
General and administrative:			
Merger, acquisition and transaction costs	1,952	504	6,670
Management fee			3,750
Other	59,797	7,269	42,644
Depreciation and amortization	147,435	16,602	137,818
Impairment of long-lived assets			285
Operating costs and expenses	1,881,213	143,364	1,687,328
Operating income (loss)	155,238	(28,858)	155,187
Other expense (income)			
Other expense (income)	(184)	49	2,496
Interest expense:			
Corporate borrowings	97,704	10,241	109,960
Capital and financing lease obligations	7,914	442	3,878
Equity in (earnings) losses of non-consolidated entities	(38,143)	3,378	(18,240)
Investment income	(3,406)	(1)	(66)
Total other expense	63,885	14,109	98,028
Earnings (loss) from continuing operations before income taxes	91,353	(42,967)	57,159
Income tax provision	10,860	100	3,005
Earnings (loss) from continuing operations	80,493	(43,067)	54,154
Earnings (loss) from discontinued operations, net of income taxes	4,290	24	34,533
Net earnings (loss)	$ 84,783	$ (43,043)	$ 88,687

Basic earnings (loss) per share of common stock:						
Earnings (loss) from continuing operations	$	1.06	$	(0.60)	$	0.86
Earnings from discontinued operations		0.06				0.54
Net earnings (loss) per share	$	1.12	$	(0.60)	$	1.40
Average shares outstanding:						
Basic		76,000.03		71,383.84		63,335.34
Diluted earnings (loss) per share of common stock:						
Earnings from continuing operations	$	1.06	$	(0.60)	$	0.85
Earnings from discontinued operations		0.06				0.54
Net earnings (loss) per share	$	1.12	$	(0.60)	$	1.39
Average shares outstanding:						
Diluted		76,000.03		71,383.84		63,793.34

See Notes to Consolidated Financial Statements.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	Nine Months Ended (unaudited)		
	Nine Months Ended September 30, 2013 (Successor)	From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Net earnings (loss)	$ 84,783	$ (43,043)	$ 88,687
Foreign currency translation adjustment, net of tax	341	(895)	9,563
Pension and other benefit adjustments:			
Net loss arising during the period, net of tax			(18,939)
Net prior service credit arising during the period, net of tax			1,806
Amortization of net (gain) loss included in net periodic benefit costs, net of tax	(58)		988
Amortization of prior service credit included in net periodic benefit costs, net of tax			(764)
Unrealized gain (loss) on marketable securities:			
Unrealized holding gain (loss) arising during the period, net of tax	(4,841)	(731)	2,134
Less: reclassification adjustment for gains included in investment income, net of tax	(301)	(1)	(72)
Unrealized gain from equity method investees' cash flow hedge:			
Unrealized holding gains arising during the period, net of tax	2,489		
Holding gains reclassified to equity in earnings of non-consolidated entities	(290)		
Other comprehensive income (loss)	(2,660)	(1,627)	(5,284)
Total comprehensive income (loss)	$ 82,123	$ (44,670)	$ 83,403

See Notes to Consolidated Financial Statements.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2013 (Successor) (unaudited)	December 31, 2012 (Successor)
ASSETS		
Current assets:		
Cash and equivalents	$ 130,628	$ 133,071
Receivables, net	47,452	97,108
Other current assets	73,467	70,627
Total current assets	251,547	300,806
Property, net	1,155,574	1,147,959
Intangible assets, net	236,553	243,180
Goodwill	2,294,231	2,249,153
Other long-term assets	388,961	332,740
Total assets	$ 4,326,866	$ 4,273,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 189,767	$ 226,220
Accrued expenses and other liabilities	167,455	155,286
Deferred revenues and income	136,407	171,122
Current maturities of corporate borrowings and capital and financing lease obligations	14,537	14,280
Total current liabilities	508,166	566,908
Corporate borrowings	2,067,905	2,070,671
Capital and financing lease obligations	111,207	116,369
Exhibitor services agreement	333,622	318,154
Other long-term liabilities	455,258	433,151
Total liabilities	3,476,158	3,505,253
Commitments and contingencies		
Class A Common Stock voting issued hereby ($.01 par value 524,173,073 shares authorized; 173,147 shares issued and outstanding as of September 30, 2013)	1,811	
Class N Common Stock nonvoting ($.01 par value, 25,000 shares authorized; 3,497 shares issued and outstanding as of September 30, 2013 and December 31, 2012)		1,811
Stockholders' equity:		
Class A Common Stock voting issued hereby ($.01 par value 524,173,073 shares authorized; 0 shares issued and outstanding as of September 30, 2013)		
Class B Common Stock voting issued hereby ($.01 par value 75,826,927 shares authorized; 75,826,927 shares issued and outstanding as of September 30, 2013)	758	
Class A Common Stock voting ($.01 par value, 2,000,000 shares authorized 1,531,424 shares issued and outstanding as of September 30, 2013 and December 31, 2012)		15
Additional paid-in capital	799,242	799,985
Accumulated other comprehensive income	6,784	9,444
Accumulated earnings (deficit)	42,113	(42,670)

Total stockholders' equity		848,897		766,774
Total liabilities and stockholders' equity	$	4,326,866	$	4,273,838

See Notes to Consolidated Financial Statements.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended (unaudited)		
	Nine Months Ended September 30, 2013 (Successor)	From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Cash flows from operating activities:			
Net earnings (loss)	$ 84,783	$ (43,043)	$ 88,687
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	147,435	16,602	138,349
Interest paid and discount on repurchase of Parent Term Loan			(59,965)
Impairment of assets			285
Interest accrued to principal on corporate borrowings			873
Loss (gain) on extinguishment and modification of debt	(422)		922
Amortization of discount (premium) on corporate borrowings	(9,447)	(965)	1,495
Deferred income taxes	8,430		
Theatre and other closure expense	4,489	434	13,515
Gain on dispositions	(4,545)	(74)	(50,269)
Equity in earnings and losses from non-consolidated entities, net of distributions	(21,020)	3,421	1,327
Change in assets and liabilities:			
Receivables	55,991	2,773	40,873
Other assets	(2,045)	(31,618)	34,824
Accounts payable	(24,690)	12,814	(69,546)
Accrued expenses and other liabilities	(44,228)	8,226	(64,025)
Other, net	9,934	(695)	(799)
Net cash provided by (used in) operating activities	204,665	(32,125)	76,546
Cash flows from investing activities:			
Capital expenditures	(175,361)	(10,638)	(94,392)
Merger, net of cash acquired		3,110	
Investments in non-consolidated entities, net	(3,013)	(13)	(1,456)
Acquisition of Rave theatres, net of cash acquired	(1,128)		
Proceeds from the disposition of long-term assets	4,646	107	7,574
Other, net	(5,422)	(442)	1,503
Net cash used in investing activities	(180,278)	(7,876)	(86,771)
Cash flows from financing activities:			
Proceeds from issuance of Term Loan due 2020	773,063		
Repayment of Term Loan due 2016	(464,088)		
Repayment of Term Loan due 2018	(296,250)		
Proceeds from issuance of Term Loan due 2018			297,000
Repayment of Term Loan due 2013			(140,657)
			(300,000)

Repurchase of Senior Subordinated Notes due 2014			
Repurchase Parent Term Loan			(159,440)
Deferred financing costs	(9,549)		(7,782)
Principal payments under capital and financing lease obligations	(4,651)	(222)	(2,075)
Principal payments under Term Loan	(5,876)		(5,627)
Change in construction payables	(19,404)	(1,245)	(8,765)
Capital contribution		100,000	
Net cash provided by (used in) financing activities	(26,755)	98,533	(327,346)
Effect of exchange rate changes on cash and equivalents	(75)	(389)	52
Net increase (decrease) in cash and equivalents	(2,443)	58,143	(337,519)
Cash and equivalents at beginning of period	133,071	100,674	438,193
Cash and equivalents at end of period	$ 130,628	$ 158,817	$ 100,674

See Notes to Consolidated Financial Statements.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2013

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

AMC Entertainment Holdings, Inc. ("Parent" or the "Company"), through its direct and indirect subsidiaries, including AMC Entertainment® Inc. ("AMCE") and American Multi-Cinema, Inc. ("AMC") and its subsidiaries (collectively with Parent, unless the context otherwise requires, the "Company"), is principally involved in the theatrical exhibition business and owns, operates or has interests in theatres primarily located in the United States. Parent is an indirect, wholly-owned subsidiary of Dalian Wanda Group Co., Ltd. ("Wanda"), a Chinese private conglomerate.

On August 30, 2012, Wanda acquired Parent through a merger between Parent and Wanda Film Exhibition Co. Ltd. ("Merger Subsidiary"), a wholly-owned indirect subsidiary of Wanda, whereby Merger Subsidiary merged with and into Parent with Parent continuing as the surviving corporation and as a wholly-owned indirect subsidiary of Wanda (the "Merger"). In connection with the change of control pursuant to the Merger, the Company's assets and liabilities were adjusted to fair value on the closing date of the Merger by application of "push down" accounting. As a result of the application of "push down" accounting in connection with the Merger, the Company's financial statement presentations herein distinguish between a predecessor period ("Predecessor"), for periods prior to the Merger, and a successor period ("Successor"), for periods subsequent to the Merger. The Successor applied "push down" accounting and its financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the Merger date, August 30, 2012. The Consolidated Financial Statements presented herein are those of Successor from January 1, 2013 through September 30, 2013, and those of Predecessor for all periods prior to the Merger date. As a result of the application of "push down" accounting at the time of the Merger, the financial statements for the Predecessor period and for the Successor period are presented on different bases and are, therefore, not comparable. See Note 2 Merger for additional information regarding the Merger.

Use of Estimates: Preparing the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (1) Impairments, (2) Film exhibition costs, (3) Income and operating taxes, (4) Theatre and other closure expense, and (5) Gift card and packaged ticket breakage. Actual results could differ from those estimates.

Fiscal Year: On November 15, 2012, the Company changed its fiscal year to a calendar year ending on December 31st of each year. Prior to the change, the Company had a 52/53 week fiscal year ending on the Thursday closest to the last day of March. All references to "fiscal year", unless otherwise noted, refer to the 52/53 week fiscal year, which ended on the Thursday closest to the last day of March.

Earnings per Share: Basic earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding. Diluted earnings per share includes the effects of outstanding stock options, if dilutive.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

The following table sets forth the computation of basic and diluted earnings (loss) from continuing operations per common share:

(In thousands, except per share data)	Nine months Ended September 30, 2013 (Successor)	From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Numerator:			
Earnings (loss) from continuing operations	$ 80,493	$ (43,067)	$ 54,154
Denominator:			
Shares for basic earnings (loss) per common share	76,000.03	71,383.84	63,335.34
Stock options			458.00
Shares for diluted earnings (loss) per common share	76,000.03	71,383.84	63,793.34
Basic earnings (loss) from continuing operations per common share	$ 1.06	$ (0.60)	$ 0.86
Diluted earnings (loss) from continuing operations per common share	$ 1.06	$ (0.60)	$ 0.85

There are no outstanding options to purchase common shares during the Successor period.

Goodwill: The activity for goodwill is presented below:

(In thousands)	Total (Successor)
Balance as of December 31, 2012	$ 2,249,153
Increase in Goodwill from purchase price allocation adjustments related to the Merger	31,951
Increase in Goodwill from purchase price allocation adjustments related to the Rave acquisition	13,127
Balance as of September 30, 2013	$ 2,294,231

Upon receipt of appraisals made by third parties which were completed in the period ended March 31, 2013, the Company finalized the purchase price allocation related to the Merger. Final adjustments made increased recorded goodwill by approximately $32,000,000, which was attributable to reduced amounts allocated to Property, net and other long-term assets of approximately $28,000,000 and $4,000,000, respectively, due to final determinations of fair values resulting from the completion of our appraisal work.

The Company recorded an increase in goodwill of approximately $13,000,000 for the Rave acquisition, which includes a $10,000,000 increase in unfavorable leases, a $1,000,000 decrease in fair value allocated to Property, net, and a $2,000,000 adjustment to reduce working capital from amounts

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

estimated at the acquisition date. Amounts allocated provisionally to these accounts may change when final appraisals by a third party are completed later this year.

See Note 2 Merger and Note 3 Acquisition for additional information regarding the Merger and the Rave Acquisitions.

Discontinued Operations: The results of operations for the Company's discontinued operations have been eliminated from the Company's continuing operations and classified as discontinued operations for each period presented within the Company's Consolidated Statements of Operations. During the nine months ended September 30, 2013, the Company received $4,666,000 for a sales price adjustment from the sale of theatres located in Canada. The sales price adjustment related to tax attributes of the theatres sold in Canada which were not determinable or probable of collection at the date of the sale. The Company completed its tax returns for periods prior to the date of sale during the nine months ended September 30, 2013 at which time the buyer was able to determine amounts due pursuant to the sales price adjustment and remit them to the Company. The Company recorded the additional gain on sale following the guidance for gain contingencies in ASC 450-30-25-1 when the gains were realizable.

The Company calculated the gain on sale and closure of its theatres in Canada and in the UK as follows during the period of December 30, 2011 through August 30, 2012:

(In thousands)	**Total (Predecessor)**
Proceeds from sale of UK theatre	$ 395
Proceeds from sale of Canada theatres	1,472
Cash payment for closure of Canada theatre	(7,562)
Net cash payment	$ (5,695)
Fixed asset write-offs	(1,885)
Recognition of cumulative translation losses in AOCI(1)	(11,069)
Legal and professional fees	(1,582)
Operating Lease Liabilities:	
Deferred rent write-off	14,848
Unfavorable lease write-off	31,099
Deferred gain write-off	13,666
Gain on sale, net of lease termination expense	$ 39,382

(1) This amount was reclassified from accumulated other comprehensive income to discontinued operations in the Consolidated Statements of Operations.

The Company operated all of the Canada and UK theatres pursuant to long-term operating lease agreements with original terms of 20 years. In connection with the sales of these theatres, the buyers assumed responsibility under the operating lease agreements and the Company was relieved of its legal

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 1 BASIS OF PRESENTATION (Continued)

obligation for future payments under the lease agreements. For the theatre that was closed, the Company paid the landlord $7,562,000 to terminate its obligation under the lease at the date of closing.

Other (Income) Expense: The following table sets forth the components of other (income) expense:

(In thousands)	Nine Months Ended (unaudited) Nine Months Ended September 30, 2013 (Successor)	From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Gain on extinguishment of Parent Term Loan Facility	$	$	$ 511
Loss on redemption of 8% Senior Subordinated Notes due 2014			1,937
Loss (gain) on Senior Secured Credit Facility	(130)		383
Other expense (income)	(54)	49	(335)
Other expense (income)	$ (184)	$ 49	$ 2,496

Temporary Equity: As of September 30, 2013 there was no material difference in the estimated fair value and recorded value of the Class N Common Shares recorded as temporary equity. The Company determined the amount reflected in temporary equity for the Class N Common Stock based on the price paid per share by the management shareholders and Wanda at the date of the Merger.

Reclassification: On December 17, 2013 the Company reclassified each share of existing Class A common stock and Class N common stock by filing an amendment to its certificate of incorporation. Pursuant to the reclassification, which substantially resulted in a stock split, each holder of shares of existing Class A common stock received 49.514 shares of Class B common stock for one share of existing Class A common stock, and each holder of shares of Class N common stock received 49.514 shares of new Class A common stock for one share of Class N common stock. All shares and per share amounts presented in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the reclassification.

Subsequent Events: The Company has evaluated subsequent events through December 17, 2013.

NOTE 2 MERGER

Parent and Wanda completed a Merger on August 30, 2012 in which Wanda indirectly acquired all of the outstanding capital stock of Parent. Parent merged with Merger Subsidiary, whereby Merger Subsidiary merged with and into Parent with Parent continuing as the surviving corporation and as a wholly-owned indirect subsidiary of Wanda. The merger consideration totaled $701,811,000, with $700,000,000 invested by Wanda and $1,811,000 invested by members of management for which 66,252,109 shares of Class A common stock and 173,147 shares of Class N common stock were issued,

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 2 MERGER (Continued)

respectively. The investment amount and price per share paid by members of management was determined pursuant to Management Subscription Agreements negotiated in connection with the Merger. Pursuant to such agreements, as a retention incentive certain key members of management were required to reinvest 50% of the after tax amount they received with respect to equity awards outstanding at the time of the Merger at a price per share equal to that received for such equity awards. The approximately one percent differential in the per share price paid by Wanda and members of management represents the dilutive effect from settlement of outstanding management equity awards in connection with the Merger. Wanda also acquired cash, corporate borrowings and capital and financing lease obligations in connection with the Merger, as described below.

In connection with the Merger agreement, $35,000,000 of consideration otherwise payable to the equity holders was deposited into an Indemnity Escrow Fund and $2,000,000 otherwise payable to the equity holders was deposited into an account designated by the Stockholder Representative. The $35,000,000 of consideration previously deposited in the Indemnity Escrow Fund, which was established to cover any indemnity claims by Wanda against the sellers (former owners) relating to their representations, warranties and covenants in connection with the Merger, was released in full on April 3, 2013. There were no indemnity claims made. Further, the $2,000,000 previously deposited in an account designated by the Stockholder Representative, which account was established to cover post-merger closing de minimis taxes and administrative fees and expenses, has also been released in full. On April 15, 2013, after net of such taxes, fees and expenses, $1,600,000 was released back to the selling stockholders, including members of management. The Company accounted for the entire $701,811,000 as purchase price which included the amounts placed in escrow because the Company believed any contingencies requiring escrow were remote and that the amounts would be paid out subsequently.

As a result of the Merger and related change of control, the Company applied "push down" accounting, which requires allocation of the Merger consideration to the estimated fair values of the assets and liabilities acquired in the Merger. The allocation of Merger consideration was based on management's judgment after evaluating several factors, including a valuation assessment performed by a third party appraiser. Final appraisal reports were received during the first quarter of calendar 2013. The appraisal measurements included a combination of income, replacement costs and market approaches and represents management's best estimate of fair value at August 30, 2012, the acquisition date. Management finalized its purchase price allocation in May of calendar 2013. Adjustments made during calendar 2013 increased recorded goodwill by approximately $32,000,000. Property, net and other long-term assets decreased by approximately $28,000,000 and $4,000,000, respectively, due to final

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 2 MERGER (Continued)

determinations of fair values assigned to tangible assets. The following is a summary of the allocation of the Merger consideration:

(In thousands)	Total
Cash	$ 103,784
Receivables, net	29,775
Other current assets	34,840
Property, net(1)	1,034,597
Intangible assets, net(2)	246,507
Goodwill(3)	2,202,080
Other long-term assets(4)	339,013
Accounts payable	(134,186)
Accrued expenses and other liabilities	(138,535)
Gift card, packaged tickets, and loyalty program liability(5)	(117,841)
Corporate borrowings(6)	(2,086,926)
Capital and financing lease obligations	(60,922)
Exhibitor services agreement(7)	(322,620)
Other long-term liabilities(8)	(427,755)
Total Merger consideration	$ 701,811
Corporate borrowings	2,086,926
Capital and financing lease obligations	60,922
Less: cash	(103,784)
Total transaction value	$ 2,745,875

(1) Property, net, consists of real estate, leasehold improvements and furniture, fixtures and equipment recorded at fair value.

(2) Intangible assets consist of a trademark and trade names, a non-compete agreement, management contracts, a contract with an equity method investee, and favorable leases. In general, the majority of the Company's asset value is comprised of real estate and fixed assets. Furthermore, the majority of the Company's theatres are operated via lease agreements as opposed to owning the underlying real estate. Therefore, any asset value related to leased real estate would exist only if the existing lease agreements were at below-market, or favorable, terms. Certain of the Company's leased locations were considered to be at favorable terms, and an intangible asset was ascribed for such lease agreements. However, the majority of lease agreements were considered to be at market terms. As a result, there is no owned real estate or lease intangible asset value ascribed to the majority of the Company's locations. In estimating the fair value of the favorable lease agreements, market rents were estimated for each of the Company's leased locations. If the contractual rents were considered to be below the market rent, a favorable lease agreement was valued by discounting the difference between the contractual rent and estimated market rates over the remaining lease term. Renewal options in the leases were also considered in determining the remaining lease term.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 2 MERGER (Continued)

Other intangible assets were also considered. For the Company's business, the largest intangible asset (other than a favorable lease agreement) is the trade name. There was no customer relationship asset since the Company's customers represent "walk-in traffic" in which the customer would not meet the legal or separable criteria under ASC 805. The royalty savings method, a form of the income approach, was used to estimate the fair value of the trade name. In estimating the appropriate royalty rate for the trade name, we considered the impact and contribution that the trade name provides to the Company's operating cash flows. We assessed that the trade name does provide some contribution to the Company's operating cash flow, but that the attendance in the theatre is ultimately driven by factors that are not separable from goodwill such as the quality of the film product, the location of each individual theatre, the physical condition of the individual theatre, and the competitive landscape of the individual theatre.

Other than the favorable lease agreements and the trade name, there are not many other operating intangible assets for the Company's business. However, the Company does have some contractual relationships identified as intangible assets. These contractual relationships include the non-compete agreement that was entered into as part of the Company's acquisition of Kerasotes, management agreements in which the Company manages certain theatres that are owned by a third party, and the NCM tax receivable agreement (the "NCM TRA") which represents an agreement in which the Company receives a certain portion of a tax benefit that NCM is expected to receive as part of the Company's partial ownership interest in NCM. The non-compete agreement was valued using the differential cash flow method, a form of the income approach, in which the cash flows of the Company were estimated under a scenario in which the non-compete agreement was in place and a scenario in which there was no non-compete agreement. The value of the non-compete agreement was considered to be the difference of the discounted cash flows between the two scenarios over the remaining contractual term of the agreement. The management agreements were valued using the income approach, in which the annual management fee over the life of the agreements were discounted. The NCM TRA was valued using the income approach in which the future tax benefit distribution realized from any tax amortization of intangible assets was estimated and discounted. The Company determined the value of the TRA using a discounted cash flow model. For the purposes of its analysis, the Company estimated the cash receipts from taxable transactions that are known as of the date of the Merger. The Company did not consider future transactions that NCM may undertake. The Company estimated a run-off of the intangible asset amortization benefits due to the following transactions:

1. ESA (Exhibitor Services Agreement) relates to the amortization due to a modification of the initial ESA agreement.

2. CUA (Common Unit Adjustment) relates to NCM issuing additional common units to the founding members if there is an increase in the number of theatres under the ESA agreement. A reduction of common units is made if there are theatres removed from the ESA agreement.

3. AMC II Benefit relates to AMC's acquisition of Kerasotes theatres.

4. IPO Exchange Benefit relates to amortization from NCM's IPO in 2007.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 2 MERGER (Continued)

5. IPO II Exchange Benefit relates to amortization step ups from NCM's secondary IPO in 2010.

6. Capital Account Administration Allocation relates to receipts attributable to the account administration.

The estimated TRA receipts through 2037 are tax effected at 40%, based on a blended federal and 50-state average tax rate. The after tax receipts were discounted to a present value using a discount rate of 12.0%, based on the cost of equity of NCM, as the TRA payments only benefit the equity holders.

(3) Goodwill represents the excess of the Merger consideration over the net assets recognized and represents the future expected economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill associated with the Merger is not tax deductible. Additionally, the Company expects to realize synergies and cost savings related to the Merger. Wanda is the largest theatre exhibition operator in China through its controlling ownership interest in Wanda Cinema Line. The combined ownership and scale of AMC and Wanda Cinema Line, has enabled them to enhance relationships and obtain better terms for important food and beverage, lighting and theatre supply vendors, and to expand their strategic partnership with IMAX. Wanda and AMC are also working together to offer Hollywood studios and other production companies valuable access to their industry-leading promotion and distribution platforms, with the goal of gaining greater access to content and playing a more important role in the industry going forward.

(4) Other long-term assets primarily include equity method investments, real estate held for investment and marketable equity securities recorded at fair value.

(5) Represents a liability related to the sales of gift cards, packaged tickets and AMC Stubs memberships and rewards outstanding at August 30, 2012, recorded at fair value. The Company determined fair value for the gift cards and packaged tickets by removing the amount of unrecognized breakage income that was included in the deferred revenue amounts prior to the Merger. The Company made purchase accounting adjustments to reduce its deferred revenues for packaged tickets by $24,859,000 and gift cards by $7,441,000 such that the Company would recognize a normal profit margin on its deferred revenues for the future redemptions of the sales that occurred prior to the Merger. The Company did not make any fair value adjustments to its deferred revenues related to AMC Stubs as a result of the Merger because deferred revenues for the annual memberships require performance by AMC in the future and there was not sufficient historical data to estimate amounts of future breakage for AMC Stubs rewards. AMC Stubs vested rewards expire after 90 days if unused and AMC Stubs progress rewards expire to the extent members do not renew their annual membership.

(6) Corporate borrowings include borrowings under the Senior Secured Credit Facility-Term Loan due 2016, the Senior Secured Credit Facility-Term Loan due 2018, the 8.75% Senior Fixed Rate Notes due 2019 and the 9.75% Senior Subordinated Notes due 2020, recorded at fair value.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 2 MERGER (Continued)

(7) In connection with the completion of NCM, Inc.'s IPO on February 13, 2007, the Company entered into the Exhibitor Services Agreement that provided favorable terms to NCM in exchange for a payment of $231,308,000. The Exhibitor Services Agreement was considered an unfavorable contract to the Company based on a comparison of rates charged by NCM to third-party exhibitors. The market rate was estimated as the average rate charged by NCM to third party exhibitors. The fair value of the contract was estimated as the present value of the difference between the Company's expected payments under the contract and a market rate over the life of the Exhibitor Services Agreement. The Company's expected payments were estimated based on the Company's expected annual attendance, screen count, and advertising revenues over the life of the Exhibitor Services Agreement.

(8) Other long-term liabilities consist of certain theatre leases that have been identified as unfavorable, adjustments to reset deferred rent related to escalations of minimum rentals to zero, adjustments for pension and postretirement medical plan liabilities and deferred RealD Inc. lease incentive recorded at fair value. Other long-term liabilities include deferred tax liabilities resulting from indefinite temporary differences that arose primarily from the application of "push down" accounting.

Quoted market prices and observable market based inputs were used to estimate the fair value of corporate borrowings (Level 2) and the Company's investments in NCM and equity securities available for sale including RealD Inc. common stock (Level 1). The fair value measurements of other tangible and intangible assets and liabilities were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value measurement hierarchy. Level 3 fair market values were determined using a variety of information, including estimated future cash flows, appraisals, market comparables, and quoted market prices.

During the nine months ended September 30, 2013, the Company incurred additional Merger-related costs of approximately $951,000, which are included in general and administrative expense: merger, acquisition and transaction costs in the Consolidated Statements of Operations.

For further information about other Merger-related costs and change of control transactions for Corporate Borrowings, see Note 2 Merger and Note 9 Corporate Borrowings and Capital and Financing Lease Obligations of the Notes to the audited Consolidated Financial Statements included elsewhere in this prospectus.

The unaudited pro forma financial information presented below sets forth the Company's historical statements of operations for the periods indicated and gives effect to the Merger as if "push down" accounting had been applied as of December 30, 2011. Such information is presented for comparative purposes to the Consolidated Statements of Operations only and does not purport to represent what

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 2 MERGER (Continued)

the Company's results of operations would actually have been had these transactions occurred on the date indicated or to project its results of operations for any future period or date.

(In thousands)	**Pro forma December 30, 2011 through September 27, 2012**
	(unaudited)
Revenues	
Admissions	$ 1,318,213
Food & beverage	546,094
Other theatre	69,139
Total revenues	1,933,446
Operating Costs and Expenses	
Film exhibition costs	692,389
Food & beverage costs	74,724
Operating expense	516,810
Rent	332,112
General and administrative:	
Merger, acquisition and transaction costs	7,174
Management fee	
Other	49,689
Depreciation and amortization	150,537
Impairment of long-lived assets	285
Operating costs and expenses	1,823,720
Operating income	109,726
Other expense (income)	
Other expense	2,545
Interest expense:	
Corporate borrowings	107,220
Capital and financing lease obligations	4,320
Equity in earnings of non-consolidated entities	(7,161)
Investment income	(3,389)
Total other expense	103,535
Earnings from continuing operations before income taxes	6,191
Income tax provision	8,500
Loss from continuing operations	(2,309)
Earnings from discontinued operations, net of income taxes	34,557

Net earnings	$	32,248

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 3 ACQUISITION

In December 2012, the Company completed the acquisition of 4 theatres and 61 screens from Rave Reviews Cinemas, LLC and 6 theatres and 95 screens from Rave Digital Media, LLC, (together "Rave"). The total purchase price for the Rave theatres, paid in cash, was $88,683,000, net of cash acquired, and is subject to working capital and other purchase price adjustments. Approximately $881,000 of the total purchase price was paid during the nine months ended September 30, 2013. The Company acquired the Rave theatres based on their highly complementary geographic presence in certain key markets. Additionally, the Company expects to realize synergies and cost savings related to the Rave acquisition as a result of moving to the Company's operating practices, decreasing costs for newspaper advertising, food and beverage costs, and general and administrative expense savings, particularly with respect to the consolidation of corporate related functions and elimination of redundancies.

The acquisitions are being treated as a purchase in accordance with Accounting Standards Codification, ("ASC") 805, *Business Combinations,* which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction. The allocation of purchase price is based on management's judgment after evaluating several factors, including bid prices from potential buyers and a valuation assessment. The allocation of purchase price is subject to changes as an appraisal of assets and liabilities is not yet completed. The following is a summary of a preliminary allocation of the purchase price:

(In thousands)		Total
Cash	$	3,649
Receivables, net(1)		754
Other current assets		1,556
Property, net		79,428
Goodwill(2)		92,151
Accrued expenses and other liabilities		(8,618)
Capital and financing lease obligations		(62,598)
Other long-term liabilities(3)		(13,990)
Total estimated purchase price	$	92,332

(1) Receivables consist of trade receivables recorded at estimated fair value. The Company did not acquire any other class of receivables as a result of the acquisition of the Rave theatres.

(2) Amounts recorded for goodwill are expected to be deductible for tax purposes.

(3) Amounts recorded for other long-term liabilities consist of unfavorable leases and long-term deferred tax liabilities.

During the nine months ended September 30, 2013, the Company incurred acquisition-related costs for the Rave theatres of approximately $610,000, which are included in general and administrative expense: merger, acquisition and transaction costs in the Consolidated Statements of Operations. The

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 3 ACQUISITION (Continued)

Company's operating results for the nine months ended September 30, 2013 were not materially impacted by this acquisition.

NOTE 4 INVESTMENTS

Investments in non-consolidated affiliates and certain other investments accounted for following the equity method generally include all entities in which the Company or its subsidiaries have significant influence, but not more than 50% voting control, and are recorded in the Consolidated Balance Sheets in other long-term assets. Investments in non-consolidated affiliates as of September 30, 2013, include a 15.44% interest in NCM, a 50% interest in two U.S. theatres and one IMAX screen, a 29% interest in Digital Cinema Implementation Partners, LLC ("DCIP"), and a 50% interest in Open Road Releasing, LLC, operator of Open Road Films, LLC ("ORF"). Indebtedness held by equity method investees is non-recourse to the Company.

RealD Inc. Common Stock. The Company holds an investment in RealD Inc. common stock, which is accounted for as an equity security, available for sale, and is recorded in the Consolidated Balance Sheets in other long-term assets at fair value (Level 1).

Equity in Earnings of Non-Consolidated Entities

Condensed financial information of the Company's non-consolidated equity method investments for the nine months ended September 30, 2013, the period December 30, 2011 through August 30, 2012, and the period August 31, 2012 through September 27, 2012 is shown below:

	Nine Months Ended September 30, 2013				
(In thousands)	NCM	DCIP	ORF	Other	Total
Revenues	$ 340,100	$ 134,398	$ 125,839	$ 12,314	$ 612,651
Operating costs and expenses	241,600	103,605	108,553	12,220	465,978
Net earnings	$ 98,500	$ 30,793	$ 17,286	$ 94	$ 146,673

	From Inception August 31, 2012 through September 27, 2012				
(In thousands)	NCM	DCIP	ORF	Other	Total
Revenues	$ 22,200	$ 13,598	$ 21,311	$ 2,572	$ 59,681
Operating costs and expenses	21,200	11,903	29,177	3,043	65,323
Net earnings (loss)	$ 1,000	$ 1,695	$ (7,866)	$ (471)	$ (5,642)

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 4 INVESTMENTS (Continued)

	December 30, 2011 through August 30, 2012				
(In thousands)	**NCM**	**DCIP**	**ORF**	**Other**	**Total**
Revenues	$ 310,700	$ 109,363	$ 78,259	$ 22,927	$ 521,249
Operating costs and expenses	243,800	86,410	91,611	23,890	445,711
Net earnings (loss)	$ 66,900	$ 22,953	$ (13,352)	$ (963)	$ 75,538

The components of the Company's recorded equity in earnings (losses) of non-consolidated entities are as follows:

(In thousands)	**Nine Months Ended September 30, 2013**	**Nine Months Ended From Inception August 31, 2012 through September 27, 2012**	**December 30, 2011 through August 30, 2012**
	(Successor)	**(Successor)**	**(Predecessor)**
National CineMedia, LLC	$ 15,917	$ 116	$ 16,560
Digital Cinema Implementation Partners, LLC	12,986	541	7,079
Open Road Releasing, LLC	8,650	(3,933)	(6,676)
Other	590	(102)	1,277
The Company's recorded equity in earnings (losses)	$ 38,143	$ (3,378)	$ 18,240

DCIP Transactions. The Company will make capital contributions to DCIP for projector and installation costs in excess of an agreed upon cap ($68,000 per system for digital conversions and $44,000 for new build locations). The Company pays equipment rent monthly and records the equipment rental expense on a straight-line basis over 12 years, including scheduled escalations of rent to commence after six and one-half years from the inception of the agreement. The difference between the cash rent and straight-line rent is recorded to deferred rent, a long-term liability account.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 4 INVESTMENTS (Continued)

The Company recorded the following transactions with DCIP:

(In thousands)	September 30, 2013 (Successor)	December 31, 2012 (Successor)
Due from DCIP for equipment purchases	$ 730	$ 736
Deferred rent liability for digital projectors	6,241	1,810

(In thousands)	Nine Months Ended September 30, 2013 (Successor)	Nine Months Ended From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Digital equipment rental expense (continuing operations)	$ 8,255	$ 377	$ 5,489

Open Road Films Transactions. The Company recorded the following transactions with Open Road Films:

(In thousands)	September 30, 2013 (Successor)	December 31, 2012 (Successor)
Due from Open Road Films	$ 2,322	$ 1,950
Film rent payable to Open Road Films	373	326

(In thousands)	Nine Months Ended September 30, 2013 (Successor)	Nine Months Ended From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Gross film exhibition cost on Open Road Films	$ 10,500	$ 2,223	$ 6,550

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 4 INVESTMENTS (Continued)

NCM Transactions. Effective June 7, 2013, NCM issued 5,315,837 common membership units to another founding member due to an acquisition, which caused a decrease in the Company's ownership share from 16.29% to 15.59%. As of September 30, 2013, the Company owns 19,052,770 common membership units, or a 15.44% interest, in NCM. As a founding member, the Company has the ability to exercise significant influence over the governance of NCM, and, accordingly accounts for its investment following the equity method. The estimated fair market value of the units in NCM was approximately $359,335,000, based on the publically quoted price per share of NCM, Inc. on September 30, 2013 of $18.86 per share.

The Company recorded the following transactions with NCM:

(In thousands)	September 30, 2013 (Successor)	December 31, 2012 (Successor)
Due from NCM for on-screen advertising revenue	$ 1,479	$ 1,978
Due to NCM for Exhibitor Services Agreement	2,161	2,021

(In thousands)	Nine Months Ended September 30, 2013 (Successor)	Nine Months Ended From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Net NCM screen advertising revenues	$ 25,007	$ 2,201	$ 18,152
NCM beverage advertising expense	10,325	577	9,680

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 4 INVESTMENTS (Continued)

The Company recorded the following changes in the carrying amount of its investment in NCM and equity in earnings of NCM during the nine months ended September 30, 2013:

(In thousands)	Investment in NCM(1)	Exhibitor Services Agreement(2)	Other Comprehensive (Income)	Cash Received	Equity in (Earnings) Loss	Advertising (Revenue)
	(Successor)	(Successor)	(Successor)	(Successor)	(Successor)	(Successor)
Ending balance December 31, 2012	$ 245,047	$ (318,154)	$ (797)			
Receipt of common units	26,315	(26,315)				
Receipt of excess cash distributions	(16,896)			$ 16,896	$	$
Amortization of deferred revenue		10,846				(10,846)
Unrealized gain from cash flow hedge	1,101		(1,101)			
Change in interest gain(3)	2,716				(2,716)	
Equity in earnings(4)	15,383				(15,383)	
Equity in loss from amortization of basis difference(5)	(2,182)				2,182	
For the period ended or balance as of September 30, 2013	$ 271,484	$ (333,623)	$ (1,898)	$ 16,896	$ (15,917)	$ (10,846)

(1) As of the date of the Merger, August 30, 2012, the Company's investment in NCM consisted of a single investment tranche (Tranche 1 Investment) consisting of 17,323,782 membership units recorded at fair value (Level 1). As a result of the Rave theatre acquisitions in December of 2012, and as provided under the Common Unit Adjustment Agreement dated as of February 13, 2007, the Company received 1,728,988 additional NCM common membership units in 2013 valued at $26,315,000 and is recorded in a new tranche, (Tranche 2 Investment).

(2) Represents the unamortized portion of the Exhibitor Services Agreement ("ESA") with NCM. Such amounts are being amortized to other theatre revenues over the remainder of the 30 year term of the ESA ending in 2036, using a units-of-revenue method, as described in ASC 470-10-35 (formerly EITF 88-18, *Sales of Future Revenues*). In connection with the Merger on August 30, 2012, the amounts related to the ESA were adjusted to estimated fair value.

(3) A non-cash gain was recorded to adjust the Company's investment balance due to NCM's issuance of 5,315,837 common membership units to another founding member, at a price per share in excess of the Company's average carrying amount per share.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 4 INVESTMENTS (Continued)

(4) Represents percentage of ownership equity in earnings on both Tranche 1 and Tranche 2 Investments.

(5) Certain differences between the Company's carrying value and the Company's share of NCM's membership equity have been identified and are amortized to equity in earnings over the respective lives of the assets and liabilities.

During the nine month successor period ended September 30, 2013, payments received of $3,677,000 related to the NCM tax receivable agreement are recorded in investment income net of related amortization for the NCM tax receivable agreement intangible asset. Amounts related to the NCM tax receivable agreement of $3,949,000 were recorded in equity in earnings of non-consolidated entities during the period December 30, 2011 through August 30, 2012. Prior to the Merger, the Company did not have any carrying value related to the NCM tax receivable agreement. In connection with push down accounting as required by the Merger, the Company recorded an amortizable intangible asset in the amount of $20,900,000 related to the NCM tax receivable agreement. Because the Company has established a separate asset apart from its equity method investment in NCM that derives all of its fair value from the expected future payments under the NCM tax receivable agreement, the Company will account for the cash receipts under the NCM tax receivable agreement separately from its equity method investment in NCM. Prior to the Merger, the majority of the Company's investment in NCM (Tranche 1) was recorded at a carrying value of $0 and the remainder of the Company's investment in NCM (Tranche 2) was recorded at a carrying value of $72,323,000. Subsequent to the Merger, the Company increased the carrying value of its Tranche 1 and Tranche 2 investments in NCM from $72,323,000 to a fair value of $250,155,000. As both the NCM tax receivable agreement and investment in NCM were separately recorded at fair value as a result of the Merger, the Company will account for the NCM tax receivable agreement intangible amortization and NCM tax receivable agreement cash receipts separately as components of investment income, and the Company will account for its share of earnings in NCM and distributions of its earnings following the equity method.

NOTE 5 FAIR VALUE MEASUREMENTS

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts business. The inputs used to develop these fair value measurements are established in a hierarchy, which ranks the quality and reliability of the information used to determine the fair values. The fair value classification is based on levels of inputs. Assets and liabilities that are carried at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

Recurring Fair Value Measurements. The following table summarizes the fair value hierarchy of the Company's financial assets carried at fair value on a recurring basis as of September 30, 2013:

		Fair Value Measurements at September 30, 2013 Using		
(In thousands)	**Total Carrying Value at September 30, 2013**	**Quoted prices in active market (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	(Successor)			
Other long-term assets:				
Money Market Mutual Funds	$ 113	$ 113	$	$
Equity securities, available-for-sale:				
RealD Inc. Common Stock	8,559	8,559		
Mutual Fund Large U.S. Equity	2,515	2,515		
Mutual Fund Small/Mid U.S. Equity	758	758		
Mutual Fund International	392	392		
Mutual Fund Balance	160	160		
Mutual Fund Fixed Income	379	379		
Total assets at fair value	$ 12,876	$ 12,876	$	$

Valuation Techniques. The Company's money market mutual funds are invested in funds that seek to preserve principal, are highly liquid, and therefore are recorded on the balance sheet at the principal amounts deposited, which equals fair value. The equity securities, available-for-sale, primarily consist of common stock and mutual funds invested in equity, fixed income, and international funds and are measured at fair value using quoted market prices. See Note 11 Accumulated Other Comprehensive Income for the unrealized gain on the equity securities recorded in accumulated other comprehensive income.

Other Fair Value Measurement Disclosures. The Company is required to disclose the fair value of financial instruments that are not recognized in the statement of financial position for which it is practicable to estimate that value:

		Fair Value Measurements at September 30, 2013 Using		
(In thousands)	**Total Carrying Value at September 30, 2013**	**Quoted prices in active market (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	(Successor)			
Current Maturities of Corporate Borrowings	$ 7,750	$	$ 7,702	$
Corporate Borrowings	2,067,905		2,087,642	

Valuation Technique. Quoted market prices and observable market based inputs were used to estimate fair value.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 6 THEATRE AND OTHER CLOSURE AND DISPOSITION OF ASSETS

A rollforward of reserves for theatre and other closure and disposition of assets is as follows:

(In thousands)	Nine Months Ended September 30, 2013 (Successor)	Nine Months Ended From Inception August 31, 2012 through September 27, 2012 (Successor)	December 30, 2011 through August 30, 2012 (Predecessor)
Beginning balance	$ 61,344	$ 62,935	$ 66,497
Theatre and other closure expense continuing operations	4,489	434	5,953
Theatre and other closure expense discontinued operations			7,562
Transfer of assets and liabilities	(55)		(456)
Foreign currency translation adjustment	(322)	648	683
Cash payments	(8,947)	(871)	(17,304)
Ending balance	$ 56,509	$ 63,146	$ 62,935

Theatre and other closure expense was primarily due to accretion on previously closed properties with remaining lease obligations during the nine month Successor period ended September 30, 2013 and the period of August 31, 2012 through September 27, 2012. During the Predecessor period of December 30, 2011 through August 30, 2012, theatre and other closure expense of $5,953,000 was primarily due to accretion on previously closed properties with remaining lease obligations and an early termination of a lease agreement. In addition, the Company closed one theatre with 20 screens located in Canada and paid the landlord $7,562,000 to terminate the lease agreement during the Predecessor period. During the three months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period June 29, 2012 through August 30, 2012, the Company recognized theatre and other closure expense of $1,469,000, $434,000, and $764,000, respectively. During the nine months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period December 30, 2011 through August 30, 2012, the Company recognized theatre and other closure expense from continuing operations of $4,489,000, $434,000, and $5,953,000, respectively.

Theatre and other closure reserves for leases that have not been terminated are recorded at the present value of the future contractual commitments for the base rents, taxes and maintenance.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 7 INCOME TAXES

The difference between the effective tax rate on earnings from continuing operations before income taxes and the U.S. federal income tax statutory rate is as follows:

(In thousands)	Nine Months Ended September 30, 2013	Nine Months Ended From Inception August 31, 2012 through September 27, 2012	December 30, 2011 through August 30, 2012
	(Successor)	(Successor)	(Predecessor)
Income tax expense at the federal statutory rate	$ 31,975	$ (15,050)	$ 20,000
Effect of:			
State income taxes	(3,610)	100	3,005
Permanent items	120		1,000
Change in FIN 48 Reserve	3,535		
Change in net operating loss carryforward for excess tax deductions	(28,420)		
Valuation allowance	7,260	15,050	(21,000)
Income tax expense	$ 10,860	$ 100	$ 3,005
Effective income tax rate	11.9%	(0.2)%	5.3%

The accounting for income taxes requires that deferred tax assets and liabilities be recognized, using enacted tax rates, for the tax effect of temporary differences between the financial reporting and tax bases of recorded assets and liabilities. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized.

The state tax provision was for the states that impose their income based taxes on a gross sales method, that impose a margin tax, that have suspended the use of net operating loss carryforwards into the current tax year and amounts related to state tax credits.

The change in FIN 48 reserve relates to gross increases due to new positions during the nine months ended September 30, 2013 of $4,000,000, partially offset by favorable resolutions with taxing authorities of $(465,000).

If, in the future, the Company generates sufficient earnings in the United States federal and state tax jurisdictions where it has recorded full valuation allowances, management's conclusion regarding the need for a valuation allowance in these tax jurisdictions could change. If this were to occur, the Company could have a reduction of some or a significant portion of the Company's recorded valuation allowance in the near term, which would reduce the Company's income tax provision and therefore increase net earnings. This determination would be dependent on a number of factors which would include, but not be limited to, the Company's expectation of future taxable income.

NOTE 8 COMMITMENTS AND CONTINGENCIES

The Company, in the normal course of business, is a party to various ordinary course claims from vendors (including an online ticketing vendor, food and beverage suppliers and film distributors),

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 8 COMMITMENTS AND CONTINGENCIES (Continued)

landlords and other legal proceedings. If management believes that a loss arising from these actions is probable and can reasonably be estimated, the Company records the amount of the loss, or the minimum estimated liability when the estimated loss is within a range and no point in this range is more probable than another. As additional information becomes available, any potential liability related to these actions is assessed and the estimates are revised, if necessary. Management believes that the ultimate outcome of such other matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations. However, litigation and claims are subject to inherent uncertainties and unfavorable outcomes could occur. An unfavorable outcome could include monetary damages. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the results of operations in the period in which the outcome occurs or in future periods.

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, ("ASU 2013-11"). This amendment provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent that (i) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or (ii) the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. ASU 2013-11 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted and retrospective application is also permitted. The Company will adopt ASU 2013-11 as of the beginning of 2014 and is in the process of evaluating the impact of this pronouncement.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, ("ASU 2013-05"). This amendment clarifies the applicable guidance for the release of cumulative translation adjustment into net earnings. When an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the entity is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net earnings. Accordingly, the cumulative translation adjustment should be released into net earnings only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 9 NEW ACCOUNTING PRONOUNCEMENTS (Continued)

permitted as of the beginning of the entity's fiscal year. The Company will adopt ASU 2013-05 as of the beginning of 2014 and does not expect the adoption of ASU 2013-05 to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, ("ASU 2013-02"). Under this amendment, an entity is required to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company adopted the disclosure requirements of ASU 2013-02 in the first quarter of 2013. See Note 11 Accumulated Other Comprehensive Income for the required disclosure.

NOTE 10 ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income by component:

(In thousands)	Foreign Currency	Pension and Other Benefits	Unrealized Gains on Marketable Securities	Unrealized Gain from Equity Method Investees' Cash Flow Hedge	Total
					(Successor)
Balance, December 31, 2012	$ (530)	$ 7,264	$ 1,913	$ 797	$ 9,444
Other comprehensive income before reclassifications	341		(4,841)	2,489	(2,011)
Amounts reclassified from accumulated other comprehensive income		(58)	(301)	(290)	(649)
Net other comprehensive income (loss)	341	(58)	(5,142)	2,199	(2,660)
Balance, September 30, 2013	$ (189)	$ 7,206	$ (3,229)	$ 2,996	$ 6,784

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 10 ACCUMULATED OTHER COMPREHENSIVE INCOME (Continued)

The following table presents details about accumulated other comprehensive income components:

Reclassifications out of Accumulated Other Comprehensive Income

(In thousands)	Gains Reclassified from Accumulated Other Comprehensive Income Nine Months Ended September 30, 2013 (Successor)	Affected Line Item in the Consolidated Statements of Operations
Amortization of pension and other benefit adjustments:		
Actuarial gains	$ (58)	General and administrative: Other
Unrealized gains on marketable securities:		
Gain on marketable securities	(301)	Investment income
Unrealized gain from equity method investees' cash flow hedge:		
Gain from equity method investees' cash flow hedge	(290)	Equity in earnings of non-consolidated entities
Total reclassifications	$ (649)	

NOTE 11 EMPLOYEE BENEFIT PLANS

The Company sponsors frozen non-contributory qualified and non-qualified defined benefit pension plans generally covering all employees who, prior to the freeze, were age 21 or older and had completed at least 1,000 hours of service in their first twelve months of employment, or in a calendar year ending thereafter, and who were not covered by a collective bargaining agreement. The Company also offers eligible retirees the opportunity to participate in a health plan. Certain employees are eligible for subsidized postretirement medical benefits. The eligibility for these benefits is based upon a participant's age and service as of January 1, 2009.

The Company expects to make pension contributions of approximately $888,000 per quarter for a total of approximately $3,552,000 during calendar 2013.

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 11 EMPLOYEE BENEFIT PLANS (Continued)

Net periodic benefit cost recognized for the plans during the nine months ended September 30, 2013, the period August 31, 2012 through September 27, 2012, and the period December 30, 2011 through August 30, 2012 consists of the following:

	Pension Benefits			Other Benefits		
(In thousands)	Nine Months Ended September 30, 2013	From Inception August 31, 2012 through September 27, 2012	December 30, 2011 through August 30, 2012	Nine Months Ended September 30, 2013	From Inception August 31, 2012 through September 27, 2012	December 30, 2011 through August 30, 2012
	(Successor)	(Successor)	(Predecessor)	(Successor)	(Successor)	(Predecessor)
Components of net periodic benefit cost:						
Service cost	$ 135	$ 14	$ 121	$ 146	$ 14	$ 111
Interest cost	3,384	349	3,122	652	72	674
Expected return on plan assets	(3,530)	(339)	(2,927)			
Amortization of net (gain) loss			900	(58)		88
Amortization of prior service credit						(764)
Net periodic benefit cost (gain)	$ (11)	$ 24	$ 1,216	$ 740	$ 86	$ 109

NOTE 12 CORPORATE BORROWINGS

A summary of the carrying value of corporate borrowings and capital and financing lease obligations is as follows:

(In thousands)	September 30, 2013	December 31, 2012
	(Successor)	(Successor)
Senior Secured Credit Facility-Term Loan due 2016 (4.25% as of December 31, 2012)	$	$ 465,878
Senior Secured Credit Facility-Term Loan due 2018 (4.75% as of December 31, 2012)		297,000
Senior Secured Credit Facility-Term Loan due 2020 (3.50% as of September 30, 2013)	769,372	
8.75% Senior Fixed Rate Notes due 2019	649,475	654,692
9.75% Senior Subordinated Notes due 2020	656,808	661,105
Capital and financing lease obligations, 8.25% - 11%	117,994	122,645
	2,193,649	2,201,320
Less: current maturities	(14,537)	(14,280)
	$ 2,179,112	$ 2,187,040

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AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 12 CORPORATE BORROWINGS (Continued)

On April 30, 2013, the Company entered into a new $925,000,000 Senior Secured Credit Facility pursuant to which the Company borrowed term loans and used the proceeds to fund the redemption of both the Senior Secured Credit Facility Term Loan due 2016 (the "Term Loan due 2016") and the Senior Secured Credit Facility Term Loan due 2018 (the "Term Loan due 2018"). The Senior Secured Credit Facility is comprised of a $150,000,000 Revolving Credit Facility, which matures on April 30, 2018 (the "Revolving Credit Facility"), and a $775,000,000 term loan, which matures on April 30, 2020 (the "Term Loan due 2020"). The Term Loan due 2020 requires repayments of principal of 0.25% of the original principal amount, or $1,937,500, per quarter, with the remaining principal payable upon maturity. The term loan was issued at a 0.25% discount which will be amortized to interest expense over the term of the loan. The Company capitalized deferred financing costs of approximately $6,905,000 related to the issuance of the Revolving Credit Facility and approximately $2,201,000 related to the issuance of the Term Loan due 2020 during 2013. Concurrently with the Term Loan due 2020 borrowings on April 30, 2013, the Company redeemed all of the outstanding Term Loan due 2016 and the Term Loan due 2018 at a redemption price of 100% of the outstanding aggregate principal balance of $464,088,000 and $296,250,000, respectively, plus accrued and unpaid interest. The Company recorded a net gain of approximately $(130,000) in other expense (income), which consisted of the Term Loan due 2016 premium write-off, partially offset by the expense for the third-party costs incurred in connection with the repurchase of the Term Loan due 2016 and the Term Loan due 2018, during the nine months ended September 30, 2013. At September 30, 2013, the aggregate principal balance of the Term Loan due 2020 was $771,125,000 and there were no borrowings under the Revolving Credit Facility.

Borrowings under the Senior Secured Credit Facility bear interest at a rate equal to an applicable margin plus, at the Company's option, either a base rate or LIBOR. The minimum rate for base rate borrowings is 1.75% and the minimum rate for LIBOR-based borrowings is 0.75%. The applicable margin for the Term loan due 2020 is 1.75% for base rate borrowings and 2.75% for LIBOR based loans. The applicable margin for the Revolving Credit Facility ranges from 1.25% to 1.5% for base rate borrowings and from 2.25% to 2.5% for LIBOR based borrowings. The Revolving Credit Facility also provides for an unused commitment fee of 0.50% per annum and for letter of credit fees of up to 0.25% per annum plus the applicable margin for LIBOR-based borrowings on the undrawn amount of the letter of credit. The applicable rate for borrowings under the Term Loan due 2020 at September 30, 2013 was 3.5% based on LIBOR (2.75% margin plus 0.75% minimum LIBOR rate). Prior to redemption, the applicable rate for borrowings under the Term Loan due 2016 at April 30, 2013 was 4.25% based on LIBOR (3.25% margin plus 1.00% minimum LIBOR rate) and the applicable rate for borrowings under the Term Loan due 2018 was 4.75% (3.75% margin plus 1.00% minimum LIBOR rate). The Company is obligated to repay $7,750,000 of the Term Loan due 2020 per annum through April 30, 2019, with any remaining balance due on April 30, 2020. The Company may voluntarily repay outstanding loans under the Senior Secured Credit Facility at any time without premium or penalty, other than customary "breakage" costs with respect to LIBOR loans.

The Senior Secured Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries, to sell assets; incur additional indebtedness; prepay other indebtedness (including the notes); pay dividends and

AMC ENTERTAINMENT HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2013

(Unaudited)

NOTE 12 CORPORATE BORROWINGS (Continued)

distributions or repurchase their capital stock; create liens on assets; make investments; make acquisitions; engage in mergers or consolidations; engage in transactions with affiliates; amend constituent documents and material agreements governing subordinated indebtedness, including the Notes due 2020; change the business conducted by it and its subsidiaries; and enter into agreements that restrict dividends from subsidiaries. In addition, the Senior Secured Credit Facility requires the Company and its subsidiaries to maintain, on the last day of each fiscal quarter, a net senior secured leverage ratio, as defined in the Senior Secured Credit Facility, of no more than 3.25 to 1 as long as the commitments under the Revolving Credit Facility remain outstanding. The Senior Secured Credit Facility also contains certain customary affirmative covenants and events of default, including the occurrence of (i) a change in control, as defined in the Senior Secured Credit Facility, (ii) defaults under other indebtedness of the Company, any guarantor or any significant subsidiary having a principal amount of $25,000,000 or more, and (iii) one or more uninsured judgments against the Company, any guarantor, or any significant subsidiary for an aggregate amount exceeding $25,000,000 with respect to which enforcement proceedings are brought or a stay of enforcement is not in effect for any period of 60 consecutive days.

All obligations under the Senior Secured Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries. All obligations under the Senior Secured Credit Facility, and the guarantees of those obligations (as well as cash management obligations), are secured by substantially all of the Company's assets as well as those of each subsidiary guarantor.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
AMC Entertainment Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of AMC Entertainment Holdings, Inc. (the Company) as of December 31, 2012 and March 29, 2012, and the related consolidated statements of operations, comprehensive earnings (loss), stockholders' equity, and cash flows for the August 31, 2012 to December 31, 2012 period, the 22-week period ended August 30, 2012, and each of the 52-week periods ended March 29, 2012 and March 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AMC Entertainment Holdings, Inc. as of December 31, 2012 and March 29, 2012, and the results of its operations and its cash flows for the August 31, 2012 to December 31, 2012 period, the 22-week period ended August 30, 2012, and each of the 52-week periods ended March 29, 2012 and March 31, 2011 in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the consolidated financial statements, effective August 30, 2012, the Company had a change of controlling ownership. As a result of this change of control, the consolidated financial information after August 30, 2012 is presented on a different cost basis than that for the period before the change of control and, therefore, is not comparable.

/s/ KPMG LLP

Kansas City, Missouri
August 27, 2013 (except for the Reclassification disclosed in note 1,
as to which the date is December 17, 2013).

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AMC ENTERTAINMENT HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Transition Period			
(In thousands)	From Inception August 31, 2012 through December 31, 2012 (restated)	March 30, 2012 through August 30, 2012	Fiscal 2012 52 Weeks Ended March 29, 2012	Fiscal 2011 52 Weeks Ended March 31, 2011
	(Successor)	(Predecessor)	(Predecessor)	(Predecessor)
Revenues				
Admissions	$ 548,632	$ 816,031	$ 1,721,295	$ 1,644,837
Food & beverage	229,739	342,130	689,680	644,997
Other theatre	33,121	47,911	111,002	72,704
Total revenues	811,492	1,206,072	2,521,977	2,362,538
Operating costs and expenses				
Film exhibition costs	291,561	436,539	916,054	860,470
Food & beverage costs	30,545	47,326	93,581	79,763
Operating expense	230,434	297,328	696,783	691,264
Rent	143,374	189,086	445,326	451,874
General and administrative:				
Merger, acquisition and transaction costs	3,366	4,417	3,958	16,838
Management fee		2,500	5,000	5,000
Other	29,110	27,023	51,495	58,157
Depreciation and amortization	71,633	80,971	212,817	211,444
Impairment of long-lived assets			285	12,779
Operating costs and expenses	800,023	1,085,190	2,425,299	2,387,589
Operating income (loss)	11,469	120,882	96,678	(25,051)
Other expense (income)				
Other expense	49	960	1,965	42,687
Interest expense:				
Corporate borrowings	45,259	67,614	172,159	177,459
Capital and financing lease obligations	1,873	2,390	5,968	6,198
Equity in (earnings) losses of non-consolidated entities	2,480	(7,545)	(12,559)	(17,178)
Gain on NCM transactions				(64,441)
Investment expense (income)	290	(41)	17,619	(484)
Total other expense	49,951	63,378	185,152	144,241
Earnings (loss) from continuing operations before income taxes	(38,482)	57,504	(88,474)	(169,292)
Income tax provision	3,500	2,500	2,015	1,950
Earnings (loss) from continuing operations	(41,982)	55,004	(90,489)	(171,242)
Earnings (loss) from discontinued operations, net of income taxes	(688)	35,153	(3,609)	(3,062)
Net earnings (loss)	$ (42,670)	$ 90,157	$ (94,098)	$ (174,304)
Basic earnings (loss) per share of common stock:				
Earnings (loss) from continuing operations	$ (0.56)	$ 0.87	$ (1.43)	$ (2.70)
Earnings (loss) from discontinued operations	(0.01)	0.55	(0.06)	(0.05)
Net earnings (loss) per share	$ (0.57)	$ 1.42	$ (1.49)	$ (2.75)

Average shares outstanding:				
Basic	74,987.96	63,335.34	63,335.34	63,324.44
Diluted earnings (loss) per share of common stock:				
Earnings (loss) from continuing operations	$ (0.56)	$ 0.86	$ (1.43)	$ (2.70)
Earnings (loss) from discontinued operations	(0.01)	0.55	(0.06)	(0.05)
Net earnings (loss) per share	$ (0.57)	$ 1.41	$ (1.49)	$ (2.75)
Average shares outstanding:				
Diluted	74,987.96	63,715.11	63,335.34	63,324.44

See Notes to Consolidated Financial Statements.

AMC ENTERTAINMENT HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)

(In thousands)	Transition Period From Inception August 31, 2012 through December 31, 2012 (restated)	Transition Period March 30, 2012 through August 30, 2012	Fiscal 2012 52 Weeks Ended March 29, 2012	Fiscal 2011 52 Weeks Ended March 31, 2011
	(Successor)	(Predecessor)	(Predecessor)	(Predecessor)
Net earnings (loss)	$ (42,670)	$ 90,157	$ (94,098)	$ (174,304)
Foreign currency translation adjustment, net of tax	(530)	11,935	2,465	(5,678)
Pension and other benefit adjustments:				
Net gain (loss) arising during the period, net of tax	7,279		(18,939)	(664)
Prior service credit arising during the period, net of tax		771	1,035	283
Amortization of net loss included in net periodic benefit costs, net of tax		987	5	137
Amortization of prior service credit included in net periodic benefit costs, net of tax		(448)	(984)	(865)
Settlement, net of tax	(15)			
Unrealized gain (loss) on marketable securities:				
Unrealized holding gain (loss) arising during the period, net of tax	1,915	(4,167)	(17,490)	5,972
Less: reclassification adjustment for gains (loss) included in investment expense (income), net of tax	(2)	(44)	17,696	
Unrealized gain from equity method investee's cash flow hedge, net of tax	797			
Other comprehensive earnings (loss)	9,444	9,034	(16,212)	(815)
Total comprehensive earnings (loss)	$ (33,226)	$ 99,191	$ (110,310)	$ (175,119)

See Notes to Consolidated Financial Statements.

AMC ENTERTAINMENT HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)	December 31, 2012 (Successor)	March 29, 2012 (Predecessor)
ASSETS		
Current assets:		
Cash and equivalents	$ 133,071	$ 277,605
Receivables, net	97,108	43,038
Other current assets	70,627	85,916
Total current assets	300,806	406,559
Property, net	1,147,959	883,697
Intangible assets, net	243,180	135,024
Goodwill	2,249,153	1,953,686
Other long-term assets	332,740	261,301
Total assets	$ 4,273,838	$ 3,640,267
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 226,220	$ 195,938
Accrued expenses and other liabilities	155,286	148,348
Deferred revenues and income	171,122	174,355
Current maturities of corporate borrowings and capital and financing lease obligations	14,280	61,846
Total current liabilities	566,908	580,487
Corporate borrowings	2,070,671	2,087,495
Capital and financing lease obligations	116,369	59,413
Exhibitor services agreement	318,154	328,442
Other long-term liabilities	433,151	426,829
Total liabilities	3,505,253	3,482,666
Commitments and contingencies		
Class N Common Stock nonvoting ($.01 par value, 25,000 shares authorized; 3,497 shares issued and outstanding as of December 31, 2012)	1,811	
Stockholders' equity:		
Class A Common Stock voting ($.01 par value, 2,000,000 shares authorized; 1,531,424 shares issued and outstanding as of December 31, 2012)	15	
Class N Common Stock nonvoting ($.01 par value, 375,000 shares authorized; 2,021.01696 shares issued and outstanding as of March 29, 2012)		
Class A-1 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 382,475.00000 shares issued and outstanding as of March 29, 2012)		4
Class A-2 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 382,475.00000 shares issued and outstanding as of March 29, 2012)		4
Class L-1 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 256,085.61252 shares issued and outstanding as of March 29, 2012)		3
Class L-2 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 256,085.61252 shares issued and outstanding as of March 29, 2012)		3
Additional paid-in capital	799,985	673,325
Treasury Stock, 4,314 shares at cost		(2,596)
Accumulated other comprehensive income (loss)	9,444	(20,203)

Accumulated deficit		(42,670)		(492,939)
Total stockholders' equity		766,774		157,601
Total liabilities and stockholders' equity	$	4,273,838	$	3,640,267

See Notes to Consolidated Financial Statements.

AMC ENTERTAINMENT HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Transition Period From Inception August 31, 2012 through December 31, 2012 (Successor)	Transition Period March 30, 2012 through August 30, 2012 (Predecessor)	Fiscal 2012 52 Weeks Ended March 29, 2012 (Predecessor)	Fiscal 2011 52 Weeks Ended March 31, 2011 (Predecessor)
Cash flows from operating activities:				
Net earnings (loss)	$ (42,670)	$ 90,157	$ (94,098)	$ (174,304)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:				
Depreciation and amortization	71,633	81,234	214,029	212,413
Interest accrued to principal on corporate borrowings			9,446	10,981
Interest paid and discount on repurchase of Parent Term Loan			(59,965)	
Discount on repurchase of Discount Notes due 2014				(70,877)
Deferred income taxes	3,020			
Impairment of assets			285	12,779
Loss on extinguishment and modification of debt			922	16,008
Gain on NCM transactions				(64,441)
Impairment of RealD Inc. investment			17,751	
Theatre and other closure expense	2,381	11,753	7,449	60,763
(Gain) loss on dispositions	73	(48,245)	(580)	(9,719)
Equity in earnings and losses from non-consolidated entities, net of distributions	12,707	(495)	20,553	18,715
Change in assets and liabilities:				
Receivables	(66,615)	12,884	(18,554)	4,381
Other assets	(35,138)	36,770	(3,712)	671
Accounts payable	69,029	(58,027)	26,747	(30,487)
Accrued expenses and other liabilities	63,288	(50,473)	21,977	(3,879)
Other, net	(3,816)	814	(5,221)	828
Net cash provided by (used in) operating activities	73,892	76,372	137,029	(16,168)
Cash flows from investing activities:				
Capital expenditures	(72,774)	(40,116)	(139,359)	(129,347)
Merger	3,110			
Acquisition of Rave theatres, net of cash acquired	(87,555)			
Acquisition of Kerasotes, net of cash acquired				(280,606)
Proceeds from NCM, Inc. stock sale				102,224
Proceeds from disposition of long-term assets	90	7,291	1,474	58,391
Investments in non-consolidated entities, net	(1,194)	1,589	(26,880)	(1,619)
Proceeds from sale/leaseback of digital projection equipment			953	4,905
Proceeds from disposition of Cinemex				1,840
Other, net	(575)	205	98	(5,825)
Net cash used in investing activities	(158,898)	(31,031)	(163,714)	(250,037)
Cash flows from financing activities:				
Proceeds from issuance of Senior Subordinated Notes due 2020				600,000
Proceeds from issuance of Term Loan due 2018			297,000	
Repurchase of Senior Subordinated Notes due 2016				(325,000)
Payment of tender offer and consent solicitation consideration on Senior Subordinated Notes due 2016				(5,801)
Repayment of Term Loan due 2013			(140,657)	
Repurchase of Senior Subordinated Notes due 2014		(191,035)	(108,965)	
Repurchase of Parent Term Loan			(159,440)	

Repurchase of Discount Notes due 2014								(169,918)
Principal payments under Term Loan		(4,002)		(4,002)		(4,875)		(6,500)
Principal payments under capital and financing lease obligations		(875)		(1,298)		(3,422)		(4,194)
Capital contribution		100,000						
Deferred financing costs				(2,378)		(6,827)		(14,742)
Change in construction payables		22,487		(23,575)		13,512		(727)
Net cash provided by (used in) financing activities		117,610		(222,288)		(113,674)		73,118
Effect of exchange rate changes on cash and equivalents		(207)		16		556		(1,098)
Net increase (decrease) in cash and equivalents		32,397		(176,931)		(139,803)		(194,185)
Cash and equivalents at beginning of period		100,674		277,605		417,408		611,593
Cash and equivalents at end of period	$	133,071	$	100,674	$	277,605	$	417,408
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:								
Cash paid (refunded) during the period for:								
Interest (including amounts capitalized of $0, $14, $58 and $64)	$	68,794	$	78,789	$	219,493	$	185,448
Income taxes, net		10,088		828		807		729
Schedule of non-cash investing and financing activities:								
Investment in NCM (See Note 7 Investments)	$		$		$		$	86,159
Investment in RealD Inc. (See Note 7 Investments)								27,586
See Note 2 Acquisition for non-cash activities related to acquisition								

See Notes to Consolidated Financial Statements.

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AMC ENTERTAINMENT HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

ousands, except share and hare data)	Class A Voting Common Stock Shares	Class A Voting Common Stock Amount	Class A-1 Voting Common Stock Shares	Class A-1 Voting Common Stock Amount	Class A-2 Voting Common Stock Shares	Class A-2 Voting Common Stock Amount	Class N Nonvoting Common Stock Shares	Class N Nonvoting Common Stock Amount	Class L-1 Voting Common Stock Shares	Class L-1 Voting Common Stock Amount	Class L-2 Voting Common Stock Shares	Class L-2 Voting Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Tot Stockho Equ
ecessor																	
ce April 1, 2010		$	18,937,867	$4	18,937,867	$4	84,205	$	12,679,823	$3	12,679,823	$3	$669,837	$(2,596)	$ (3,176)	$(224,537)	$ 439
ss																(174,304)	(174
rehensive loss															(815)		
-based compensation													1,526				1
nce of Class N common stock							15,864										
ce March 31, 2011			18,937,867	4	18,937,867	4	100,069		12,679,823	3	12,679,823	3	671,363	(2,596)	(3,991)	(398,841)	265
ss																(94,098)	(94
rehensive loss															(16,212)		(16
-based compensation													1,962				1
ce March 29, 2012			18,937,867	4	18,937,867	4	100,069		12,679,823	3	12,679,823	3	$673,325	(2,596)	(20,203)	(492,939)	157
ce March 29, 2012																	
rnings																90,157	90
rehensive earnings															9,034		9
-based compensation													830				
ce August 30, 2012			18,937,867	4	18,937,867	4	100,069		12,679,823	3	12,679,823	$3	674,155	(2,596)	(11,169)	(402,782)	257
ssor																	
ce August 30, 2012																	
ss																(42,670)	(42
rehensive earnings															9,444		9
r consideration	66,252,109	14											699,986				700
l contributions	9,574,819	1											99,999				100
ce December 31, 2012	75,826,928	$15		$		$		$		$		$	$799,985	$	$ 9,444	$ (42,670)	$ 766

See Notes to Consolidated Financial Statements

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

AMC Entertainment Holdings, Inc. ("Parent" or the "Company"), through its direct and indirect subsidiaries, including AMC Entertainment® Inc. ("AMCE"), American Multi-Cinema, Inc. ("AMC") and its subsidiaries, (collectively with Parent, unless the context otherwise requires, the "Company"), is principally involved in the theatrical exhibition business and owns, operates or has interests in theatres primarily located in the United States. Parent is an indirect, wholly owned subsidiary of Dalian Wanda Group Co., Ltd. ("Wanda"), a Chinese private conglomerate.

On August 30, 2012, Wanda acquired Parent through a merger between Parent and Wanda Film Exhibition Co. Ltd. ("Merger Subsidiary"), a wholly-owned indirect subsidiary of Wanda, whereby Merger Subsidiary merged with and into Parent with Parent continuing as the surviving corporation and as a wholly-owned indirect subsidiary of Wanda (the "Merger"). A change of control of the Company occurred pursuant to the Merger. Prior to the Merger, Parent was owned by J.P. Morgan Partners, LLC and certain related investment funds ("JPMP"), Apollo Management, L.P. and certain related investment funds ("Apollo"), affiliates of Bain Capital Partners ("Bain"), The Carlyle Group ("Carlyle") and Spectrum Equity Investors ("Spectrum") (collectively the "Sponsors"). The merger consideration totaled $701,811,000, with $700,000,000 invested by Wanda and $1,811,000 invested by members of management. The estimated transaction value was approximately $2,745,875,000. Wanda acquired cash, corporate borrowings and capital and financing lease obligations in connection with the Merger. Funding for the merger consideration was obtained by Merger Subsidiary pursuant to bank borrowings and cash contributed by Wanda.

In connection with the change of control discussed above, the Company's assets and liabilities were adjusted to fair value on the closing date of the Merger by application of "push down" accounting. As a result of the application of "push down" accounting in connection with the Merger, the Company's financial statement presentations herein distinguish between a predecessor period, ("Predecessor"), for periods prior to the Merger and a successor period, ("Successor"), for periods subsequent to the Merger. The Successor applied "push down" accounting and its financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the Merger date, August 30, 2012. The consolidated financial statements presented herein are those of Successor from its inception on August 31, 2012 through December 31, 2012, and those of Predecessor for all periods prior to the Merger date. As a result of the application of "push down" accounting at the time of the Merger, the financial statements for the Predecessor period and for the Successor period are presented on different bases and are, therefore, not comparable. See Note 2 Merger for additional information regarding the Merger.

On March 31, 2011, Marquee Holdings Inc. ("Holdings"), a direct, wholly-owned subsidiary of Parent and a holding company, the sole asset of which consisted of the capital stock of AMCE, was merged with and into Parent, with Parent continuing as the surviving entity. As a result of the merger, AMCE became a direct subsidiary of Parent.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (1) Impairments, (2) Film exhibition costs, (3) Income and operating taxes, (4) Theatre and Other Closure Expense (Income),

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Gift card and packaged ticket breakage, and (6) Estimates of fair value for assets and liabilities recorded in connection with the application of "push down" accounting. Actual results could differ from those estimates.

Principles of Consolidation: The consolidated financial statements include the accounts of AMCE and all subsidiaries, as discussed above. All significant intercompany balances and transactions have been eliminated in consolidation. There are no noncontrolling (minority) interests in the Company's consolidated subsidiaries; consequently, all of its stockholders' equity, net earnings (loss) and comprehensive earnings (loss) for the periods presented are attributable to controlling interests.

Fiscal Year: On November 15, 2012, the Company changed its fiscal year to a calendar year ending on December 31st of each year. Prior to the change, the Company had a 52/53 week fiscal year ending on the Thursday closest to the last day of March. All references to "fiscal year", unless otherwise noted, refer to the fifty-two week fiscal year, which ended on the Thursday closest to the last day of March. The consolidated financial statements cover the transition period of March 30, 2012 through December 31, 2012 ("Transition Period").

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

For comparative purposes, the Consolidated Statement of Operations, Statement of Comprehensive Loss and Statement of Cash Flows for the period April 1, 2011 through December 29, 2011 are presented as follows:

Consolidated Statement of Operations **(In thousands)**		**(Unaudited) 39 Weeks Ended December 29, 2011 (Predecessor)**
Revenues		
Admissions	$	1,295,469
Food & beverage		518,081
Other theatre		71,984
Total revenues		1,885,534
Operating costs and expenses		
Film exhibition costs		694,863
Food & beverage costs		70,961
Operating expense		525,431
Rent		334,607
General and administrative:		
Merger, acquisition and transaction costs		1,705
Management fee		3,750
Other		35,874
Depreciation and amortization		155,970
Operating costs and expenses		1,823,161
Operating income		62,373
Other expense (income)		
Other expense		429
Interest expense:		
Corporate borrowings		129,813
Capital and financing lease obligations		4,480
Equity in earnings of non-consolidated entities		(1,864)
Investment expense		17,644
Total other expense		150,502
Loss from continuing operations before income taxes		(88,129)
Income tax provision		1,510
Loss from continuing operations		(89,639)
Loss from discontinued operations, net of income taxes		(2,989)
Net loss	$	(92,628)
Basic loss per share of common stock:		
Loss from continuing operations	$	(70.08)
Loss from discontinued operations		(2.33)

Net loss per share	$	(72.41)
Average shares outstanding:		
Basic		1,279.14
Diluted loss per share of common stock:		
Loss from continuing operations	$	(70.08)
Loss from discontinued operations		(2.33)
Net loss per share	$	(72.41)
Average shares outstanding:		
Diluted		1,279.14
Consolidated Statement of Comprehensive Loss		
Net loss	$	(92,628)
Foreign currency translation adjustment, net of tax		4,837
Amortization of net loss included in net periodic benefit costs, net of tax		4
Amortization of prior service credit included in net periodic benefit costs, net of tax		(668)
Unrealized gain (loss) on marketable securities:		
Unrealized holding loss arising during the period, net of tax		(23,791)
Less: reclassification adjustment for loss included in investment expense, net of tax		17,724
Other comprehensive loss		(1,894)
Total comprehensive loss	$	(94,522)

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidated Statement of Cash Flows (In thousands)	**(unaudited) 39 Weeks Ended December 29, 2011 (Predecessor)**
Cash flows from operating activities:	
Net loss	$ (92,628)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	156,914
Interest accrued to principal on corporate borrowings	8,573
Impairment of RealD Inc. investment	17,751
Theatre and other closure expense	5,687
Loss on dispositions	1,444
Equity in earnings from non-consolidated entities, net of distributions	18,731
Change in assets and liabilities:	
Receivables	(46,543)
Other assets	(1,766)
Accounts payable	38,266
Accrued expenses and other liabilities	35,529
Other, net	(5,103)
Net cash provided by operating activities	136,855
Cash flows from investing activities:	
Capital expenditures	(85,083)
Merger	
Investments in non-consolidated entities, net	(23,835)
Other, net	944
Net cash used in investing activities	(107,974)
Cash flows from financing activities:	
Principal payments under Term Loan	(3,250)
Principal payments under capital and financing lease obligations	(2,645)
Deferred financing costs	(1,423)
Change in construction payables	(1,298)
Net cash used in financing activities	(8,616)
Effect of exchange rate changes on cash and equivalents	520
Net increase in cash and equivalents	20,785
Cash and equivalents at beginning of period	417,408
Cash and equivalents at end of period	$ 438,193
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the period for:	
Interest	$ 138,849
Income taxes, net	802

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Discontinued Operations: The results of operations for the Company's discontinued operations have been eliminated from the Company's continuing operations and classified as discontinued operations for each period presented within the Company's Consolidated Statements of Operations. See Note 4 Discontinued Operations.

Revenues: Revenues are recognized when admissions and food & beverage sales are received at the theatres. The Company defers 100% of the revenue associated with the sales of gift cards and packaged tickets until such time as the items are redeemed or breakage income is recorded. In the fourth quarter of fiscal 2012, the Company changed its accounting method for recognizing gift card breakage income. Prior to the fourth quarter of fiscal 2012, the Company recognized breakage income when gift card redemptions were deemed remote and the Company determined that there was no legal obligation to remit the unredeemed gift cards to the relevant tax jurisdiction ("Remote Method"), which based on historical information was 18 months after the gift card was issued. In the fourth quarter of fiscal 2012, the Company accumulated a sufficient level of historical data from a large pool of homogeneous transactions to allow management to reasonably and objectively determine an estimated gift card breakage rate and the pattern of actual gift card redemptions. Accordingly during fiscal 2012, the Company changed its method for recording gift card breakage income to recognize breakage income and derecognize the gift card liability for unredeemed gift cards in proportion to actual redemptions of gift cards ("Proportional Method"). We recognize breakage income for gift cards using the Proportional Method where we apply a breakage rate for our five gift card sales channels which range from 14% to 23% of our current month sales and we recognize that total amount of breakage for that current month's sales as income over the next 24 months in proportion to the pattern of actual redemptions. We have determined our breakage rates and redemption patterns using data accumulated over ten years on a company-wide basis. Breakage for packaged tickets continues to be recognized as the redemption of these items is determined to be remote, that is if a ticket has not been used within 18 months after being purchased. During fiscal 2012, the Company recognized $32,633,000 of net gift card breakage income, of which $14,969,000 ($0.24 per share) represented the adjustment related to the change from the Remote Method to the Proportional Method. Additionally, concurrent with the accounting change discussed above, the Company changed the presentation of gift card breakage income from other income to other theatre revenues during fiscal 2012, with conforming changes made for all prior periods presented. During the Successor period August 31, 2012 through December 31, 2012, the Predecessor period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, the Company recognized $3,483,000, $7,776,000, $32,633,000 and $14,131,000 of income, respectively, related to the derecognition of gift card liabilities which was recorded in other theatre revenues in the Consolidated Statements of Operations.

Film Exhibition Costs: Film exhibition costs are accrued based on the applicable box office receipts and estimates of the final settlement to the film licenses. Film exhibition costs include certain advertising costs. As of December 31, 2012 and March 29, 2012, the Company recorded film payables of $120,650,000 and $76,997,000, respectively, which are included in accounts payable in the accompanying Consolidated Balance Sheets.

Food & Beverage Costs: The Company records payments from vendors as a reduction of food & beverage costs when earned.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Screen Advertising: On March 29, 2005, the Company and Regal Entertainment Group ("Regal") combined their respective cinema screen advertising businesses into a joint venture company called National CineMedia, LLC ("NCM") and on July 15, 2005, Cinemark Holdings, Inc. ("Cinemark") joined NCM, as one of the founding members. NCM engages in the marketing and sale of cinema advertising and promotions products, business communications and training services and the distribution of digital alternative content. The Company records its share of on-screen advertising revenues generated by NCM in other theatre revenues.

Customer Frequency Program: On April 1, 2011, the Company fully launched *AMC Stubs*, a customer frequency program which allows members to earn rewards, including $10 for each $100 spent, redeemable on future purchases at AMC locations. The portion of the admissions and food & beverage revenues attributed to the rewards is deferred as a reduction of admissions and food & beverage revenues, based on member redemptions. Rewards must be redeemed no later than 90 days from the date of issuance. Upon redemption, deferred rewards are recognized as revenues along with associated cost of goods. Rewards not redeemed within 90 days are forfeited and recognized as admissions or food & beverage revenues. Progress rewards (member spend toward earned rewards) for expired membership are forfeited upon expiration of the membership and recognized as admissions or food & beverage revenues. The program's annual membership fee is deferred, net of estimated refunds, and is recognized ratably over the one-year membership period.

Advertising Costs: The Company expenses advertising costs as incurred and does not have any direct-response advertising recorded as assets. Advertising costs were $4,137,000, $3,603,000, $10,118,000 and $6,561,000 for the Successor period August 31, 2012 through December 31, 2012, the Predecessor period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, respectively, and are recorded in operating expense in the accompanying Consolidated Statements of Operations.

Cash and Equivalents: All highly liquid debt instruments and investments purchased with an original maturity of three months or less are classified as cash equivalents.

Intangible Assets: Intangible assets are recorded at cost or fair value, in the case of intangible assets resulting from the Merger and acquisitions, and are comprised of amounts assigned to theatre leases acquired under favorable terms, management contracts, a contract with an equity method investee, and a non-compete agreement, each of which are being amortized on a straight-line basis over the estimated remaining useful lives of the assets, and trademark and trade names, which are considered indefinite lived intangible assets and therefore are not amortized but rather evaluated for impairment annually.

The Company elected to early adopt Accounting Standards Update ("ASU") No. 2012-02, Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment, ("ASU 2012-02") in the last quarter of the Transition Period. Under this amendment, the Company has an option to first assess the qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not the fair vale of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test. During both the Transition Period and fiscal 2012, no

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

impairment charges were incurred. In fiscal 2011, the Company impaired favorable lease intangible assets in the amount of $1,334,000.

Investments: The Company accounts for its investments in non-consolidated entities using either the cost or equity methods of accounting as appropriate, and has recorded the investments within other long-term assets in its Consolidated Balance Sheets. Equity earnings and losses are recorded when our ownership interest provides the Company with significant influence. The Company follows the guidance in ASC 323-30-35-3, which prescribes the use of the equity method for investments where the Company has significant influence. The Company classifies gains and losses on sales of and changes of interest in equity method investments within equity in earnings of non-consolidated entities or in separate line items on the face of the Consolidated Statements of Operations when material, and classifies gains and losses on sales of investments accounted for using the cost method in investment income. Gains and losses on cash sales are recorded using the weighted average cost of all interests in the investments. Gains and losses related to non-cash negative common unit adjustments are recorded using the weighted average cost of those units accounted for as Tranche 2 Investments in NCM which were received in connection with prior common unit adjustments. Subsequent to the date of the Merger, the Company's investment in NCM consists of a single investment tranche consisting of 17,323,782 membership units recorded at fair value (Level 1) on August 30, 2012. See Note 7 Investments for further discussion of the Company's investments in NCM. As of December 31, 2012, the Company holds equity method investments comprised of a 15.47% interest in NCM, a joint venture that markets and sells cinema advertising and promotions; a 29% interest in Digital Cinema Implementation Partners LLC, a joint venture charged with implementing digital cinema in the Company's theatres; and a 50% ownership interest in two U.S. motion picture theatres and one IMAX screen. During fiscal 2011, the Company formed a motion picture distribution company, Open Road Films, and holds a 50% ownership interest. At December 31, 2012, the Company's recorded investments are less than its proportional ownership of the underlying equity in these entities by approximately $18,966,000, excluding NCM. Included in equity in earnings of non-consolidated entities for the fifty-two weeks ended March 29, 2012 is an impairment charge of $2,742,000 related to a joint venture investment that was considered to be other than a temporary decline in value. Included in equity in earnings of non-consolidated entities for the fifty-two weeks ended March 31, 2011 is an impairment charge of $8,825,000 related to a joint venture investment in Midland Empire Partners, LLC. The decline in the fair market value of the investment was considered other than temporary due to inadequate projected future cash flows.

The Company's investment in RealD Inc. is an available-for-sale marketable equity security and is carried at fair value (Level 1). Unrealized gains and losses on available-for-sale securities are included in the Company's Consolidated Balance Sheets as a component of accumulated other comprehensive loss. See Note 7 Investments for further discussion of the Company's investment in RealD Inc.

Goodwill: Goodwill represents the excess of purchase price over fair value of net tangible and identifiable intangible assets related to the Merger and subsequent acquisitions. The Company is not required to amortize goodwill as a charge to earnings; however, the Company is required to conduct an annual review of goodwill for impairment.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's recorded goodwill was $2,217,690,000 and $1,953,686,000 as of December 31, 2012 and March 29, 2012, respectively. The Company evaluates goodwill and its trademark and trade names for impairment annually as of the beginning of the fourth quarter or more frequently as specific events or circumstances dictate. The Company's goodwill is recorded in its Theatrical Exhibition operating segment, which is also the reporting unit for purposes of evaluating recorded goodwill for impairment.

The Company performed its annual impairment analysis during both the last quarter of the Transition Period and the fourth quarter of fiscal 2012 and reached a determination that there was no goodwill or trademark and trade name impairment.

During fiscal 2011, the Company determined fair value by using an enterprise valuation methodology determined by applying multiples to cash flow estimates less net indebtedness, which the Company believes is an appropriate method to estimate fair value. There is considerable management judgment with respect to cash flow estimates and appropriate multiples and discount rates to be used in determining fair value and such management estimates fall under Level 3 within the fair value measurement hierarchy, see Note 16 Fair Value Measurements. There was no goodwill or trademark and trade name impairment.

Other Long-term Assets: Other long-term assets are comprised principally of investments in partnerships and joint ventures and capitalized computer software, which is amortized over the estimated useful life of the software.

Accounts Payable: Under the Company's cash management system, checks issued but not presented to banks frequently result in book overdraft balances for accounting purposes and are classified within accounts payable in the balance sheet. The change in book overdrafts are reported as a component of operating cash flows for accounts payable as they do not represent bank overdrafts. The amount of these checks included in accounts payable as of December 31, 2012 and March 29, 2012 was $64,573,000 and $49,338,000, respectively.

Leases: The majority of the Company's operations are conducted in premises occupied under lease agreements with initial base terms ranging generally from 15 to 20 years, with certain leases containing options to extend the leases for up to an additional 20 years. The Company does not believe that exercise of the renewal options are reasonably assured at the inception of the lease agreements and, therefore, considers the initial base term as the lease term. Lease terms vary but generally the leases provide for fixed and escalating rentals, contingent escalating rentals based on the Consumer Price Index not to exceed certain specified amounts and contingent rentals based on revenues with a guaranteed minimum.

The Company records rent expense for its operating leases on a straight-line basis over the initial base lease term commencing with the date the Company has "control and access" to the leased premises, which is generally a date prior to the "lease commencement date" in the lease agreement. Rent expense related to any "rent holiday" is recorded as operating expense, until construction of the leased premises is complete and the premises are ready for their intended use. Rent charges upon completion of the leased premises subsequent to the theatre opening date are expensed as a component of rent expense.

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Occasionally, the Company will receive amounts from developers in excess of the costs incurred related to the construction of the leased premises. The Company records the excess amounts received from developers as deferred rent and amortizes the balance as a reduction to rent expense over the base term of the lease agreement.

The Company evaluates the classification of its leases following the guidance in ASC 840-10-25. Leases that qualify as capital leases are recorded at the present value of the future minimum rentals over the base term of the lease using the Company's incremental borrowing rate. Capital lease assets are assigned an estimated useful life at the inception of the lease that generally corresponds with the base term of the lease.

Occasionally, the Company is responsible for the construction of leased theatres and for paying project costs that are in excess of an agreed upon amount to be reimbursed from the developer. ASC 840-40-05-5 requires the Company to be considered the owner (for accounting purposes) of these types of projects during the construction period and therefore it is required to account for these projects as sale and leaseback transactions. As a result, the Company has recorded $90,772,000 and $40,655,000 as financing lease obligations for failed sale leaseback transactions on its Consolidated Balance Sheets related to these types of projects as of December 31, 2012 and March 29, 2012, respectively.

Sale and Leaseback Transactions: The Company accounts for the sale and leaseback of real estate assets in accordance with ASC 840-40. Losses on sale leaseback transactions are recognized at the time of sale if the fair value of the property sold is less than the net book value of the property. Gains on sale and leaseback transactions are deferred and amortized over the remaining lease term.

Impairment of Long-lived Assets: The Company reviews long-lived assets, including definite-lived intangibles, investments in non-consolidated subsidiaries accounted for under the equity method, marketable equity securities and internal use software for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company identifies impairments related to internal use software when management determines that the remaining carrying value of the software will not be realized through future use. The Company reviews internal management reports on a quarterly basis as well as monitors current and potential future competition in the markets where it operates for indicators of triggering events or circumstances that indicate potential impairment of individual theatre assets. The Company evaluates theatres using historical and projected data of theatre level cash flow as its primary indicator of potential impairment and considers the seasonality of its business when making these evaluations. The Company performs impairment analysis during the last quarter of the year. Under these analyses, if the sum of the estimated future cash flows, undiscounted and without interest charges, are less than the carrying amount of the asset, an impairment loss is recognized in the amount by which the carrying value of the asset exceeds its estimated fair value. Assets are evaluated for impairment on an individual theatre basis, which management believes is the lowest level for which there are identifiable cash flows. The impairment evaluation is based on the estimated cash flows from continuing use until the expected disposal date for the fair value of furniture, fixtures and equipment. The expected disposal date does not exceed the remaining lease period unless it is probable the lease period will be extended and may be less than the remaining lease period when the Company does not expect to operate the theatre to

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

the end of its lease term. The fair value of assets is determined as either the expected selling price less selling costs (where appropriate) or the present value of the estimated future cash flows. The fair value of furniture, fixtures and equipment has been determined using similar asset sales, in some instances with the assistance of third party valuation studies and using management judgment.

There is considerable management judgment necessary to determine the estimated future cash flows and fair values of the Company's theatres and other long-lived assets, and, accordingly, actual results could vary significantly from such estimates, which fall under Level 3 within the fair value measurement hierarchy, see Note 16 Fair Value Measurements. There were no impairments during the Transition Period. During fiscal 2012, the Company recognized non-cash impairment losses of $20,788,000 related to long-term assets. The Company recognized an impairment loss of $285,000 on three theatres with 33 screens (in Arkansas, Maryland and Utah), which was related to property, net. The Company adjusted the carrying value of a joint venture investment, resulting in an impairment charge of $2,742,000 and adjusted the carrying value of a common stock investment in RealD Inc., resulting in an impairment charge of $17,751,000 when it was determined that it was an other than temporary decline in value.

Impairment losses in the Consolidated Statements of Operations are included in the following captions:

(In thousands)	From Inception August 31, 2012 Through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 weeks Ended March 29, 2012 (Predecessor)	52 weeks Ended March 31, 2011 (Predecessor)
Impairment of long-lived assets	$	$	$ 285	$ 12,779
Equity in (earnings) losses of non-consolidated entities			2,742	8,825
Investment expense (income)			17,751	
Total impairment losses	$	$	$ 20,778	$ 21,604

Foreign Currency Translation: Operations outside the United States are generally measured using the local currency as the functional currency. Assets and liabilities are translated at the rates of exchange at the balance sheet date. Income and expense items are translated at average rates of exchange. The resultant translation adjustments are included in foreign currency translation adjustment, a separate component of accumulated other comprehensive income. Gains and losses from foreign currency transactions, except those intercompany transactions of a long-term investment nature, are included in net earnings (loss). If the Company substantially liquidates its investment in a foreign entity, any gain or loss on currency translation balance recorded in accumulated other comprehensive income is recognized as part of a gain or loss on disposition.

Earnings (loss) per Share: Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share includes the effects of outstanding stock options, if dilutive.

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table sets forth the computation of basic and diluted earnings (loss) from continuing operations per common share:

(In thousands, except per share data)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 weeks Ended March 29, 2012 (Predecessor)	52 weeks Ended March 31, 2011 (Predecessor)
Numerator:				
Earnings (loss) from continuing operations	$ (41,982)	$ 55,004	$ (90,489)	$ (171,242)
Denominator:				
Shares for basic earnings (loss) per common share	74,987.96	63,335.34	63,335.34	63,324.44
Stock options		379.77		
Shares for diluted earnings per common share	74,987.96	63,715.11	63,335.34	63,324.44
Basic earnings (loss) from continuing operations per common share	$ (0.56)	$ 0.87	$ (1.43)	$ (2.70)
Diluted earnings (loss) from continuing operations per common share	$ (0.56)	$ 0.86	$ (1.43)	(2.70)

There are no outstanding options to purchase common shares during the Successor period.

Options to purchase 1,766,570 and 1,766,867 shares of common stock at a weighted average exercise price of $9.09 per share and 265,692 and 265,989 shares of nonvested restricted stock were outstanding during the years ended March 29, 2012 and March 31, 2011, respectively, but were not included in the computations of diluted earnings per share since the shares were anti-dilutive.

Income and Operating Taxes: The Company accounts for income taxes in accordance with ASC 740-10. Under ASC 740-10, deferred income tax effects of transactions reported in different periods for financial reporting and income tax return purposes are recorded by the asset and liability method. This method gives consideration to the future tax consequences of deferred income or expense items and recognizes changes in income tax laws in the period of enactment. The statement of operations effect is generally derived from changes in deferred income taxes on the balance sheet.

The Company and Parent file a consolidated federal income tax return and combined income tax returns in certain state jurisdictions. Income taxes are allocated based on separate Company computations of income or loss. Tax sharing arrangements are in place and utilized when tax benefits from affiliates in the consolidated group are used to offset what would otherwise be taxable income generated by the Parent or another affiliate.

Casualty Insurance: The Company is self-insured for general liability up to $1,000,000 per occurrence and carries a $500,000 deductible limit per occurrence for workers compensation claims. The Company utilizes actuarial projections of its ultimate losses to calculate its reserves and expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The actuarial method includes an allowance for adverse developments on known claims and an allowance for claims which have been incurred but which have not yet been reported. As of December 31, 2012 and March 29, 2012, the Company had recorded casualty insurance reserves of $14,980,000 and $15,163,000, respectively, net of estimated insurance recoveries. The Company recorded expenses related to general liability and workers compensation claims of $3,913,000, $5,732,000, $12,705,000 and $12,206,000 for the Successor period August 31, 2012 through December 31, 2012, the Predecessor period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, respectively.

Other Expense: The following table sets forth the components of other expense:

(In thousands)	From Inception August 31, 2012 Through December 31, 2012	March 30, 2012 through August 30, 2012	52 weeks Ended March 29, 2012	52 weeks Ended March 31, 2011
	(Successor)	(Predecessor)	(Predecessor)	(Predecessor)
Loss on extinguishment of Parent Term Loan Facility	$	$	$ 510	$
Loss on redemption of 12% Senior Discount Notes due 2014				14,840
Loss on redemption of 11% Senior Subordinated Notes due 2016				24,332
Loss on redemption and modification of Senior Secured Credit Facility			383	3,656
Loss on redemption of 8% Senior Subordinated Notes due 2014		1,297	640	
Other expense (income)	49	(337)	432	(141)
Other expense	$ 49	$ 960	1,965	$ 42,687

Accounting Changes: Prior to the fourth quarter of fiscal 2012, the Company recognized breakage income when gift card redemptions were deemed remote and the Company determined that there was no legal obligation to remit the unredeemed gift cards to the relevant tax jurisdiction ("Remote Method"), which, based on historical information, the Company concluded to be 18 months after the gift card was issued. At the end of the fourth quarter of fiscal 2012, the Company concluded it had accumulated a sufficient level of historical data from a large pool of homogeneous transactions to allow management to reasonably and objectively determine an estimated gift card breakage rate and the pattern of actual gift card redemptions. Accordingly, the Company changed its method for recognizing gift card breakage income to recognize breakage income and derecognize the gift card liability for unredeemed gift cards in proportion to actual redemptions of gift cards ("Proportional Method"). The Company believes the Proportional Method is preferable to the Remote Method as it better reflects the gift card earnings process resulting in the recognition of gift card breakage income over the period of gift card redemptions (i.e., over the performance period). The Company will continue to review

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

historical gift card redemption information at each reporting period to assess the continued appropriateness of the gift card breakage rates and pattern of redemption.

In accordance with ASC 250, *Accounting Changes and Error Corrections*, the Company concluded that this accounting change represented a change in accounting estimate effected by a change in accounting principle and accordingly, accounted for the change as a change in estimate following a cumulative catch-up method. As a result, the cumulative catch-up adjustment recorded at the end of the fourth quarter of fiscal 2012 resulted in an additional $14,969,000 ($0.24 per share) of gift card breakage income under the Proportional Method. Inclusive of this cumulative catch-up, the Company recognized $32,633,000 of gift card breakage income in fiscal 2012.

Additionally, concurrent with the accounting change discussed above, the Company changed the presentation of gift card breakage income from other income to other theatre revenues in the Consolidated Statements of Operations during fiscal 2012, with conforming changes made for all prior periods presented. The Company believes newly adopted presentation of gift card breakage income is preferable in the circumstances because breakage is an expected revenue stream to be earned at the time the cards are issued and is a key element and consideration of the profitability of their gift card sale program, and because it makes the Company's statements more comparable to its primary competitors.

Prior Period Adjustments: During the three months ended June 30, 2013, management identified adjustments necessary to correct the valuation allowance for deferred tax assets recognized when "push down" accounting was applied at the date of the Merger and to correct changes in the valuation allowance for deferred tax assets recognized subsequent to the Merger.

Management determined that an increase to the valuation allowance at the date of the Merger was necessary to provide for deferred tax assets that more likely than not will not be realized. The out of period adjustment increased reported goodwill by $31,463,000, decreased other current assets by $30,300,000 and increased other long-term liabilities by $1,163,000 as of December 31, 2012. The Company has restated its December 31, 2012 balance sheet from amounts previously reported to reflect these adjustments.

Management also determined that during the successor period from August 31, 2012 through December 31, 2012, reductions to the valuation allowance were incorrectly recorded, resulting in an understatement of tax expense and net loss from continuing operations of $5,520,000.

The prior period adjustment for the period noted above has been recorded during 2012. The Company adjusted for the cumulative effect in the carrying amount of other long-term liabilities for the error related to the successor period from August 31, 2012 through December 31, 2012 of $5,520,000 with an offsetting adjustment to the income tax provision during the fourth quarter of 2012.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

The impact of the item noted above on 2012. Other long-term liabilities and Accumulated deficit as of December 31, 2012 is presented below:

(in thousands)	Income Tax Provision
Cumulative increase in Other long-term liabilities	$ 5,520
Cumulative increase in Accumulated deficit	$ 5,520

The impact of this adjustment increased basic and diluted loss per share by $0.07 for the successor period from August 31, 2012 through December 31, 2012.

New Accounting Pronouncements: In March 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-05, Foreign Currency Matters (Topic 830) Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, ("ASU 2013-05"). This amendment clarifies the applicable guidance for the release of cumulative translation adjustment into net earnings. When an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity, the entity is required to apply the guidance in ASC 830-30 to release any related cumulative translation adjustment into net earnings. Accordingly, the cumulative translation adjustment should be released into net earnings only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. ASU 2013-05 is effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013. Early adoption is permitted as of the beginning of the entity's fiscal year. The Company will adopt ASU 2013-05 as of the beginning of calendar 2014 and does not expect the adoption of ASU 2013-05 to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment, ("ASU 2012-02"). Under this amendment, an entity will have an option to first assess the qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not the fair value of an indefinite-lived intangible asset is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative impairment test. ASU 2012-02 will be effective for the indefinite-lived intangible asset impairment test performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Company adopted ASU 2012-02 in the last quarter of the Transition Period and the adoption of ASU 2012-02 did not have a material impact on the Company's consolidated financial position, cash flows, or results of operations. For further information, see Goodwill within Note 1 The Company and Significant Accounting Policies.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220) Presentation of Comprehensive Income, ("ASU 2011-05"). This ASU provides companies with an option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two-separate but consecutive statements. This ASU eliminated the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standard Update No. 2011-05, ("ASU 2011-12"), which defers the requirement within ASU 2011-05 to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. During the deferral entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the issuance of ASU 2011-05. ASU 2011-05 and the deferrals in ASU 2011-12 will be effective for fiscal years and interim periods within those years, beginning after December 15, 2011 with retrospective application required. The Company adopted these accounting standard updates as of the beginning of the Transition Period and included the presentation requirements in its consolidated financial statements as of the first quarter of the Transition Period.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, ("ASU 2013-02"). Under this amendment, an entity is required to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU 2013-02 will be effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company will adopt ASU 2013-02 in the first quarter of calendar 2013 and does not expect the adoption of ASU 2013-02 to have a material impact on the Company's consolidated financial position, cash flows, or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820) Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs, ("ASU 2011-04"). This ASU requires disclosures regarding transfers between Level 1 and Level 2 of the fair value hierarchy, disclosures about the sensitivity of a fair value measurement categorized within Level 3 of the fair value hierarchy, and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed. ASU 2011-04 became effective during interim and annual periods beginning after December 15, 2011 and was effective for the Company as of the beginning of the Transition Period. See Note 16 Fair Value Measurements for the required disclosures.

Reclassification: On December 17, 2013 the Company reclassified each share of existing Class A common stock and Class N common stock by filing an amendment to its certificate of incorporation. Pursuant to the reclassification, which substantially resulted in a stock split, each holder of shares of existing Class A common stock received 49.514 shares of Class B common stock for one share of existing Class A common stock, and each holder of shares of Class N common stock received 49.514 shares of new Class A common stock for one share of Class N common stock. All shares and per share

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NOTE 1 THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

amounts presented in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the reclassification.

Subsequent Events: The Company has evaluated subsequent events through December 17, 2013.

NOTE 2 MERGER

Parent and Wanda, a Chinese private conglomerate, completed a Merger on August 30, 2012 in which Wanda indirectly acquired all of the outstanding capital stock of Parent. Parent merged with Wanda Film Exhibition Co. Ltd., ("Merger Subsidiary"), a wholly-owned indirect subsidiary of Wanda, whereby Merger Subsidiary merged with and into Parent with Parent continuing as the surviving corporation and as a wholly-owned indirect subsidiary of Wanda. The merger consideration totaled $701,811,000, with $700,000,000 invested by Wanda and $1,811,000 invested by members of management, for which 66,252,109 shares of Class A common stock and 173,147 shares of Class N common stock were issued, respectively. The investment amount and price per share paid by members of management was determined pursuant to Management Subscription Agreements negotiated in connection with the Merger. Pursuant to such agreements, as a retention incentive certain key members of management were required to reinvest 50% of the after tax amount they received with respect to equity awards outstanding at the time of the Merger at a price per share equal to that received for such equity awards. The approximately one percent differential in the per share price paid by Wanda and members of management represents the dilutive effect from settlement of outstanding management equity awards in connection with the Merger. Wanda also acquired cash, corporate borrowings and capital and financing lease obligations in connection with the Merger as described below.

In connection with the Merger agreement, $35,000,000 of consideration otherwise payable to the equity holders was deposited into an Indemnity Escrow Fund and $2,000,000 otherwise payable to the equity holders was deposited into an account designated by the Stockholder Representative. The $35,000,000 of consideration previously deposited in the Indemnity Escrow Fund, which was established to cover any indemnity claims by Wanda against the sellers (former owners) relating to their representations, warranties and covenants in connection with the Merger, was released in full on April 3, 2013. There were no indemnity claims made. Further, the $2,000,000 previously deposited in an account designated by the Stockholder Representative, which account was established to cover post-merger closing de minimis taxes and administrative fees and expenses, has also been released in full. On April 15, 2013, after net of such taxes, fees and expenses, $1,600,000 was released back to the selling stockholders, including members of management. The Company accounted for the entire $701,800,000 as purchase price which included the amounts placed in escrow because the Company believed any contingencies requiring escrow were remote and that the amounts would be paid out subsequently.

As a result of the Merger and related change of control, the Company applied "push down" accounting, which requires allocation of the Merger consideration to the estimated fair values of the assets and liabilities acquired in the Merger. The allocation of Merger consideration was based on management's judgment after evaluating several factors, including a valuation assessment performed by a third party appraiser. The appraisal measurements included a combination of income, replacement cost and market approaches and represents managements' best estimate of fair value at August 30, 2012, the acquisition date. Management has finalized its purchase price allocation except for amounts

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 2 MERGER (Continued)

assigned provisionally to certain leasehold improvements and furniture, fixtures and equipment included in Property, net. Management expects to finalize the fair values for these assets upon completing their final value analysis in May of 2013. Amounts assigned provisionally to these assets may change when this evaluation is completed. Adjustments made since the initial allocation decreased recorded goodwill by approximately $20,000,000. Other current assets increased by approximately $17,000,000 due to changes in deferred tax assets; intangible assets increased by approximately $6,000,000 primarily due to final determinations of fair values assigned to favorable leases and a contract with an equity method investee; Other long-term assets decreased by approximately $106,000,000 primarily due to final determinations of fair values assigned to equity method investments and changes in deferred tax assets; and Other long-term liabilities declined by approximately $100,000,000 due to changes in deferred tax liabilities. The items mentioned above represent the most significant adjustments to the initial allocation of purchase price for the Merger. The following is a summary of the allocation of the Merger consideration:

(In thousands)		**Total**
Cash	$	103,784
Receivables, net		29,775
Other current assets		34,840
Property, net(1)		1,063,028
Intangible assets, net(2)		246,507
Goodwill(3)		2,170,129
Other long-term assets(4)		342,533
Accounts payable		(134,186)
Accrued expenses and other liabilities		(138,535)
Gift card, package tickets, and loyalty program liability(5)		(117,841)
Corporate borrowings(6)		(2,086,926)
Capital and financing lease obligations		(60,922)
Exhibitor services agreement(7)		(322,620)
Other long-term liabilities(8)		(427,755)
Total Merger consideration	$	701,811
Corporate borrowings		2,086,926
Capital and financing lease obligations		60,922
Less: cash		(103,784)
Total transaction value	$	2,745,875

(1) Property, net consists of real estate, leasehold improvements and furniture, fixtures and equipment recorded at fair value.

(2) Intangible assets consist of a trademark and trade names, a non-compete agreement, management contracts, a contract with an equity method investee, and favorable leases. See Note 6 Goodwill and Other Intangible Assets for further information. In general, the majority of the Company's asset value is comprised of real estate and fixed assets. Furthermore, the majority of the Company's theatres are operated via lease agreements as opposed to owning the underlying real estate. Therefore, any asset value related to

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 2 MERGER (Continued)

leased real estate would exist only if the existing lease agreements were at below-market, or favorable, terms. Certain of the Company's leased locations were considered to be at favorable terms, and an intangible asset was ascribed for such lease agreements. However, the majority of lease agreements were considered to be at market terms. As a result, there is no owned real estate or lease intangible asset value ascribed to the majority of the Company's locations. In estimating the fair value of the favorable lease agreements, market rents were estimated for each of the Company's leased locations. If the contractual rents were considered to be below the market rent, a favorable lease agreement was valued by discounting the difference between the contractual rent and estimated market rates over the remaining lease term. Renewal options in the leases were also considered in determining the remaining lease term.

Other intangible assets were also considered. For the Company's business, the largest intangible asset (other than a favorable lease agreement) is the trade name. There was no customer relationship asset since the Company's customers represent "walk-in traffic" in which the customer would not meet the legal or separable criteria under ASC 805. The royalty savings method, a form of the income approach, was used to estimate the fair value of the trade name. In estimating the appropriate royalty rate for the trade name, we considered the impact and contribution that the trade name provides to the Company's operating cash flows. We assessed that the trade name does provide some contribution to the Company's operating cash flow, but that the attendance in the theatre is ultimately driven by factors that are not separable from goodwill such as the quality of the film product, the location of each individual theatre, the physical condition of the individual theatre, and the competitive landscape of the individual theatre.

Other than the favorable lease agreements and the trade name, there are not many other operating intangible assets for the Company's business. However, the Company does have some contractual relationships identified as intangible assets. These contractual relationships include the non-compete agreement that was entered into as part of the Company's acquisition of Kerasotes, management agreements in which the Company manages certain theatres that are owned by a third party, and the NCM tax receivable agreement (the "NCM TRA") which represents an agreement in which the Company receives a certain portion of a tax benefit that NCM is expected to receive as part of the Company's partial ownership interest in NCM. The non-compete agreement was valued using the differential cash flow method, a form of the income approach, in which the cash flows of the Company were estimated under a scenario in which the non-compete agreement was in place and a scenario in which there was no non-compete agreement. The value of the non-compete agreement was considered to be the difference of the discounted cash flows between the two scenarios over the remaining contractual term of the agreement. The management agreements were valued using the income approach, in which the annual management fee over the life of the agreements were discounted. The NCM TRA was valued using the income approach in which the future tax benefit distribution realized from any tax amortization of intangible assets was estimated and discounted. The Company determined the value of the TRA using a discounted cash flow model. For the purposes of its analysis, the Company estimated the cash receipts from taxable transactions that are known as of the date of the Merger. The Company did not

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 2 MERGER (Continued)

consider future transactions that NCM may undertake. The Company estimated a run-off of the intangible asset amortization benefits due to the following transactions:

1. ESA (Exhibitor Services Agreement) relates to the amortization due to a modification of the initial ESA agreement.

2. CUA (Common Unit Adjustment) relates to NCM issuing additional common units to the founding members if there is an increase in the number of theatres under the ESA agreement. A reduction of common units is made if there are theatres removed from the ESA agreement.

3. AMC II Benefit relates to AMC's acquisition of Kerasotes theatres.

4. IPO Exchange Benefit relates to amortization from NCM's IPO in 2007.

5. IPO II Exchange Benefit relates to amortization step ups from NCM's secondary IPO in 2010.

6. Capital Account Administration Allocation relates to receipts attributable to the account administration.

The estimated TRA receipts through 2037 are tax effected at 40%, based on a blended federal and 50-state average tax rate. The after tax receipts were discounted to a present value using a discount rate of 12.0%, based on the cost of equity of NCM, as the TRA payments only benefit the equity holders.

(3) Goodwill represents the excess of the Merger consideration over the net assets recognized and represents the future expected economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Amounts recorded for goodwill are not subject to amortization and are not deductible for tax purposes. Additionally, the Company expects to realize synergies and cost savings related to the Merger. Wanda is the largest theatre exhibition operator in China through its controlling ownership interest in Wanda Cinema Line. The combined ownership and scale of AMC and Wanda Cinema Line, has enabled them to enhance relationships and obtain better terms for important food and beverage, lighting and theatre supply vendors, and to expand their strategic partnership with IMAX. Wanda and AMC are also working together to offer Hollywood studios and other production companies valuable access to their industry-leading promotion and distribution platforms, with the goal of gaining greater access to content and playing a more important role in the industry going forward.

(4) Other long-term assets primarily include equity method investments, real estate held for investment and marketable equity securities recorded at fair value.

(5) Represents a liability related to the sales of gift cards, packaged tickets and AMC Stubs memberships and rewards outstanding at August 30, 2012 recorded at fair value. The Company determined fair value for the gift cards and packaged tickets by removing the amount of unrecognized breakage income that was included in the deferred revenue amounts prior to the Merger. The Company made purchase accounting adjustments to reduce its deferred revenues for packaged tickets by $24,859,000 and gift cards by

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 2 MERGER (Continued)

$7,441,000 such that the Company would recognize a normal profit margin on its deferred revenues for the future redemptions of the sales that occurred prior to the Merger. The Company did not make any fair value adjustments to its deferred revenues related to AMC Stubs as a result of the Merger because deferred revenues for the annual memberships require performance by AMC in the future and there was not sufficient historical data to estimate amounts of future breakage for AMC Stubs rewards. AMC Stubs vested rewards expire after 90 days if unused and AMC Stubs progress rewards expire to the extent members do not renew their annual membership.

(6) Corporate borrowings include borrowings under the Senior Secured Credit Facility-Term Loan due 2016, the Senior Secured Credit Facility-Term Loan due 2018, the 8.75% Senior Fixed Rate Notes due 2019 and the 9.75% Senior Subordinated Notes due 2020 recorded at fair value.

(7) In connection with the completion of NCM, Inc.'s IPO on February 13, 2007, the Company entered into the Exhibitor Services Agreement that provided favorable terms to NCM in exchange for a payment of $231,308,000. The Exhibitor Services Agreement was considered an unfavorable contract to the Company based on a comparison of rates charged by NCM to third-party exhibitors. The market rate was estimated as the average rate charged by NCM to third party exhibitors. The fair value of the contract was estimated as the present value of the difference between the Company's expected payments under the contract and a market rate over the life of the Exhibitor Services Agreement. The Company's expected payments were estimated based on the Company's expected annual attendance, screen count, and advertising revenues over the life of the Exhibitor Services Agreement.

(8) Other long-term liabilities consist of certain theatre leases that have been identified as unfavorable, adjustments to reset deferred rent related to future escalations of minimum rentals to zero, adjustments for pension and postretirement medical plan liabilities and deferred RealD Inc. lease incentive recorded at fair value. Other long-term liabilities include deferred tax liabilities resulting from indefinite temporary differences that arose primarily from the application of "push down" accounting.

The fair value measurement of tangible and intangible assets and liabilities were based on significant inputs not observable in the market and thus represent Level 3 measurements within the fair value measurement hierarchy. Level 3 fair market values were determined using a variety of information, including estimated future cash flows, appraisals, market comparables, and quoted market prices. Quoted market prices and observable market based inputs were used to estimate the fair value of corporate borrowings (Level 2) and the Company's investments in NCM and equity securities available for sale including RealD Inc. common stock (Level 1).

During the period of August 31, 2012 through December 31, 2012, the Company incurred Merger-related costs of approximately $2,500,000, which are included in general and administrative expense: merger, acquisition and transaction costs in the Consolidated Statements of Operations.

The unaudited pro forma financial information presented below sets forth the Company's historical statements of operations for the periods indicated and gives effect to the Merger as if "push down" accounting had been applied as of the beginning of fiscal 2012. Such information is presented for

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 2 MERGER (Continued)

comparative purposes to the Consolidated Statements of Operations only and does not purport to represent what the Company's results of operations would actually have been had these transactions occurred on the date indicated or to project its results of operations for any future period or date.

(In thousands)	Pro forma March 30, 2012 through December 31, 2012 (unaudited)	Pro forma 39 Weeks Ended December 29, 2011 (unaudited)
Revenues		
Admissions	$ 1,364,663	$ 1,295,469
Food & beverage	571,869	518,081
Other theatre	72,574	54,436
Total revenues	2,009,106	1,867,986
Operating Costs and Expenses		
Film exhibition costs	728,100	694,863
Food & beverage costs	77,871	70,961
Operating expense	529,235	528,404
Rent	331,397	332,210
General and administrative:		
Merger, acquisition and transaction costs	7,783	1,705
Management fee		
Other	55,594	36,519
Depreciation and amortization	150,234	150,976
Operating costs and expenses	1,880,214	1,815,638
Operating income	128,892	52,348
Other expense (income)		
Other expense	1,009	429
Interest expense		
Corporate borrowings	103,429	115,899
Capital and financing lease obligations	4,263	4,480
Equity in earnings of non-consolidated entities	(7,499)	(56)
Investment expense	876	17,777
Total other expense	102,078	138,529
Earnings (loss) from continuing operations before income taxes	26,814	(86,181)
Income tax provision	8,900	2,210
Earnings (loss) from continuing operations	17,914	(88,391)
Earnings (loss) from discontinued operations	34,465	(2,989)
Net earnings (loss)	$ 52,379	$ (91,380)

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 2 MERGER (Continued)

The Merger on August 30, 2012 triggered the payment of an aggregate of $31,462,000 for success fees to financial advisors, bond amendment consent fees, payments for cancellation of stock based compensation and management success bonuses that were contingent on the consummation of the Merger. The Company determined that its accounting policy for any cost triggered by the consummation of the Merger was to recognize the cost when the Merger was consummated. Accordingly, the fees discussed above have not been recorded in the Consolidated Statement of Operations for the Predecessor period since that statement depicts the results of operations just prior to consummation of the transaction. In addition, since the Successor period reflects the effects of push-down accounting, these costs have also not been recorded as an expense in the Successor period. However, the costs were reflected in the purchase accounting adjustments which were applied in arriving at the opening balances of the Successor.

The following is a summary of the contingent costs:

(in thousands)		
Financial advisor fees	$ 18,129	(a)
Management transaction bonuses	6,000	(b)
Bond amendment fees	3,946	(c)
Unrecognized stock compensation expense	3,177	(d)
Other contingent transaction costs	210	
	$ 31,462	

(a) These represent non-exclusive arrangements made with multi-parties to provide advice and assistance related to the sale of AMC. Payment terms were contingent upon consummation of a sale. Each agreement was entered into by Predecessor entities when the Company was under previous ownership.

(b) Management bonuses were approved by the Predecessor Entity and previous ownership group to help incent key AMC management team members to use their best efforts to help facilitate the sale of the Company. Payments were contingent on the consummation of a transaction.

(c) Consent fees were paid pursuant to a consent solicitation to amend indentures relating to our outstanding notes and permit the sale of the Company without triggering change of control payments. The payments were only made upon closing the Wanda transaction.

(d) Unrecognized stock compensation for previously existing awards that became payable due to change of control provisions and only upon consummation of a sale transaction.

NOTE 3 ACQUISITION

In December 2012, the Company completed the acquisition of 4 theatres and 61 screens from Rave Reviews Cinemas, LLC and 6 theatres and 95 screens from Rave Digital Media, LLC, (and together "Rave"). The purchase price for the Rave theatres, paid in cash at closing, was $87,555,000, net of cash acquired, and is subject to working capital and other purchase price adjustments. The

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 3 ACQUISITION (Continued)

Company acquired the Rave theatres based on their highly complementary geographic presence in certain key markets. Additionally, the Company expects to realize synergies and cost savings related to the Rave acquisition as a result of moving to the Company's operating practices, decreasing costs for newspaper advertising, food and beverage and general and administrative expense savings, particularly with respect to the consolidation of corporate related functions and elimination of redundancies.

The acquisitions are being treated as a purchase in accordance with Accounting Standards Codification, ("ASC") 805, *Business Combinations,* which requires allocation of the purchase price to the estimated fair values of assets and liabilities acquired in the transaction. The allocation of purchase price is based on management's judgment after evaluating several factors, including bid prices from potential buyers and a preliminary valuation assessment. The allocation of purchase price is subject to changes as an appraisal of assets and liabilities is finalized and additional information becomes available. The following is a summary of a preliminary allocation of the purchase price:

(In thousands)	**Total**
Cash	$ 3,896
Receivables, net(1)	631
Other current assets	757
Property, net	80,478
Goodwill(2)	79,024
Accrued expenses and other liabilities	(6,732)
Capital and financing lease obligations	(62,598)
Other long-term liabilities	(3,690)
Total estimated purchase price	$ 91,766

(1) Receivables consist of trade receivables recorded at estimated fair value. The Company did not acquire any other class of receivables as a result of the acquisition of the Rave theatres.

(2) Goodwill arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations. Amounts recorded for goodwill are not subject to amortization, but are expected to be deductible for tax purposes.

During the period of August 31, 2012 through December 31, 2012, the Company incurred acquisition-related costs for the Rave theatres of approximately $157,000, which are included in general and administrative expense: merger, acquisition and transaction costs in the Consolidated Statements of Operations. The Company's operating results for the Transition Period were not materially impacted by this December acquisition. Approximately $315,000 of the estimated purchase price was accrued but not paid as of December 31, 2012.

NOTE 4 DISCONTINUED OPERATIONS

In August of 2012, the Company closed one theatre with 20 screens located in Canada. The Company paid the landlord $7,562,000 to terminate the lease agreement. Also, the Company sold one theatre with 12 screens located in the United Kingdom in August of 2012. The proceeds received from

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 4 DISCONTINUED OPERATIONS (Continued)

the sale was $395,000, and is subject to working capital and other purchase price adjustments as described in the asset purchase agreement.

In July of 2012, the Company sold six theatres with 134 screens located in Canada. The aggregate gross proceeds from the sales were approximately $1,472,000, and are subject to working capital and purchase price adjustments.

The Company recorded gains, net of lease termination expense, on the disposition of the seven Canada theatres and the one United Kingdom theatre of approximately $39,000,000, primarily due to the write-off of long-term lease liabilities extinguished in connection with the sales and closure. The Company does not have any significant continuing involvement in the operations of these theatres after the disposition. The results of operations of these theatres have been classified as discontinued operations, and information presented for all periods reflects the classification.

The Company calculated the gain on sale and closure of its theatres in Canada and in the UK as follows:

(in thousands)		
Proceeds from sale of UK theatre	$	395
Proceeds from sale of Canada theatres	$	1,472
Cash payment for closure of Canada theatre		(7,562)
Net cash payment	$	(5,695)
Fixed asset write offs		(1,885)
Recognition of cumulative translation losses in AOCI(1)		(11,069)
Legal & professional fees		(1,582)
Operating Lease Liabilities:		
Deferred rent write off		14,848
Unfavorable lease write off		31,099
Deferred gain write off		13,666
Gain on Sale net of lease termination expense	$	39,382

(1) Included in Consolidated Statements of Comprehensive Earnings (Loss) as follows:

(In thousands)		March 30, 2012 through August 30, 2012 (Predecessor)
Foreign currency translation adjustment:		
Foreign currency translation adjustment, net of tax	$	866
Reclassification adjustment for foreign currency translation loss included in discontinued operations, net of tax		11,069
Total foreign currency translation adjustment, net of tax	$	11,935

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 4 DISCONTINUED OPERATIONS (Continued)

The Company operated all of the UK and Canada theatres pursuant to long-term operating lease agreements with original terms of 20 years. In connection with the sales of these theatres, the buyers assumed responsibility under the operating lease agreements and the Company was relieved of its legal obligation for future payments under the lease agreements. For the theatre that was closed, the Company paid the landlord $7,562,000 to terminate its obligation under the lease at the date of closing.

In December of 2008, the Company sold all of its interests in Cinemex, which then operated 44 theatres with 493 screens primarily in the Mexico City Metropolitan Area, to Entretenimiento GM de Mexico S.A. de C.V. ("Entretenimiento"). As of December 31, 2012, the Company estimates that it is contractually entitled to receive an additional $6,275,000 of the purchase price related to tax payments and refunds. While the Company believes it is entitled to these amounts from Cinemex, the collection will require litigation, which was initiated by the Company on April 30, 2010 and is still pending. Resolution is expected to take place over a prolonged period. In fiscal 2010, as a result of the litigation, the Company established an allowance for doubtful accounts related to this receivable and directly charged off the receivable amount as uncollectible. The Company does not have any significant continuing involvement in the operations of the Cinemex theatres after the disposition. Any purchase price tax collections received or legal fees paid related to the sale of the Cinemex theatres have been classified as discontinued operations for all periods presented.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 4 DISCONTINUED OPERATIONS (Continued)

Components of amounts reflected as (earnings) loss from discontinued operations in the Company's Consolidated Statements of Operations are presented in the following table:

(In thousands)	Transition Period From Inception August 31, 2012 through December 31, 2012 (Successor)	Transition Period March 30, 2012 through August 30, 2012 (Predecessor)	Fiscal 2012 52 Weeks Ended March 29, 2012 (Predecessor)	Fiscal 2011 52 Weeks Ended March 31, 2011 (Predecessor)
Revenues				
Admissions	$	$ 16,389	$ 56,172	$ 53,021
Food and beverage		6,099	20,192	19,111
Other theatre		548	2,253	2,429
Total revenues		23,036	78,617	74,561
Operating costs and expenses				
Film exhibition costs		8,706	28,958	27,288
Food and beverage costs	66	1,252	3,655	3,424
Operating expense	439	15,592	24,643	22,582
Rent		7,322	23,497	23,936
General and administrative costs	221	511	248	
Depreciation and amortization		263	1,212	969
(Gain) loss on disposition	(37)	(46,951)	25	(569)
Operating costs and expenses	689	(13,305)	82,238	77,630
Operating income (loss)	(689)	36,341	(3,621)	(3,069)
Investment income	(1)	(12)	(12)	(7)
Total other expense	(1)	(12)	(12)	(7)
Earnings (loss) before income taxes	(688)	36,353	(3,609)	(3,062)
Income tax provision		1,200		
Net earnings (loss)	$ (688)	$ 35,153	$ (3,609)	$ (3,062)

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 5 PROPERTY

A summary of property is as follows:

(In thousands)	December 31, 2012 (Successor)	March 29, 2012 (Predecessor)
Property owned:		
Land	$ 46,148	$ 50,134
Buildings and improvements	202,338	216,923
Leasehold improvements	460,850	898,916
Furniture, fixtures and equipment	501,550	1,309,969
	1,210,886	2,475,942
Less-accumulated depreciation and amortization	62,927	1,592,245
	$ 1,147,959	$ 883,697

Property is recorded at cost or fair value, in the case of property resulting from acquisitions. The Company uses the straight-line method in computing depreciation and amortization for financial reporting purposes. The estimated useful lives for leasehold improvements reflect the shorter of the expected useful lives of the assets or the base terms of the corresponding lease agreements plus renewal options expected to be exercised for these leases. The estimated useful lives are as follows:

Buildings and improvements	5 to 40 years
Leasehold improvements	1 to 20 years
Furniture, fixtures and equipment	1 to 10 years

Expenditures for additions (including interest during construction) and betterments are capitalized, and expenditures for maintenance and repairs are charged to expense as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation and amortization are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposals are included in operating expense in the accompanying Consolidated Statements of Operations.

Depreciation expense was $63,472,000, 70,715,000, $184,935,000 and $181,970,000 for the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and fiscal years ended March 29, 2012 and March 31, 2011, respectively.

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS

Activity of goodwill is presented below:

(In thousands)	Total
Balance as a result of Merger on August 30, 2012	$ 2,170,129
Increase in Goodwill from the acquisition of Rave theatres	79,024
Balance as of December 31, 2012	$ 2,249,153

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 6 GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Detail of other intangible assets is presented below:

(In thousands)	Remaining Useful Life	December 31, 2012 Gross Carrying Amount (Successor)	December 31, 2012 Accumulated Amortization (Successor)	March 29, 2012 Gross Carrying Amount (Predecessor)	March 29, 2012 Accumulated Amortization (Predecessor)
Amortizable Intangible Assets:					
Favorable leases	1 to 46 years	$ 112,496	$ (2,158)	$ 108,177	$ (63,683)
Customer frequency program				46,000	(44,206)
Loews' trade name				2,300	(2,300)
Management contracts	1 to 8 years	4,690	(278)	35,400	(29,931)
Non-compete agreement	3 years	3,800	(404)	6,406	(2,365)
NCM tax receivable agreement	24 years	20,900	(266)		
Other intangible assets				13,309	(13,139)
Total, amortizable		$ 141,886	$ (3,106)	$ 211,592	$ (155,624)
Unamortized Intangible Assets:					
AMC trademark		$ 104,400		$ 74,000	
Kerasotes trade names				5,056	
Total, unamortizable		$ 104,400		$ 79,056	

Amortization expense associated with the intangible assets noted above is as follows:

(In thousands)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Recorded amortization	$ 3,106	$ 5,016	$ 14,469	$ 14,652

Estimated annual amortization for the next five calendar years for intangible assets is projected below:

(In thousands)	2013	2014	2015	2016	2017
Projected annual amortization	$ 8,917	$ 8,783	$ 8,379	$ 7,516	$ 7,402

NOTE 7 INVESTMENTS

Investments in non-consolidated affiliates and certain other investments accounted for under the equity method generally include all entities in which the Company or its subsidiaries have significant influence, but not more than 50% voting control. Investments in non-consolidated affiliates as of December 31, 2012, include a 15.47% interest in National CineMedia, LLC ("NCM"), a 50% interest in two U.S. motion picture theatres and one IMAX screen, a 29% interest in Digital Cinema Implementation Partners, LLC ("DCIP") and a 50% interest in Open Road Releasing, LLC, operator of Open Road Films, LLC ("ORF"). The Company sold its 50% interest in Midland Empire

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

Partners, LLC in June 2012. Indebtedness held by equity method investees is non-recourse to the Company.

RealD Inc. Common Stock

The Company holds an investment in RealD Inc. common stock, which is accounted for as an equity security, available for sale, and is recorded in the Consolidated Balance Sheets in other long-term assets at fair value (Level 1). Under its RealD Inc. motion picture license agreement, the Company received a ten-year option to purchase 1,222,780 shares of RealD Inc. common stock at approximately $0.00667 per share. The stock options vested in 3 tranches upon the achievement of screen installation targets and were valued at the underlying stock price at the date of vesting. At the dates of exercise, the fair market value of the RealD Inc. common stock was recorded in other long-term assets with an offsetting entry recorded to other long-term liabilities as a deferred lease incentive. As a result of the Merger, the unamortized deferred lease incentive was recorded at fair value and is being amortized on a straight-line basis over the remaining contract life of approximately 9 years, to reduce RealD license expense recorded in the consolidated statements of operations under operating expense. For further information, see Note 2 Merger. As of December 31, 2012, the unamortized deferred lease incentive balance included in other long-term liabilities was $21,223,000. Fair value adjustments of RealD Inc. common stock are recorded to other long-term assets with an offsetting entry to accumulated other comprehensive income.

At December 29, 2011, the Company evaluated its investment in RealD Inc. common stock for a possible other-than-temporary impairment given market prices for RealD Inc. common stock and determined that the loss as of December 29, 2011 was other-than-temporary and recognized an impairment loss of $17,751,000 within investment expense (income), related to unrealized losses previously recorded in accumulated other comprehensive loss, as the Company determined the decline in fair value below historical cost to be other-than-temporary. Consideration was given to the financial condition and near-term prospects of the issuer, the length of time and extent to which the fair value had been less than cost and the Company's intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

DCIP Transactions

On March 10, 2010, DCIP completed its financing of $660.0 million for the deployment of digital projection systems to nearly 14,000 movie theatre screens across North America, including screens operated or managed by the Company, Cinemark and Regal. At closing the Company contributed 342 projection systems that it owned to DCIP, which were recorded at estimated fair value as part of an additional investment in DCIP of $21,768,000. The Company also made cash investments in DCIP of $840,000 at closing and DCIP made a distribution of excess cash to the Company after the closing date and prior to fiscal 2010 year-end of $1,262,000. The Company recorded a loss on contribution of the 342 projection systems of $563,000, based on the difference between estimated fair value and the carrying value on the date of contribution. On March 26, 2010, the Company acquired 117 digital projectors from third party lessors for $6,784,000 and sold them together with seven digital projectors that it owned to DCIP for $6,570,000. The Company recorded a loss on the sale of these 124 systems to DCIP of $697,000. On September 20, 2010, the Company sold 29 digital projectors in a sale and

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

lease back to DCIP from its Canadian theatres for $1,655,000 and incurred a loss of $110,000. On October 29, 2010, the Company sold 57 digital projectors from Kerasotes theatres in a sale and leaseback to DCIP for $3,250,000, with no gain or loss recorded on the projectors. On March 31, 2011, DCIP completed additional financing of $220.0 million, which is expected to complete the deployment of nearly 15,000 digital projection systems in the U.S. and Canada, including screens owned or managed by the Company.

The digital projection systems leased from DCIP and its affiliates replaced most of the Company's existing 35 millimeter projection systems. The Company adjusted its estimated depreciable lives for its existing equipment that will be replaced and has accelerated the depreciation of these existing 35 millimeter projection systems, based on the estimated digital projection system deployment timeframe. The projector systems scheduled to be replaced will be fully depreciated in calendar 2013.

NCM Transactions

On March 29, 2005, the Company along with Regal combined their screen advertising operations to form NCM. On July 15, 2005, Cinemark joined the NCM joint venture by contributing its screen advertising business. On February 13, 2007, National CineMedia, Inc. ("NCM, Inc."), a newly formed entity that now serves as the sole manager of NCM, closed its initial public offering, or IPO, of 42,000,000 shares of its common stock at a price of $21.00 per share.

In connection with the completion of NCM, Inc.'s IPO, on February 13, 2007, the Company entered into the Third Amended and Restated Limited Liability Company Operating Agreement (the "NCM Operating Agreement") among the Company, Regal and Cinemark (the "Founding Members") and NCM, Inc. Pursuant to the NCM Operating Agreement, the members are granted a redemption right to exchange common units of NCM for, at the option of NCM, Inc., NCM, Inc. shares of common stock on a one-for-one basis, or a cash payment equal to the market price of one share of NCM, Inc.'s common stock. Upon execution of the NCM Operating Agreement, each existing preferred unit of NCM held by the Founding Members was redeemed in exchange for $13.7782 per unit, resulting in the cancellation of each preferred unit. NCM used the proceeds of a new $725,000,000 term loan facility and $59,800,000 of net proceeds from the NCM, Inc. IPO to redeem the outstanding preferred units. The Company received approximately $259,347,000 in the aggregate for the redemption of all its preferred units in NCM. The Company received approximately $26,467,000 from selling common units in NCM to NCM, Inc. in connection with the exercise of the underwriters' over-allotment option in the NCM, Inc. IPO.

Also in connection with the completion of NCM, Inc.'s IPO, the Company agreed to modify NCM's payment obligations under the prior Exhibitor Services Agreement ("ESA") in exchange for approximately $231,308,000. The ESA provides a term of 30 years for advertising and approximately five year terms (with automatic renewal provisions) for meeting event and digital programming services, and provides NCM with a five year right of first refusal for the services beginning one year prior to the end of the term. The ESA also changed the basis upon which the Company is paid by NCM from a percentage of revenues associated with advertising contracts entered into by NCM to a monthly theatre access fee. The theatre access fee is now composed of a fixed payment per patron and a fixed payment per digital screen, which increases by 8% every five years starting at the end of fiscal 2011 for payments per patron and by 5% annually starting at the end of fiscal 2007 for payments per digital screen. The

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

theatre access fee paid in the aggregate to the Founding Members will not be less than 12% of NCM's aggregate advertising revenue, or it will be adjusted upward to meet this minimum payment. Additionally, the Company entered into the First Amended and Restated Loews Screen Integration Agreement with NCM on February 13, 2007, pursuant to which the Company paid NCM an amount that approximated the EBITDA that NCM would have generated if it had been able to sell advertising in the Loews Cineplex Entertainment Corporation ("Loews") theatre chain on an exclusive basis commencing upon the completion of NCM, Inc.'s IPO, and NCM issued to AMC common membership units in NCM, increasing the Company's ownership interest to approximately 33.7%; such Loews payments were made quarterly until the former screen advertising agreements expired in fiscal 2009. The Loews Screen Integration payments totaling $15,982,000 were paid in full in fiscal 2010. The Company is also required to purchase from NCM any on-screen advertising time provided to the Company's beverage concessionaire at a negotiated rate. In addition, the Company expects to receive mandatory quarterly distributions of excess cash from NCM. Immediately following the NCM, Inc. IPO, the Company held an 18.6% interest in NCM.

As a result of NCM, Inc.'s IPO and debt financing, the Company recorded a change of interest gain of $132,622,000 and received distributions in excess of its investment in NCM related to the redemption of preferred and common units of $106,188,000. The Company reduced its investment in NCM to zero and recognized the change of interest gain and the excess distribution in earnings as it has not guaranteed any obligations of NCM and is not otherwise committed to provide further financial support for NCM.

Annual adjustments to the common membership units are made pursuant to the Common Unit Adjustment Agreement dated as of February 13, 2007 between NCM, Inc. and the Founding Members. The Common Unit Adjustment Agreement was created to account for changes in the number of theatre screens operated by each of the Founding Members. Prior to fiscal 2011, each of the Founding Members had increased the number of screens it operates through acquisitions and newly built theatres. Since these incremental screens and increased attendance in turn provide for additional advertising revenues to NCM, NCM agreed to compensate the Founding Members by issuing additional common membership units to the Founding Members in consideration for their increased attendance and overall contribution to the joint venture. The Common Unit Adjustment Agreement also provides protection to NCM in that the Founding Members may be required to transfer or surrender common units to NCM based on certain limited events, including declines in attendance and the number of screens operated. As a result, each Founding Member's equity ownership interests are proportionately adjusted to reflect the risks and rewards relative to their contributions to the joint venture.

The Common Unit Adjustment Agreement provides that transfers of common units are solely between the Founding Members and NCM. There are no transfers of units among the Founding Members. In addition, there are no circumstances under which common units would be surrendered by the Company to NCM in the event of an acquisition by one of the Founding Members. However, adjustments to the common units owned by one of the Founding Members will result in an adjustment to the Company's equity ownership interest percentage in NCM.

Pursuant to the Company's Common Unit Adjustment Agreement, from time to time common units of NCM held by the Founding Members will be adjusted up or down through a formula ("Common Unit Adjustment"), primarily based on increases or decreases in the number of theatre

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

screens operated and theatre attendance generated by each Founding Member. The common unit adjustment is computed annually, except that an earlier common unit adjustment will occur for a Founding Member if its acquisition or disposition of theatres, in a single transaction or cumulatively since the most recent common unit adjustment, will cause a change of 2% or more in the total annual attendance of all of the Founding Members. In the event that a common unit adjustment is determined to be a negative number, the Founding Member shall cause, at its election, either (a) the transfer and surrender to NCM of a number of common units equal to all or part of such Founding Member's common unit adjustment or (b) pay to NCM an amount equal to such Founding Member's common unit adjustment calculated in accordance with the Common Unit Adjustment Agreement.

Effective March 27, 2008, the Company received 939,853 common membership units of NCM as a result of the Common Unit Adjustment, increasing the Company's interest in NCM to 19.1%. The Company recorded the additional units received as a result of the Common Unit Adjustment at a fair value of $21,598,000, based on a price for shares of NCM, Inc. on March 26, 2008, of $22.98 per share, and as a new investment (Tranche 2 Investment), with an offsetting adjustment to deferred revenue. Effective May 29, 2008, NCM issued 2,913,754 common membership units to another Founding Member due to an acquisition, which caused a decrease in the Company's ownership share from 19.1% to 18.52%. Effective March 17, 2009, the Company received 406,371 common membership units of NCM as a result of the Common Unit Adjustment, increasing the Company's interest in NCM to 18.53%. The Company recorded these additional units at a fair value of $5,453,000, based on a price for shares of NCM, Inc. on March 17, 2009, of $13.42 per share, with an offsetting adjustment to deferred revenue. Effective March 17, 2010, the Company received 127,290 common membership units of NCM. As a result of the Common Unit Adjustment among the Founding Members, the Company's interest in NCM decreased to 18.23% as of April 1, 2010. The Company recorded the additional units received at a fair value of $2,290,000, based on a price for shares of NCM, Inc. on March 17, 2010, of $17.99 per share, with an offsetting adjustment to deferred revenue. Effective June 14, 2010 and with a settlement date of June 28, 2010, the Company received 6,510,209 common membership units in NCM as a result of an Extraordinary Common Unit Adjustment in connection with the Company's acquisition of Kerasotes. The Company recorded the additional units at a fair value of $111,520,000, based on a price for shares of NCM, Inc. on June 14, 2010, of $17.13 per share, with an offsetting adjustment to deferred revenue. As a result of the Extraordinary Common Unit Adjustment, the Company's interest in NCM increased to 23.05%.

All of the Company's NCM membership units are redeemable for, at the option of NCM, Inc., cash or shares of common stock of NCM, Inc. on a share-for-share basis. On August 18, 2010, the Company sold 6,500,000 shares of common stock of NCM, Inc. in an underwritten public offering for $16.00 per share and reduced the Company's related investment in NCM by $36,709,000, the carrying amount of all shares sold. Net proceeds received on this sale were $99,840,000 after deducting related underwriting fees and professional and consulting costs of $4,160,000, resulting in a gain on sale of $63,131,000. In addition, on September 8, 2010, the Company sold 155,193 shares of NCM, Inc. to the underwriters to cover over-allotments for $16.00 per share and reduced the Company's related investment in NCM by $867,000, the carrying amount of all shares sold. Net proceeds received on this sale were $2,384,000 after deducting related underwriting fees and professional and consulting costs of $99,000, resulting in a gain on sale of $1,517,000. As a result of the membership unit conversions and sales, the Company's ownership interest in NCM was reduced to 17.02% as of September 30, 2010.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

Effective March 17, 2011, the Company was notified by NCM that its Common Unit Adjustment was determined to be a negative number. The Company elected to surrender 1,479,638 common membership units to satisfy the Common Unit Adjustment, leaving it with 17,323,782 units, or a 15.66% ownership interest in NCM as of March 31, 2011. The Company recorded the surrendered common units as a reduction to deferred revenues for exhibitor services agreement at fair value of $25,361,000, based on a price per share of NCM, Inc. of $17.14 on March 17, 2011, and recorded the reduction of the Company's NCM investment at weighted average cost for Tranche 2 Investments of $25,568,000, resulting in a loss on the surrender of the units of $207,000. The gain from the NCM, Inc. stock sales and the loss from the surrendered NCM common units are reported as Gain on NCM transactions on the Consolidated Statements of Operations. As a result of theatre closings and a related decline in attendance, the NCM Common Unit Adjustment for calendar 2011 called for a reduction in common units. The Company elected to pay NCM $214,000 to retain 16,717 common units effective March 16, 2012. The amount paid to retain the units decreased the deferred revenues for exhibitor services agreement available for amortization to advertising income for future periods.

The NCM, Inc. IPO and related transactions have the effect of reducing the amounts NCM, Inc. would otherwise pay in the future to various tax authorities as a result of an increase in its proportionate share of tax basis in NCM's tangible and intangible assets. On the IPO date, NCM, Inc. and the Founding Members entered into a tax receivable agreement. Under the terms of this agreement, NCM, Inc. will make cash payments to the Founding Members in amounts equal to 90% of NCM, Inc.'s actual tax benefit realized from the tax amortization of the NCM intangible assets. For purposes of the tax receivable agreement, cash savings in income and franchise tax will be computed by comparing NCM, Inc.'s actual income and franchise tax liability to the amount of such taxes that NCM, Inc. would have been required to pay had there been no increase in NCM Inc.'s proportionate share of tax basis in NCM's tangible and intangible assets and had the tax receivable agreement not been entered into. The tax receivable agreement shall generally apply to NCM, Inc.'s taxable years up to and including the 30th anniversary date of the NCM, Inc. IPO and related transactions. Pursuant to the terms of the tax receivable agreement, in fiscal year 2009, the Company received payments of $3,796,000 from NCM, Inc. with respect to NCM, Inc.'s 2007 taxable year; in fiscal year 2010, the Company received payments of $8,788,000 with respect to NCM, Inc.'s 2008 and 2009 taxable year; and in fiscal year 2011, the Company received $6,637,000 with respect to NCM, Inc.'s 2008 and 2010 taxable years. In fiscal 2012, the Company received $6,248,000 with respect to NCM, Inc.'s 2009, 2010 and 2011 taxable years. Prior to the date of the Merger on August 30, 2012, distributions received under the tax receivable agreement from NCM, Inc. were recorded as additional proceeds received related to the Company's Tranche 1 or 2 Investments and were recorded in earnings in a similar fashion to the proceeds received from the NCM, Inc. IPO and the receipt of excess cash distributions. Following the date of the Merger, the Company recorded an intangible asset of $20,900,000 as the fair value of the tax receivable agreement. The tax receivable agreement intangible asset is amortized on a straight-line basis against investment income over the remaining life of the ESA. Cash receipts from NCM, Inc. for the tax receivable agreement are recorded to the investment income account.

As of December 31, 2012, the Company owns a 15.47% interest in NCM. As a founding member, the Company has the ability to exercise significant influence over the governance of NCM, and, accordingly accounts for its investment following the equity method. The fair market value of the units

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

in National CineMedia, LLC was approximately $244,785,000 based on a price for shares of NCM, Inc. on December 31, 2012 of $14.13 per share.

Transactions with Non-consolidated Affiliates

As of December 31, 2012 and March 29, 2012, the Company has recorded $1,978,000 and $1,909,000, respectively, of amounts due from NCM related to on-screen advertising revenue. As of December 31, 2012 and March 29, 2012, the Company had recorded $2,021,000 and $1,823,000, respectively, of amounts due to NCM related to the ESA. The Company recorded revenues for advertising from NCM of $11,086,000, $11,731,000, $24,351,000 and $22,408,000 during the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012, and March 31, 2011, respectively. The Company recorded expenses related to its beverage advertising agreement with NCM of $4,197,000, $6,326,000, $13,447,000 and $12,458,000 during the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012, and March 31, 2011, respectively.

As of December 31, 2012 and March 29, 2012, the Company has recorded $736,000 and $1,437,000, respectively, of amounts due from DCIP related to equipment purchases made on behalf of DCIP for the installation of digital projection systems. After the projectors are installed and the Company is reimbursed for its installation costs, the Company will make capital contributions to DCIP for projector and installation costs in excess of the cap ($68,000 per system for digital conversions and $44,000 for new build locations). The Company pays equipment rent monthly and records the equipment rental expense on a straight-line basis, including scheduled escalations of rent to commence after six and one-half years from the initial deployment date. The difference between the cash rent and straight-line rent is recorded to deferred rent, a long-term liability account. As of December 31, 2012 and March 29, 2012, the Company has recorded $1,810,000 and $5,003,000 of deferred rent, respectively. The Company recorded digital equipment rental expense of $3,338,000, $3,624,000 and $6,969,000 during the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fifty-two weeks ended March 29, 2012, respectively.

As of December 31, 2012 and March 29, 2012, the Company has recorded $1,950,000 and $597,000, respectively, of amounts due from Open Road Films for promoted content and has recorded $326,000 and $1,843,000, respectively, of amounts payable for film rentals. The Company has incurred approximately $5,500,000, $1,550,000, and $7,000,000 in gross film exhibition costs on titles distributed by Open Road Films, partially offset by $807,000, $548,000, and $597,000 for promoted content earned during the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fifty-two weeks ended March 29, 2012.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

Summary Financial Information

Investments in non-consolidated affiliates accounted for under the equity method as of December 31, 2012, include interests in National CineMedia, LLC ("NCM"), two U.S. motion picture theatres and one IMAX screen, Digital Cinema Implementation Partners, LLC ("DCIP"), Open Road Films and other immaterial investments.

Condensed financial information of the Company's non-consolidated equity method investments is shown below. Amounts are presented under U.S. GAAP for the periods of ownership by the Company.

Financial Condition:

	December 31, 2012			
(In thousands)	**DCIP**	**ORF**	**NCM and Other**	**Total**
Current assets	$ 56,322	$ 42,712	$ 104,447	$ 203,481
Noncurrent assets	1,153,610	7,352	351,058	1,512,020
Total assets	1,209,932	50,064	455,505	1,715,501
Current liabilities	54,211	67,402	84,576	206,189
Noncurrent liabilities	1,016,135	7,060	879,000	1,902,195
Total liabilities	1,070,346	74,462	963,576	2,108,384
Stockholders' equity (deficit)	139,586	(24,398)	(508,071)	(392,883)
Liabilities and stockholders' equity (deficit)	1,209,932	50,064	455,505	1,715,501
The Company's recorded investment(1)	$ 25,234	$ (6,781)	$ 248,969	$ 267,422

	March 29, 2012			
(In thousands)	**DCIP**	**ORF**	**NCM and Other**	**Total**
Current assets	$ 43,273	$ 37,486	$ 105,098	$ 185,857
Noncurrent assets	1,122,938	10,507	377,296	1,510,741
Total assets	1,166,211	47,993	482,394	1,696,598
Current liabilities	47,203	35,477	65,254	147,934
Noncurrent liabilities	1,016,216	2,700	873,731	1,892,647
Total liabilities	1,063,419	38,177	938,985	2,040,581
Stockholders' equity (deficit)	102,792	9,816	(456,591)	(343,983)
Liabilities and stockholders' equity (deficit)	1,166,211	47,993	482,394	1,696,598
The Company's recorded investment(1)	$ 24,963	$ 4,908	$ 79,190	$ 109,061

(1)

Certain differences in the Company's recorded investments, and its proportional ownership share resulting from the Merger where the investments were recorded at fair

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

value, are amortized to equity in (earnings) or losses over the estimated useful lives the underlying assets and liabilities. Other non-amortizing differences are considered to represent goodwill and are evaluated for impairment annually.

Operating Results:

	From Inception August 31, 2012 through December 31, 2012			
(In thousands)	**DCIP**	**ORF**	**NCM and Other**	**Total**
Revenues	$ 56,851	$ 39,701	$ 187,228	$ 283,780
Operating costs and expenses	43,052	61,083	155,088	259,223
Net earnings (loss)	$ 13,799	$ (21,382)	$ 32,140	$ 24,557

	March 30, 2012 through August 30, 2012			
(In thousands)	**DCIP**	**ORF**	**NCM and Other**	**Total**
Revenues	$ 71,560	$ 42,563	$ 246,280	$ 360,403
Operating costs and expenses	55,378	55,395	182,720	293,493
Net earnings (loss)	$ 16,182	$ (12,832)	$ 63,560	$ 66,910

	52 Weeks Ended March 29, 2012			
(In thousands)	**DCIP**	**ORF**	**NCM and Other**	**Total**
Revenues	$ 134,640	$ 44,842	$ 479,458	$ 658,940
Operating costs and expenses	129,690	74,294	347,937	551,921
Net earnings (loss)	$ 4,950	$ (29,452)	$ 131,521	$ 107,019

	52 Weeks Ended March 31, 2011			
(In thousands)	**DCIP**	**ORF**	**NCM and Other**	**Total**
Revenues	$ 52,140	$	$ 447,038	$ 499,178
Operating costs and expenses	70,803	732	317,524	389,059
Net earnings (loss)	$ (18,663)	$ (732)	$ 129,514	$ 110,119

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

(In thousands)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
National CineMedia, LLC	$ 4,271	$ 7,473	$ 28,489	$ 32,851
Digital Cinema Implementation Partners, LLC	4,436	4,941	1,726	(5,231)
Open Road Releasing, LLC	(10,691)	(6,416)	(14,726)	(366)
Other	(496)	1,547	(2,930)	(10,076)
The Company's recorded equity in earnings (losses)	$ (2,480)	$ 7,545	$ 12,559	$ 17,178

The Company reviews investments in non-consolidated subsidiaries accounted for under the equity method for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be fully recoverable. The Company reviews unaudited financial statements on a quarterly basis and audited financial statements on an annual basis for indicators of triggering events or circumstances that indicate the potential impairment of these investments as well as current equity prices for its investment in NCM and discounted projections of cash flows for certain of its other investees. Additionally, the Company has quarterly discussions with the management of significant investees to assist in the identification of any factors that might indicate the potential for impairment. In order to determine whether the carrying value of investments may have experienced an "other-than-temporary" decline in value necessitating the write-down of the recorded investment, the Company considers the period of time during which the fair value of the investment remains substantially below the recorded amounts, the investees financial condition and quality of assets, the length of time the investee has been operating, the severity and nature of losses sustained in current and prior years, a reduction or cessation in the investee's dividend payments, suspension of trading in the security, qualifications in accountant's reports due to liquidity or going concern issues, investee announcement of adverse changes, downgrading of investee debt, regulatory actions, changes in reserves for product liability, loss of a principal customer, negative operating cash flows or working capital deficiencies and the recording of an impairment charge by the investee for goodwill, intangible or long-lived assets. Once a determination is made that an other-than-temporary impairment exists, the Company writes down its investment to fair value.

Included in equity in earnings of non-consolidated entities for the fifty-two weeks ended March 31, 2011 is an impairment charge of $8,825,000 related to a joint venture investment. The decline in the fair market value of the investment was considered other than temporary due to inadequate projected cash flows, the nature of losses sustained in current and prior years, negative operating cash flows and the length of time the investee has been operating. The decline in the fair market value of the investment was considered other than temporary due to competitive theatre builds. The impairment charges related to joint venture investments are included within equity in earnings of non-consolidated entities on the Consolidated Statements of Operations.

The Company recorded the following changes in the carrying amount of its investment in NCM and equity in earnings of NCM during the period August 31, 2012 through December 31, 2012, the

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

period March 30, 2012 through August 30, 2012, and the fifty-two weeks ended March 29, 2012 and March 31, 2011.

(In thousands)	Investment in NCM(1)	Exhibitor Services Agreement(2)	Other Comprehensive (Income)	Cash Received (Paid)	Equity in (Earnings) Losses	Advertising (Revenue)	(Gain) on NCM Transactions
Ending balance April 1, 2010	$ 28,826	$ (252,322)	$	$	$	$	$
Receipt of Common Units(3)	111,520	(111,520)					
Exchange and sale of NCM stock(5)	(37,576)			102,224			(64,648)
Surrender of Common Units(6)	(25,568)	25,361					207
Receipt of excess cash distributions	(8,592)			28,843	(20,251)		
Receipt under Tax Receivable Agreement(7)	(1,815)			6,637	(4,822)		
Receipt of tax credits	(7)			22	(15)		
Amortization of deferred revenue		4,689				(4,689)	
Equity in earnings(4)	7,763				(7,763)		
Ending balance March 31, 2011	$ 74,551	$ (333,792)	$	$ 137,726	$ (32,851)	$ (4,689)	$ (64,441)
Receipt of excess cash distributions	$ (6,444)	$	$	$ 25,275	$ (18,831)	$	$
Receipt under Tax Receivable Agreement(7)	(1,840)			6,248	(4,408)		
Payment to retain Common Units(8)		214		(214)			
Amortization of deferred revenue		5,136				(5,136)	
Equity in earnings(4)	5,250				(5,250)		
Ending balance March 29, 2012	$ 71,517	$ (328,442)	$	$ 31,309	$ (28,489)	$ (5,136)	$
Receipt of excess cash distributions	$ (1,701)	$	$	$ 6,667	$ (4,966)	$	$
Change in interest loss	(16)				16		
Amortization of deferred revenue		2,367				(2,367)	
Equity in earnings(3)	2,523				(2,523)		
Ending balance August 30, 2012	$ 72,323	$ (326,075)	$	$ 6,667	$ (7,473)	$ (2,367)	$

Purchase Price Fair Value Adjustment	$ 177,832	$ 3,453	$	$	$	$	$
Receipt of excess cash distributions	(10,176)			10,176			
Amortization of deferred revenue		4,468				(4,468)	
	797		(797)				

Unrealized gain from cash flow hedge													
Equity in earnings(3)		4,271								(4,271)			
Ending balance December 31, 2012	$	245,047	$	(318,154)	$	(797)	$	10,176	$	(4,271)	$	(4,468)	$

(1) Represents AMC's investment through the date of the Merger on August 30, 2012 in 519,979 common membership units originally valued at March 27, 2008, 224,828 common membership units originally valued at March 17, 2009, 70,424 common membership units originally valued at March 17, 2010, and 3,601,811 common membership units originally valued at June 14, 2010 received under the Common Unit Adjustment Agreement dated as of February 13, 2007 (Tranche 2 Investments). AMC's investment in 12,906,740 common membership units (Tranche 1 Investment) is carried at zero cost through the date of the Merger on August 30, 2012. Subsequent to the date of the Merger, AMC's investment in NCM

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 7 INVESTMENTS (Continued)

consisted of a single investment tranche consisting of 17,323,782 membership units recorded at fair value (Level 1) on August 30, 2012.

(2) Represents the unamortized portion of the Exhibitors Services Agreement (ESA) with NCM. Such amounts are being amortized to "Other theatre revenues" over a 30 year period ending in 2036, using a units-of-revenue method, as described in ASC 470-10-35 (formerly EITF 88-18, *Sales of Future Revenues)*. In connection with the Merger on August 30, 2012, the amounts related to the ESA were adjusted to estimated fair value.

(3) Represents equity in earnings on the Tranche 2 investments only through August 30, 2012. Subsequent to August 30, 2012, AMC has one investment tranche in NCM which consisted of 17,323,782 membership units recorded at fair value (Level 1) at August 30, 2012 in connection with the Merger.

(4) Represents equity in earnings on the Tranche 2 Investments only.

(5) All of the Company's NCM membership units are redeemable for, at the option of NCM, cash or shares of common stock of NCM, Inc. on a share-for-share basis. On August 18, 2010, the Company sold 6,500,000 shares of common stock of NCM, Inc. in an underwritten public offering for $16.00 per share and reduced the Company's related investment in NCM by $36,709,000, the carrying amount of all shares sold. Net proceeds received on this sale were $99,840,000 after deducting related underwriting fees and professional and consulting costs of $4,160,000, resulting in a gain on sale of $63,131,000. In addition, on September 8, 2010, the Company sold 155,193 shares of NCM, Inc. to the underwriters to cover over-allotments for $16.00 per share and reduced the Company's related investment in NCM by $867,000, the carrying amount of all shares sold. Net proceeds received on this sale were $2,384,000 after deducting related underwriting fees and professional and consulting costs of $99,000, resulting in a gain on sale of $1,517,000.

(6) As a result of theatre dispositions and closings and a related decline in attendance, the NCM Common Unit Adjustment for calendar 2010 called for a reduction in common units. The Company elected to surrender 1,479,638 common units effective March 17, 2011 at a fair value of $25,361,000 and a weighted average cost basis for Tranche 2 Investments of $25,568,000, resulting in a loss of $207,000. The fair value of the units surrendered reduced the deferred revenues for exhibitor services agreement available for amortization to advertising income for future periods.

(7) Distributions received under the Tax Receivable Agreement ("TRA") in fiscal 2011 and 2012, were allocated among the Tranche 1 Investment and the Tranche 2 Investments based on the ownership percentages as of the date of the related NCM, Inc. taxable year to which the distribution relates. Post Merger, the TRA was recorded at fair value as an Intangible Asset. Amortization of the TRA intangible asset and cash receipts are recorded to Investment Expense (Income). Prior to the Merger, the Company did not have any carrying value related to the NCM tax receivable agreement and the majority of its Tranche 1 investment in NCM was recorded at $0. In connection with push down accounting as required by the Merger the Company recorded an amortizable intangible asset in the amount of $20,900,000 related to the NCM tax receivable agreement. Because the Company established a separate asset apart from its equity method investment in NCM that derives all of its fair value from the expected future payments under the NCM tax receivable agreement, the Company will account for the cash receipts under the NCM tax receivable agreement separately from its equity method investment in NCM. Prior to the Merger the majority of the Company's Tranche 1 investment in NCM was recorded at a carrying value of $0 and the remaining Tranche 2 investment was recorded at a carrying value of $72,323,000. Subsequent to the Merger the Company increased the carrying value from $72,323,000 to a fair value of $250,155,000. As both the NCM tax receivable agreement and investment in NCM were separately recorded at fair value as a result of the Merger, the Company will account for the NCM tax receivable agreement intangible amortization and NCM tax receivable agreement cash receipts separately as components of investment income and we will account for our share of earnings in NCM and distributions of their earnings following the equity method.

(8) As a result of theatre closings and a related decline in attendance, the NCM Common Unit Adjustment for calendar 2011 called for a reduction in common units. The Company elected to pay NCM $214,000 to retain 16,717 common units effective March 16, 2012. The amount paid to retain the units decreased the deferred revenues for exhibitor services agreement available for amortization to advertising income for future periods.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 8 SUPPLEMENTAL BALANCE SHEET INFORMATION

Other assets and liabilities consist of the following:

(In thousands)	December 31, 2012 (Successor)	March 29, 2012 (Predecessor)
Other current assets:		
Prepaid rent	$ 35,551	$ 38,400
Income taxes receivable	5,805	
Prepaid insurance and other	12,049	14,582
Merchandise inventory	8,859	11,771
Deferred tax asset		14,300
Other	8,363	6,863
	$ 70,627	$ 85,916
Other long-term assets:		
Investments in real estate	$ 14,800	$ 10,721
Deferred financing costs		32,347
Investments in equity method investees	267,422	109,061
Computer software	32,023	30,807
Deferred tax asset		57,700
Investment in RealD Inc. common stock	13,707	15,945
Other	4,788	4,720
	$ 332,740	$ 261,301
Accrued expenses and other liabilities:		
Taxes other than income	$ 42,990	$ 43,071
Income taxes payable		496
Interest	9,865	39,660
Payroll and vacation	18,799	10,326
Current portion of casualty claims and premiums	6,332	7,266
Accrued bonus	27,630	12,132
Theatre and other closure	6,258	6,332
Accrued licensing and percentage rent	13,390	11,688
Current portion of pension and other benefits liabilities	1,039	1,217
Other	28,983	16,160
	$ 155,286	$ 148,348
Other long-term liabilities:		
Unfavorable lease obligations	$ 211,329	$ 125,772
Deferred rent	10,318	126,224
Pension and other benefits	63,225	55,757
Deferred gain		14,423
RealD deferred lease incentive	21,223	23,768
Deferred tax liability	47,433	
Tax liability		7,000
Casualty claims and premiums	10,254	10,344

Theatre and other closure		55,086		59,139
Other		14,283		4,402
	$	433,151	$	426,829

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS

A summary of the carrying value of corporate borrowings and capital and financing lease obligations is as follows:

(In thousands)	December 31, 2012 (Successor)	March 29, 2012 (Predecessor)
Senior Secured Credit Facility-Term Loan due 2016 (4.25% as of December 31, 2012)	$ 465,878	$ 470,343
Senior Secured Credit Facility-Term Loan due 2018 (4.75% as of December 31, 2012)	297,000	297,050
8% Senior Subordinated Notes due 2014		190,775
8.75% Senior Fixed Rate Notes due 2019	654,692	588,366
9.75% Senior Subordinated Notes due 2020	661,105	600,000
Capital and financing lease obligations, 8.25% - 11%	122,645	62,220
	2,201,320	2,208,754
Less: current maturities	(14,280)	(61,846)
	$ 2,187,040	$ 2,146,908

The carrying amount of corporate borrowings includes $116,336,000 of unamortized premiums as of December 31, 2012.

Minimum annual payments required under existing capital and financing lease obligations (net present value thereof) and maturities of corporate borrowings as of December 31, 2012 are as follows:

	Capital and Financing Lease Obligations			Principal Amount of Corporate Borrowings	
(In thousands)	Minimum Lease Payments	Less Interest	Principal		Total
2013	$ 16,750	$ 10,475	$ 6,275	$ 8,004	$ 14,279
2014	16,839	9,881	6,958	8,004	14,962
2015	16,972	9,218	7,754	8,004	15,758
2016	16,983	8,484	8,499	453,328	461,827
2017	16,998	7,677	9,321	3,000	12,321
Thereafter	113,860	30,022	83,838	1,481,999	1,565,837
Total	$ 198,402	$ 75,757	$ 122,645	$ 1,962,339	$ 2,084,984

Senior Secured Credit Facility

The Senior Secured Credit Facility is with a syndicate of banks and other financial institutions and, prior to the third amendment on December 15, 2010, had provided the Company financing of up to $850,000,000, consisting of a $650,000,000 term loan facility with a maturity date of January 26, 2013 and a $200,000,000 revolving credit facility that matured in 2012. The revolving credit facility includes borrowing capacity available for letters of credit and for swingline borrowings on same-day notice.

Third Amendment. On December 15, 2010, the Company entered into a third amendment to its Senior Secured Credit Agreement dated as of January 26, 2006 to, among other things: (i) extend the

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS (Continued)

maturity of the term loans held by accepting lenders and to increase the interest rate with respect to such term loans, (ii) replace the Company's existing revolving credit facility (with higher interest rates and a longer maturity than the existing revolving credit facility), and (iii) amend certain of the existing covenants therein. The following are key terms of the amendment:

- The term loan maturity was extended to December 15, 2016 (the "Term Loan due 2016") for the then aggregate principal amount of $476,597,000 held by lenders who consented to the amendment. The remaining then aggregate term loan principal amount of $142,528,000 (the "Term Loan due 2013") was scheduled to mature on January 26, 2013.

- The amended five-year revolving credit facility includes a borrowing capacity of $192,500,000 through December 15, 2015 and is available for letters of credit and for swingline borrowings on same-day notice. The applicable margin for borrowings under the revolving credit facility at December 31, 2012 was 2.25% with respect to base rate borrowings and 3.25% with respect to LIBOR borrowings. The Company is required to pay an unused commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder at a rate equal to 0.50% per annum. It will also pay customary letter of credit fees. As of December 31, 2012, the Company had approximately $11,563,000 in outstanding letters of credit issued under the credit facility, leaving approximately $180,937,000 available to borrow against the revolving credit facility.

The Company recorded a loss on the modification of the Senior Secured Credit Agreement of $3,656,000 in Other expense during the fifty-two weeks ended March 31, 2011, which included third party modification fees and other expenses of $3,289,000 and previously capitalized financing fees related to the revolving credit facility of $367,000. The Company capitalized deferred financing costs paid to creditors of $1,943,000 related to the modification of the Senior Secured Credit Agreement during the year ended March 31, 2011.

Incremental Amendment. On February 22, 2012, the Company entered into an amendment to its Senior Secured Credit Facility pursuant to which the Company borrowed term loans (the "Term Loan due 2018"), and used the proceeds, together with cash on hand, to fund the cash tender offer and redemption of the 8% Senior Subordinated Notes due 2014 and to repay the existing Term Loan due 2013. The Term Loan due 2018 was issued under the Senior Secured Credit Facility for $300,000,000 aggregate principal amount and the net proceeds received were $297,000,000. The 1% discount was amortized to interest expense over the term of the loan until the Merger date of August 30, 2012, when the debt was re-measured at fair value. The Term Loan due 2018 requires repayments of principal of 1% per annum and the remaining principal payable upon maturity on February 22, 2018. The Company capitalized deferred financing costs paid to creditors of $5,157,000 related to the issuance of the Term Loan due 2018 during the year ended March 29, 2012. Concurrently with the Term Loan due 2018 borrowings on February 22, 2012, the Company redeemed all outstanding Term Loan due 2013 at a redemption price of 100% of the then outstanding aggregate principal balance of $140,657,000, plus accrued and unpaid interest. The Company recorded a loss on extinguishment of the Term Loan due 2013 in Other expense, due to previously capitalized deferred financing fees of $383,000, during the fifty-two weeks ended March 29, 2012.

Borrowings under the Senior Secured Credit Facility bear interest at a rate equal to an applicable margin plus, at the Company's option, either a base rate or LIBOR. Prior to extinguishment, the Term

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS (Continued)

Loan due 2013 bore interest at 2.021% on February 22, 2012, which was based on LIBOR plus 1.75%. The Company will repay $5,003,648 of the Term Loan due 2016 per annum through September 30, 2016, with any remaining balance due on December 15, 2016. The Term Loan due 2018 requires repayments of principal of $3,000,000 per annum and the remaining principal payable upon maturity on February 22, 2018. The Company may voluntarily repay outstanding loans under the Senior Secured Credit Facility at any time without premium or penalty, other than customary "breakage" costs with respect to LIBOR loans.

All obligations under the Senior Secured Credit Facility are guaranteed by each of the Company's wholly-owned domestic subsidiaries. All obligations under the Senior Secured Credit Facility, and the guarantees of those obligations (as well as cash management obligations), are secured by substantially all of AMC Entertainment's assets as well as those of each subsidiary guarantor.

The Senior Secured Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability, and the ability of its subsidiaries, to sell assets; incur additional indebtedness; prepay other indebtedness (including the notes); pay dividends and distributions or repurchase their capital stock; create liens on assets; make investments; make certain acquisitions; engage in mergers or consolidations; engage in certain transactions with affiliates; change of control of permitted holders, amend certain charter documents and material agreements governing subordinated indebtedness, including the 8.75% Senior Notes due 2019 and the 9.75% Senior Subordinated Notes due 2020; change the business conducted by it and its subsidiaries; and enter into agreements that restrict dividends from subsidiaries.

In addition, the Senior Secured Credit Facility requires that the Company and its subsidiaries maintain a maximum net senior secured leverage ratio as long as the commitments under the revolving credit facility remain outstanding. The Senior Secured Credit Facility also contains certain customary affirmative covenants and events of default.

The Company is restricted, in certain circumstances, from paying dividends to Parent by the terms of the indentures governing its outstanding senior and subordinated notes and its Senior Secured Credit Facility.

Fourth Amendment. On July 2, 2012, the Company entered into a waiver and fourth amendment to its Senior Secured Credit Facility dated as of January 26, 2006 to, among other things: (i) waive a certain specified default that would otherwise occur upon the change of control effected by the Merger, (ii) permit the Company to change its fiscal year after completion of the Merger, (iii) reflect the change in ownership going forward by restating the definition of "Permitted Holder" to include only Wanda and its affiliates under the Senior Secured Credit Facility in connection with the Merger, (iv) provide for a minimum LIBOR percentage of 1.00%, from, and only after, the completion of the Merger, in determining the interest rate to the Term Loan due 2016, and (v) provide for an interest rate of LIBOR plus 375 basis points to the Term Loan due 2018, from and only after, the completion of the Merger. The applicable margin at December 31, 2012 for borrowings under the Term Loan due 2016 was 4.25% with respect to LIBOR borrowings (3.25% margin plus 1.00% minimum LIBOR rate) and the applicable margin for borrowings under the Term Loan due 2018 was 4.75% (3.75% margin plus 1.00% minimum LIBOR rate).

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS (Continued)

In connection with the waiver and fourth amendment discussed above, the Company paid consent fees to lenders equal to 0.25% of the sum of the revolving credit commitment of such consenting lender and the aggregate outstanding principal amount of term loans held by such consenting lender. The Company made total consent fee payments to lenders for the fourth amendment of $2,256,000 and recorded them as deferred charges to be amortized as an adjustment to interest expense over the remaining term of the related term loan or revolving credit facility. The Company recorded deferred charges for the consent fees of $438,000 on the Revolving Credit Facility pursuant to ASC 470-50-40-21 and recorded deferred charges of $1,108,000 for the Term Loan due 2016 and $710,000 for the Term Loan due 2018 pursuant to ASC 470-50-40-17b.

Notes Due 2014

On February 24, 2004, the Company sold $300,000,000 aggregate principal amount of 8% Senior Subordinated Notes due 2014 (the "Notes due 2014"). The interest rate for the Notes due 2014 was 8% per annum, payable in March and September. The Notes due 2014 were redeemable at the option of the Company, in whole or in part, at any time on or after March 1, 2009 at 104% of the principal amount thereof, declining ratably to 100% of the principal amount thereof on or after March 1, 2012, plus in each case interest accrued to the redemption date.

In connection with the merger in which the Company was acquired by Holdings in fiscal 2005, the carrying value of the Notes due 2014 was adjusted to fair value. As a result, a discount of $1,500,000 was recorded and was being amortized to interest expense over the remaining term of the notes.

On February 7, 2012, the Company launched a cash tender offer to purchase up to $160,000,000 aggregate principal amount of its then outstanding $300,000,000 aggregate principal amount of the Notes due 2014. On February 21, 2012, holders of $108,955,000 aggregate principal amount of the Notes due 2014 tendered pursuant to the cash tender offer. On February 22, 2012, the Company accepted for purchase $58,063,000 aggregate principal amount, plus accrued and unpaid interest of the Notes due 2014, for total consideration equal to (i) $972.50 per $1,000 in principal amount of notes validly tendered plus (ii) $30 per $1,000 in principal amount of the notes validly tendered. On March 7, 2012, the Company accepted for purchase the remaining $50,892,000 aggregate principal amount, plus accrued and unpaid interest of the Notes due 2014 tendered on February 21, 2012, for total consideration equal to (i) $972.50 per $1,000 in principal amount of notes validly tendered plus (ii) $30 per $1,000 in principal amount of the notes validly tendered. In addition, the Company accepted for purchase $10,000 aggregate principal amount, plus accrued and unpaid interest of Notes due 2014 tendered after February 21, 2012, for total consideration equal to $972.50 per $1,000 in principal amount of the notes validly tendered. The Company recorded a loss on extinguishment related to the cash tender offer and redeemed its Notes due 2014 of $640,000 in Other expense during the fifty-two weeks ended March 29, 2012, which included tender offer and consent fees paid to the holders of $213,000, write-off of a non-cash discount of $155,000, and other expenses of $272,000. On March 7, 2012, the Company announced its intent to redeem $51,035,000 aggregate principal amount of the Notes due 2014 at a price of $1,000 per $1,000 principal amount such that an aggregate of $160,000,000 of Notes due 2014 would be retired through the tender offer and redemption. On April 6, 2012, the Company completed the redemption of $51,035,000 aggregate principal amount of Notes due 2014 at a redemption price of 100% of the principal amount plus accrued and unpaid interest.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS (Continued)

On April 6, 2012, the Company redeemed $51,035,000 aggregate principal amount of its Notes due 2014 pursuant to a cash tender offer at a price of $1,000 per $1,000 principal amount. The Company used the net proceeds from the issuance of the Term Loan due 2018, which was borrowed on February 22, 2012, to pay for the consideration of the cash tender offer plus accrued and unpaid interest on the principal amount of the Notes due 2014. On August 30, 2012 prior to the consummation of the Merger, the Company issued a call notice for all of its then remaining outstanding Notes due 2014 at a redemption price of 100% of the principal amount thereof, plus accrued and unpaid interest, to the redemption date. On August 30, 2012, the Company irrevocably deposited $141,027,000, plus accrued interest to September 1, 2012 with a trustee to satisfy and to discharge its obligations under the Notes due 2014 and its indenture. The Company used a combination of cash on hand and funds contributed by Wanda. The Company recorded a loss on redemption of $1,297,000 prior to the Merger related to the extinguishment of the Notes due 2014.

Notes Due 2016

Concurrently with the 9.75% Senior Subordinated Notes due 2020 ("Notes due 2020") offering on December 15, 2010, the Company launched a cash tender offer and consent solicitation for any and all of its then outstanding $325,000,000 aggregate principal amount of the 11% Senior Subordinated Notes due 2016 (the "Notes due 2016") at a purchase price of $1,031 plus a $30 consent fee for each $1,000 of principal amount of outstanding Notes due 2016 validly tendered and accepted by the Company on or before the early tender date (the "Cash Tender Offer"). The Company used the net proceeds from the issuance of the Notes due 2020 on December 15, 2010 to pay the consideration for the Cash Tender Offer plus accrued and unpaid interest on $95,098,000 principal amount of Notes due 2016 validly tendered. The Company recorded a loss on extinguishment related to the Cash Tender Offer of $7,631,000 in Other expense during the fifty-two weeks ended March 31, 2011, which included previously capitalized deferred financing fees of $1,681,000, a tender offer and consent fee paid to the holders of $5,801,000 and other expenses of $149,000. The Company redeemed the remaining $229,902,000 aggregate principal amount outstanding Notes due 2016 at a price of $1,055 per $1,000 principal amount on February 1, 2011 in accordance with the terms of the indenture. The Company recorded a loss on extinguishment related to the Cash Tender Offer of $16,701,000 in Other expense during the fifty-two weeks ended March 31, 2011, which included previously capitalized deferred financing fees of $3,958,000, a tender offer and consent fee paid to the holders of $12,644,000 and other expenses of $99,000.

Notes Due 2019

On June 9, 2009, the Company issued $600,000,000 aggregate principal amount of 8.75% Senior Notes due 2019 (the "Notes due 2019") issued under an indenture with U.S. Bank, National Association, as trustee. The Notes due 2019 bear interest at a rate of 8.75% per annum, payable on June 1 and December 1 of each year (commencing on December 1, 2009), and have a maturity date of June 1, 2019. The Notes due 2019 are redeemable at the Company's option in whole or in part, at any time on or after June 1, 2014 at 104.375% of the principal amount thereof, declining ratably to 100% of the principal amount thereof on or after June 1, 2017, plus accrued and unpaid interest to the redemption date. The Company capitalized deferred financing costs of $16,259,000 related to the issuance of the Notes due 2019 during the year ended April 1, 2010.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS (Continued)

The Notes due 2019 are general unsecured senior obligations of the Company, fully and unconditionally guaranteed, jointly and severally, on a senior basis by each of the Company's existing and future domestic restricted subsidiaries that guarantee the Company's other indebtedness.

The indenture governing the Notes due 2019 contains covenants limiting other indebtedness, dividends, purchases or redemptions of stock, transactions with affiliates and mergers and sales of assets. It also contains provisions subordinating the Company's obligations under the Notes due 2019 to the Company's obligations under its Senior Secured Credit Facility and other senior indebtedness. The Notes due 2019 were issued at a 2.418% discount which was amortized to interest expense following the interest method over the term of the notes until the Merger date of August 30, 2012, when the debt was re-measured at fair value.

In connection with the Merger on August 30, 2012, the carrying value of the Notes due 2019 was adjusted to fair value. As a result, a premium of $57,000,000 was recorded and will be amortized to interest expense utilizing the interest rate method over the remaining term of the notes. Quoted market prices were used to estimate the fair value of the Company's Notes due 2019 (Level 2) at the date of the Merger. The Company determined the premium for the Notes due 2019 as the difference between the fair value of the Notes due 2019 and the principal balance of the Notes due 2019.

Notes Due 2020

On December 15, 2010, the Company completed the offering of $600,000,000 aggregate principal amount of its Notes due 2020. The Notes due 2020 mature on December 1, 2020, pursuant to an indenture dated as of December 15, 2010, among the Company, the Guarantors named therein and U.S. Bank National Association, as trustee. The Company will pay interest on the Notes due 2020 at 9.75% per annum, semi-annually in arrears on June 1 and December 1, commencing on June 1, 2011. The Company may redeem some or all of the Notes due 2020 at any time on or after December 1, 2015 at 104.875% of the principal amount thereof, declining ratably to 100% of the principal amount thereof on or after December 1, 2018, plus accrued and unpaid interest to the redemption date. The Company capitalized deferred financing costs of $12,699,000 related to the issuance of Notes due 2020 during the year ended March 31, 2011.

The Indenture provides that the Notes due 2020 are general unsecured senior subordinated obligations of the Company and are fully and unconditionally guaranteed on a joint and several senior subordinated unsecured basis by all of its existing and future domestic restricted subsidiaries that guarantee its other indebtedness.

The indenture governing the Notes due 2020 contains covenants limiting other indebtedness, dividends, purchases or redemptions of stock, transactions with affiliates and mergers and sales of assets.

In connection with the Merger on August 30, 2012, the carrying value of the Notes due 2020 was adjusted to fair value. As a result, a premium of $63,000,000 was recorded and will be amortized to interest expense over the remaining term of the notes. Quoted market prices were used to estimate the fair value of the Company's Notes due 2020 (Level 2) at the date of the Merger. The Company determined the premium for the Notes due 2020 as the difference between the fair value of the Notes due 2020 and the principal balance of the Notes due 2020.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 9 CORPORATE BORROWINGS AND CAPITAL AND FINANCING LEASE OBLIGATIONS (Continued)

Consent Solicitation

On June 22, 2012, the Company announced it had received the requisite consents from holders of each of its Notes due 2019 and its Notes due 2020 and, collectively with the Notes due 2019, the ("Notes") for (i) a waiver of the requirement for the Company to comply with the "change of control" covenant in each of the indentures governing the Notes due 2019 and the indenture governing the Notes due 2020 (collectively, the "Indentures"), in connection with the Merger (the "Waivers"), including the Company's obligation to make a "change of control offer" in connection with the Merger with respect to each series of Notes, and (ii) certain amendments to the Indentures to reflect the change in ownership going forward by adding Wanda and its affiliates to the definition of "Permitted Holder" under each of the Indentures. The Company entered into supplemental indentures to give effect to the Waivers and certain amendments to the Indentures, which became operative upon payment of the applicable consent fee immediately prior to the closing of the Merger. The holders of each of the Notes due 2019 and Notes due 2020, who validly consented to the Waiver and the proposed amendments, received a consent fee of $2.50 per $1,000 principal amount at the closing date of the Merger. The total consent fees were $2,376,000. See Note 2 Merger for additional information regarding the recording of the consent fees.

Financial Covenants

Each indenture relating to the Company's notes (Notes due 2019 and Notes due 2020) allows it to incur specified permitted indebtedness (as defined therein) without restriction. Each indenture also allows the Company to incur any amount of additional debt as long as it can satisfy the coverage ratio of each indenture, after giving effect to the event on a pro forma basis. Under the indenture for the Notes due 2019 (the Company's most restrictive indenture), the Company could borrow approximately $1,125,600,000 (assuming an interest rate of 7.0% per annum on the additional indebtedness) in addition to specified permitted indebtedness at December 31, 2012. If the Company cannot satisfy the coverage ratios of the indentures, generally the Company can borrow an additional amount under the Senior Secured Credit Facility.

As of December 31, 2012, the Company was in compliance with all financial covenants relating to the Senior Secured Credit Facility, the Notes due 2020, and the Notes due 2019.

Parent Term Loan Facility

During fiscal 2012, Parent made payments to extinguish the remaining principal balance of its Parent Term Loan Facility due June 2012 of $160,921,000, plus accrued and unpaid interest.

NOTE 10 STOCKHOLDERS' EQUITY

Common Stock Rights and Privileges

The Company's Class A voting Common Stock entitles the holders thereof to rights and privileges, subject to qualifications, limitations and restrictions with respect to dividends. Additionally, each share of Class A Common Stock is expected to automatically convert into one share of Residual Common Stock on a one-for-one basis immediately prior to the consummation of an Initial Public Offering.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 10 STOCKHOLDERS' EQUITY (Continued)

During the Successor period of August 31, 2012 through December 31, 2012, the Company received capital contributions of $100,000,000 from Wanda.

During fiscal 2012, AMCE used cash on hand to pay a dividend distribution to Parent in an aggregate amount of $109,581,000. Parent used the available funds to pay corporate overhead expenses incurred in the ordinary course of business and to redeem its Term Loan Facility due June 2012, plus accrued and unpaid interest of $219,405,000.

During fiscal 2011, AMCE made dividend distributions to Holdings in an aggregate amount of $278,258,000, and Holdings used the available funds to make a principal payment related to a tender offer for the Discount Notes due 2014, plus interest payments, and to make dividend distributions to its stockholder, Parent. Holdings and Parent used the available funds to pay corporate overhead expenses incurred in the ordinary course of business.

Temporary Equity

Certain members of management have the right to require Parent to purchase the Class N nonvoting Common Stock held by them pursuant to the terms of a stockholders agreement. During the period beginning on January 1, 2016 (or upon the termination of a management stockholder's employment by us without cause, by the management stockholder for good reason, or due to the management stockholder's death or disability) and ending on the earlier of (i) January 1, 2019 and (ii) the date of an Initial Public Offering, the management shareholders have the right to require Parent to purchase their shares at a price equal to the price per share paid by such management shareholder, with appropriate adjustments for any subsequent events such as dividends, splits, combinations and the like. Following an Initial Public Offering, the management shareholders will have the right, in limited circumstances, to require Parent to purchase shares of Parent that are not fully and freely tradeable at a price equal to the price per share paid by such management shareholder. The Class N common stock is classified as temporary equity, apart from permanent equity, as a result of the contingent redemption feature contained in the stockholder agreement.

During the six months ended June 30, 2013, the Company revised its previous classification of the Class N Common Stock and reclassified $1,811,000 of additional paid-in-capital from stockholders' equity to temporary equity. There was no impact to retained earnings, net earnings or earnings per share as a result of this revision for any periods presented. The revision reduced previously reported December 31, 2012 additional paid-in-capital of $801,796,000 by $1,811,000 to $799,985,000; reduced previously reported December 31, 2012 stockholders' equity of $774,105,000 by $1,811,000 to $772,294,000 and increased previously reported December 31, 2012 temporary equity of $0 by $1,811,000 to $1,811,000.

The Company will recognize any significant changes in the redemption value as they occur. As of December 31, 2012 there was no material difference in the estimated fair value and recorded value of the Class N Common Stock recorded as temporary equity. The Company determined the amount reflected in temporary equity for the Class N Common Stock based on the price paid per share by the management shareholders and Wanda at the date of the Merger.

The Company's Class N Common Stock entitles the holders thereof to the same rights and privileges, subject to the same qualifications, limitations and restrictions with respect to dividends as the Company's Class A voting Common Stock. Additionally, each share of Class N Common Stock is

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 10 STOCKHOLDERS' EQUITY (Continued)

expected to automatically convert into one share of Residual Common Stock on a one-for-one basis immediately prior to the consummation of an Initial Public Offering.

Stock-Based Compensation

The Company has no stock-based compensation arrangements of its own at December 31, 2012, but prior to the Merger, Parent had adopted a stock-based compensation plan. The Company has recorded stock-based compensation expense of $830,000, $1,962,000 and $1,526,000 within general and administrative: other during the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, respectively. Upon the change of control as a result of the Merger, all of the stock options and restricted stock interests under both the amended and restated 2004 Stock Option Plan and the 2010 Equity Incentive Plan were cancelled and holders received payments aggregating approximately $7,035,000. The Company had previously recognized stock-based compensation expense of $3,858,000 related to these stock options and restricted stock interests. The Company did not recognize an expense for the remaining $3,177,000 of unrecognized stock-based compensation expense. The Company's accounting policy for any cost triggered by the consummation of the Merger was to recognize the cost when the Merger was consummated. Accordingly, unrecognized stock-based compensation expense for stock options and restricted stock interests has not been recorded in the Consolidated Statement of Operations for the Predecessor period since that statement depicts the results of operations just prior to consummation of the transaction. In addition, since the Successor period reflects the effects of push-down accounting, these costs have also not been recorded as an expense in the Successor period. However, the costs were reflected in the purchase accounting adjustments which were applied in arriving at the opening balances of the Successor. See Note 2 Merger for additional information regarding the settlement of stock options and restricted stock interests.

2004 Stock Option Plan

Prior to the Merger, Parent had adopted a stock-based compensation plan that permitted a maximum of 2,431,506 options to be issued on Parent's stock under the 2004 Stock Option Plan. The stock options had a ten year term and generally step vested in equal amounts from one to three or five years from the date of the grant. Vesting could accelerate for a certain participant if there was a change of control (as defined in the employee agreement). All options were granted to employees of the Company.

On July 8, 2010, the Board approved a grant of 50,653 non-qualified stock options to a certain employee of the Company under the amended and restated 2004 Stock Option Plan. These options vested ratably over 5 years with an exercise price of $15.19 per share. Expense for this award was recognized on a straight-line basis over the vesting period. The Company accounted for stock options using the fair value method of accounting and elected to use the simplified method for estimating the expected term of "plain vanilla" share option grants, as it did not have enough historical experience to provide a reasonable estimate. The estimated grant date fair value of the options granted on 50,653 shares was $6.08 per share, or $308,000, and was determined using the Black-Scholes option-pricing model. The option exercise price was $15.19 per share, and the estimated fair value of the shares was $15.19, resulting in $0 intrinsic value for the option grant. See 2010 Equity Incentive Plan below for further information regarding assumptions used in determining fair value.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 10 STOCKHOLDERS' EQUITY (Continued)

On July 23, 2010, the Board of Directors of Parent (the "Board") determined that the Company would no longer grant any awards of shares of common stock of Parent under the 2004 Stock Option Plan.

The vested and unvested stock options under the 2004 Stock Option Plan were cancelled immediately prior to the closing of the Merger with Wanda. Holders of such options received payments for each option equal to the difference (if any) between the per share consideration received in the Merger and the exercise price of their options.

2010 Equity Incentive Plan

Prior to the Merger, the 2010 Equity Incentive Plan ("Plan") provided for grants of non-qualified stock options, incentive stock options, stock appreciation rights, restricted stock awards, other stock-based awards or performance-based compensation awards. The aggregate number of shares of common stock of Parent that was available for delivery pursuant to awards granted under the plan was 39,312 shares. The Company accounted for stock options using the fair value method of accounting and had elected to use the simplified method for estimating the expected term of "plain vanilla" share option grants, as it did not have enough historical experience to provide a reasonable estimate.

On July 8, 2010, the Board approved the grants of 267,326 non-qualified stock options, 267,326 restricted stock (time vesting), and 267,574 restricted stock (performance vesting) to certain of its employees. On February 1, 2011, the Board approved the grants of 6,783 non-qualified stock options, 6,783 restricted stock (time vesting), and 6,833 restricted stock (performance vesting) to certain of its employees. The estimated fair value of the stock at the grant date of July 8, 2010 was approximately $15.19 per share. The common stock value of $15.19 per share was based upon a contemporaneous valuation reflecting market conditions on July 8, 2010, which was prepared by an independent third party valuation specialist, and was used to estimate grants of 305,353 options and 318,425 shares of restricted stock granted in July 2010. The third party valuation was reviewed by management and provided to the Company's board of directors and the Compensation Committee of the board of directors. In determining the fair market value of the common stock, the board of directors and the Compensation Committee of the board of directors considered the valuation report and other qualitative and quantitative factors that they considered relevant. The common stock value of $15.19 per share was used to estimate the fair value of each of the remaining grants of options and shares of restricted stock granted on each of August 2, 2010, December 23, 2010, March 22, 2011, and April 6, 2011 as the Company believed at the time of grant that the valuation reflected current market conditions on each of such grant dates. The Company believes that market conditions had not changed significantly over the course of these grant dates.

On June 22, 2011, the restricted stock (performance vesting) shares for fiscal 2012 were granted and the target was communicated following ASC 718-10-55-95. The grant date common stock value of $15.25 per share was based upon a contemporaneous valuation reflecting market conditions on June 22, 2011, which was prepared by an independent third party valuation specialist, and was used to estimate grant value of 66,646 shares of restricted stock (performance vesting) granted on June 22, 2011. The third party valuation was reviewed by management and provided to the Company's Board of Directors and the Compensation Committee of the Board of Directors. In determining the fair market value of the common stock, the Board of Directors and the Compensation Committee of the Board of Directors

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 10 STOCKHOLDERS' EQUITY (Continued)

considered the valuation report and other qualitative and quantitative factors that they considered relevant.

The award agreements, which consisted of grants of non-qualified stock options, restricted stock (time vesting), and restricted stock (performance vesting) to certain of the Company's employees under the 2010 Equity Incentive Plan, generally had the following features, subject to discretionary approval by Parent's compensation committee:

Non-Qualified Stock Option Award Agreement: Twenty-five percent of the options were to vest on each of the first four anniversaries of the date of grant. The stock options had a ten year term from the date of grant. The vested and unvested stock options were cancelled immediately prior to the closing of the Merger with Wanda. Holders of such options received payments for each option equal to the difference (if any) between the per share consideration received in the Merger and the exercise price of their options.

Restricted Stock Award Agreement (Time Vesting): The restricted shares were to vest on the fourth anniversary of the date of grant. The restricted stock (time vesting) awards were cancelled immediately prior to the closing of the Merger with Wanda. Holders of such restricted stock (time vesting) received payments for each restricted share equal to the per share consideration received in the Merger.

Restricted Stock Award Agreement (Performance Vesting): In fiscal 2011, the Board approved the award of 5,542 shares of restricted stock (performance vesting), of which 1,346 shares and 1,372 shares were deemed granted in fiscal 2012 and fiscal 2011, respectively. Approximately one-fourth of the total restricted shares of 5,542 approved by the Board were to have been granted each year over a four-year period starting in fiscal 2011. Each grant had a vesting term of approximately one year conditioned upon the Company meeting certain pre-established annual performance targets. The fiscal 2013 and fiscal 2014 shares were not deemed granted per ASC 718-10-55-95 as the Compensation Committee did not approved the performance target for the restricted stock due to the Merger with Wanda. The unvested restricted stock (performance vesting) awards for fiscal 2013 and fiscal 2014 were cancelled immediately prior to the closing of the Merger. Holders of unvested restricted stock awards received payments for each restricted share equal to the per share consideration received in the Merger.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 10 STOCKHOLDERS' EQUITY (Continued)

Stock Option Activity

A summary of Parent's stock option activity, prior to the Merger, under both the 2004 Option Plan and the 2010 Equity Incentive Plan is as follows:

	August 30, 2012 (Predecessor)		March 29, 2012 (Predecessor)		March 31, 2011 (Predecessor)	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at beginning of year	1,766,569	$ 9.09	1,766,866	$ 8.56	1,564,502	$ 7.75
Granted(1)			347	15.19	322,188	15.19
Forfeited			(644)	15.19	(79,985)	7.44
Cancelled	(1,766,569)	9.09				
Exercised					(39,839)	9.14
Outstanding at end of year and expected to vest(1)		$	1,766,569	$ 9.09	1,766,866	$ 9.09
Exercisable at end of year		$	1,118,746	$ 8.68	853,547	$ 8.56
Available for grant at end of year			1,415,110		1,414,516	

(1) The weighted average remaining contractual life for outstanding options was 6.0 years and 7.0 years for fiscal 2012 and 2011, respectively. During fiscal 2012, 347 options were granted at an exercise price of $752. The options granted were based on an estimated fair value of $15.19 of common stock, resulting in an intrinsic value for the options on the grant date of $0. During fiscal 2011, 322,188 options were granted at an exercise price of $15.19. The options granted were based on an estimated fair value of $15.19 of common stock, resulting in an intrinsic value for the options on the grant date of $0.

For options exercised, intrinsic value is calculated as the difference between the market price on the date of exercise (determined using the most recent contemporaneous valuation prior to the exercise) and the exercise price of the options. The total intrinsic value of options exercised was $241,000 during fiscal 2011 and there were no options exercised during the period March 30, 2012 through August 30, 2012 and fiscal 2012. Parent received outstanding shares, instead of cash, from the exercise of stock options during fiscal 2011 to satisfy the aggregate strike price of approximately $364,000.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 10 STOCKHOLDERS' EQUITY (Continued)

Assumptions Used To Estimate Option Values

The following table reflects the weighted average fair value per option granted during fiscal 2011 under the 2004 Option Plan and the 2010 Equity Incentive Plan, as well as the significant assumptions used in determining weighted average fair value using the Black-Scholes option-pricing model:

	March 31, 2011	
	2010 Plan	2004 Plan
	(Predecessor)	
Weighted average fair value of options on grant date	$ 5.93	$ 6.08
Risk-free interest rate	2.50%	2.58%
Expected life (years)	6.25	6.50
Expected volatility(1)	35.0%	35.0%
Expected dividend yield		

(1) The Company uses share values of its publicly traded competitor peer group for purposes of calculating volatility.

Restricted Stock Activity

The following table represents the unvested restricted stock (time vesting) and (performance vesting) activity:

	Shares of Restricted Stock	Weighted Average Grant Date Fair Value
	(Predecessor)	
Unvested at March 31, 2011	265,989	$ 15.19
Granted	66,992	15.25
Forfeited/cancelled(1)	(67,289)	15.25
Unvested at March 29, 2012	265,692	15.19
Granted(2)		
Cancelled	(265,692)	15.19
Unvested at August 30, 2012		$

(1) The Company did not meet its pre-established annual performance target for fiscal 2012, and therefore, the restricted stock (performance vesting) grant was cancelled.

(2) As discussed above, since there was not a grant of restricted stock (performance vesting) shares during fiscal 2013, there were no fiscal 2013 unvested restricted stock (performance vesting) shares reported in this table.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 11 INCOME TAXES

The Income tax provision reflected in the Consolidated Statements of Operations consists of the following components during the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011:

(In thousands)	From Inception August 31, 2012 through December 27, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Current:				
Federal	$	$	$	$
Foreign				
State	480	3,700	2,015	1,950
Total current	480	3,700	2,015	1,950
Deferred:				
Federal	3,020			
Foreign				
State				
Total deferred	3,020			
Total provision	3,500	3,700	2,015	1,950
Tax provision from discontinued operations		1,200		
Total provision from continuing operations	$ 3,500	$ 2,500	$ 2,015	$ 1,950

Parent has recorded no alternative minimum taxes as the consolidated tax group expects no alternative minimum tax liability.

Pre-tax income (losses) consisted of the following:

(In thousands)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Domestic	$ (39,294)	$ 93,850	$ (90,787)	$ (172,694)
Foreign	124	7	(1,296)	340
Total	$ (39,170)	$ 93,857	$ (92,083)	$ (172,354)

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 11 INCOME TAXES (Continued)

The difference between the effective tax rate on earnings (loss) from continuing operations before income taxes and the U.S. federal income tax statutory rate is as follows:

(In thousands)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Income tax expense (benefit) at the federal statutory rate	$ (13,470)	$ 20,125	$ (30,960)	$ (59,250)
Effect of:				
State income taxes	(1,930)	2,500	2,015	1,950
Change in ASC 740 (formerly FIN 48) reserve			(9,435)	(300)
Permanent items	20	100	825	
Valuation allowance	18,880	(20,225)	39,570	59,550
Income tax expense (benefit)	$ 3,500	$ 2,500	$ 2,015	$ 1,950
Effective income tax rate	(9.1)%	4.3%	(2.3)%	(1.2)%

The significant components of deferred income tax assets and liabilities as of December 31, 2012 and March 29, 2012 are as follows:

	December 31, 2012 (Successor)		March 29, 2012 (Predecessor)	
	Deferred Income Tax		Deferred Income Tax	
(In thousands)	Assets	Liabilities	Assets	Liabilities
Tangible assets	$	$ (125,641)	$ 76,855	$
Accrued reserves	35,359		34,684	
Intangible assets		(76,430)		(25,288)
Receivables		(1,632)	1,949	
Investments		(231,524)		(136,704)
Capital loss carryforwards	2,077			
Pension postretirement and deferred compensation	28,001		34,276	
Corporate borrowings	50,558			(106)
Deferred revenue	136,350		144,444	
Lease liabilities	86,417		92,385	
Capital and financing lease obligations	40,102		22,759	
Alternative minimum tax and other credit carryovers	15,083		15,056	
Charitable contributions	1,051		1,757	
Net operating loss carryforward	241,216		227,604	
Total	$ 636,214	$ (435,227)	$ 651,769	$ (162,098)
Less: Valuation allowance	(248,420)		(417,671)	
Total deferred income taxes(1)	$ 387,794	$ (435,227)	$ 234,098	$ (162,098)

(1) See Note 8 Supplemental Balance Sheet Information for additional disclosures about net current deferred tax assets and net non-current deferred tax liabilities.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 11 INCOME TAXES (Continued)

A rollforward of the Company's valuation allowance for deferred tax assets is as follows:

(In thousands)	Balance at Beginning of Period	Additions Charged (Credited) to Revenues, Costs and Expenses	Charged (Credited) to Goodwill	Charged (Credited) to Other Accounts(1)	Balance at End of Period
From Inception August 31, 2012 through December 31, 2012					
Valuation allowance-deferred income tax assets	$ 232,985	18,880	195	(3,640)	$ 248,420
March 30, 2012 through August 30, 2012					
Valuation allowance-deferred income tax assets	$ 417,671	(20,225)	(164,461)		$ 232,985
Fiscal Year 2012					
Valuation allowance-deferred income tax assets	$ 376,852	39,570		1,249	$ 417,671
Fiscal Year 2011					
Valuation allowance-deferred income tax assets	$ 305,895	59,550		11,407	$ 376,852

(1) Primarily relates to amounts resulting from our tax sharing arrangement, changes in deferred tax assets and associated valuation allowance that are not related to income statement activity as well as amounts charged to other comprehensive income.

The Company's federal income tax loss carryforward of $745,073,000 will begin to expire in 2017 and will completely expire in 2031 and will be limited annually due to certain change in ownership provisions of the Internal Revenue Code. The Company also has estimated state income tax loss carryforwards of $625,000,000 which may be used over various periods ranging from 1 to 20 years.

During fiscal 2010, management believed it was more likely than not that the Company had the ability to execute a feasible and prudent tax strategy that would provide for the realization of net operating losses by converting certain limited partnership units into common stock. At December 31, 2012, this tax strategy was estimated to preserve net operating losses that expire through 2019.

The Company has recorded a valuation allowance against its remaining net deferred tax asset in U.S. and foreign jurisdictions of $248,420,000 as of December 31, 2012.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 11 INCOME TAXES (Continued)

A reconciliation of the change in the amount of unrecognized tax benefits was as follows:

(In millions)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Balance at beginning of period	$ 24.5	$ 24.8	$ 34.3	$ 34.5
Gross increases current period tax positions		0.6	0.7	1.2
Favorable resolutions with authorities			(4.3)	
Expired attributes			(5.9)	(1.4)
Cash settlements	(0.5)	(0.9)		
Balance at end of period	$ 24.0	$ 24.5	$ 24.8	$ 34.3

The Company's effective tax rate is not expected to be significantly impacted by the ultimate resolution of the uncertain tax positions because of the retention of a valuation allowance against most of its net operating loss carryforwards.

The Company recognizes income tax-related interest expense and penalties as income tax expense and general and administrative expense, respectively. The liabilities increased for interest and penalties by $110,000 and $115,000, as of December 31, 2012 and March 29, 2012, respectively.

There are currently unrecognized tax benefits which the Company anticipates will be resolved in the next 12 months; however, the Company is unable at this time to estimate what the impact on its unrecognized tax benefits will be.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. An IRS examination of the tax years February 28, 2002 through December 31, 2003 of the former Loews Cineplex Entertainment Corporation and subsidiaries was concluded during fiscal 2007. An IRS examination for the tax years ended March 31, 2005 and March 30, 2006 was completed during 2009. Generally, tax years beginning after March 28, 2002 are still open to examination by various taxing authorities. Additionally, the Company has net operating loss ("NOL") carryforwards for tax years ended October 31, 2000 through March 28, 2002 in the U.S. and various state jurisdictions which have carryforwards of varying lengths of time. These NOLs are subject to adjustment based on the statute of limitations applicable to the return in which they are utilized, not the year in which they are generated. Various state, local and foreign income tax returns are also under examination by taxing authorities. The Company does not believe that the outcome of any examination will have a material impact on its financial statements.

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 12 LEASES

The following table sets forth the future minimum rental payments, by calendar year, required under existing operating leases and digital projector equipment leases payable to DCIP that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2012:

(In thousands)	Minimum operating lease payments
2013	$ 397,631
2014	408,209
2015	399,584
2016	382,745
2017	361,082
Thereafter	1,661,501
Total minimum payments required	$ 3,610,752

As of December 31, 2012, the Company has lease agreements for three theatres with 33 screens which are under construction or development and are expected to open in 2014 and 2018.

Included in other long-term liabilities as of December 31, 2012 and March 29, 2012 is $10,318,000 and $126,224,000, respectively, of deferred rent representing future minimum rental payments for leases with scheduled rent increases, and $211,329,000 and $125,772,000, respectively, for unfavorable lease liabilities.

Rent expense is summarized as follows:

(In thousands)	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012	52 Weeks Ended March 31, 2011
	(Successor)	(Predecessor)	(Predecessor)	(Predecessor)
Minimum rentals	$ 126,529	$ 166,220	$ 394,742	$ 401,563
Common area expenses	12,968	17,591	40,918	43,060
Percentage rentals based on revenues	3,877	5,275	9,666	7,251
Rent	143,374	189,086	445,326	451,874
General and administrative and other	3,940	4,207	8,747	4,665
Total	$ 147,314	$ 193,293	$ 454,073	$ 456,539

NOTE 13 EMPLOYEE BENEFIT PLANS

The Company sponsors frozen non-contributory qualified and non-qualified defined benefit pension plans generally covering all employees who, prior to the freeze, were age 21 or older and had completed at least 1,000 hours of service in their first twelve months of employment, or in a calendar year ending thereafter, and who were not covered by a collective bargaining agreement. The Company also offers eligible retirees the opportunity to participate in a health plan. Certain employees are eligible for subsidized postretirement medical benefits. The eligibility for these benefits is based upon a

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

participant's age and service as of January 1, 2009. The Company also sponsors a postretirement deferred compensation plan.

On May 2, 2008, the Company's Board of Directors approved revisions to the Company's Post Retirement Medical and Life Insurance Plan effective January 1, 2009 and on July 3, 2008 the changes were communicated to the plan participants. As a result of these revisions, the Company recorded a prior service credit of $5,969,000 through other comprehensive income to be amortized over eleven years starting in fiscal 2010, based on expected future service of the remaining participants.

As a result of the Merger and the application of "push down" accounting, the benefit plans reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the Merger date. At August 31, 2012, the Successor balance recorded in accumulated other comprehensive income was reset to zero.

The measurement dates used to determine pension and other postretirement benefits for the Successor period was August 30, 2012, the Merger date, and December 31, 2012, the Transition Period.

Net periodic benefit cost for the plans consists of the following:

	Pension Benefits				Other Benefits			
(In thousands)	**From Inception August 31, 2012 through December 31, 2012**	**March 30, 2012 through August 30, 2012**	**52 Weeks Ended March 29, 2012**	**52 Weeks Ended March 31, 2011**	**From Inception August 31, 2012 through December 31, 2012**	**March 30, 2012 through August 30, 2012**	**52 Weeks Ended March 29, 2012**	**52 Weeks Ended March 31, 2011**
	(Successor)	**(Predecessor)**	**(Predecessor)**	**(Predecessor)**	**(Successor)**	**(Predecessor)**	**(Predecessor)**	**(Predecessor)**
Components of net periodic benefit cost:								
Service cost	$ 59	$ 76	$ 180	$ 180	$ 61	$ 74	$ 149	$ 154
Interest cost	1,484	1,962	4,640	4,612	306	435	1,122	1,275
Expected return on plan assets	(1,442)	(1,811)	(4,465)	(3,986)				
Amortization of net loss		899	5	137		88		
Amortization of prior service credit						(448)	(984)	(865)
Settlement	(15)							
Net periodic benefit cost	$ 86	$ 1,126	$ 360	$ 943	$ 367	$ 149	$ 287	$ 564

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

The following table summarizes the changes in other comprehensive income:

	Pension Benefits			Other Benefits		
(In thousands)	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012
	(Successor)	(Predecessor)	(Predecessor)	(Successor)	(Predecessor)	(Predecessor)
Net (gain) loss	$ (4,118)	$	$ 15,615	$ (3,161)	$	$ 3,324
Net prior service credit					(771)	(1,035)
Merger push-down accounting adjustment		(20,741)			3,804	
Amortization of net gain (loss)		(899)	(5)		(88)	
Amortization of prior service credit					448	984
Settlement	15					
Total recognized in other comprehensive income	$ (4,103)	$ (21,640)	$ 15,610	$ (3,161)	$ 3,393	$ 3,273
Net periodic benefit cost	86	1,126	360	367	149	287
Total recognized in net periodic benefit cost and other comprehensive income	$ (4,017)	$ (20,514)	$ 15,970	$ (2,794)	$ 3,542	$ 3,560

The following tables set forth the plan's change in benefit obligations and plan assets and the accrued liability for benefit costs included in the Consolidated Balance Sheets:

	Pension Benefits			Other Benefits		
(In thousands)	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012
	(Successor)	(Predecessor)	(Predecessor)	(Successor)	(Predecessor)	(Predecessor)
Change in benefit obligation:						
Benefit obligation at beginning of period	$ 112,822	$ 96,672	$ 80,350	$ 25,816	$ 24,538	$ 21,916
Service cost	59	76	180	61	74	149
Interest cost	1,484	1,962	4,640	306	435	1,122
Plan participant's contributions				196	227	517
Actuarial (gain) loss	(3,465)	15,161	14,162	(3,161)	1,828	3,325
Plan amendment					(771)	(1,035)
Benefits paid	(862)	(1,007)	(2,660)	(453)	(515)	(1,456)
Settlement	(320)	(42)				

Benefit obligation at end of period	$ 109,718	$ 112,822	$ 96,672	$ 22,765	$ 25,816	$ 24,538

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

	Pension Benefits			Other Benefits		
(In thousands)	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012
	(Successor)	(Predecessor)	(Predecessor)	(Successor)	(Predecessor)	(Predecessor)
Change in plan assets:						
Fair value of plan assets at beginning of period	$ 66,059	$ 64,236	$ 59,776	$	$	$
Actual return on plan assets gain	2,095	977	3,011			
Employer contribution	1,247	1,895	4,109	257	288	939
Plan participants' contributions				196	227	517
Benefits paid	(862)	(1,007)	(2,660)	(453)	(515)	(1,456)
Settlement	(320)	(42)				
Fair value of plan assets at end of period	$ 68,219	$ 66,059	$ 64,236	$	$	$
Net liability for benefit cost:						
Funded status	$ (41,499)	$ (46,763)	$ (32,436)	$ (22,765)	$ (25,816)	$ (24,538)

	Pension Benefits			Other Benefits		
(In thousands)	December 31, 2012	August 30, 2012	March 29, 2012	December 31, 2012	August 30, 2012	March 29, 2012
	(Successor)	(Predecessor)	(Predecessor)	(Successor)	(Predecessor)	(Predecessor)
Amounts recognized in the Balance Sheet:						
Accrued expenses and other liabilities	$ (154)	$ (40)	$ (155)	$ (885)	$ (1,016)	$ (1,062)
Other long-term liabilities	(41,345)	(46,723)	(32,281)	(21,880)	(24,800)	(23,476)
Net liability recognized	$ (41,499)	$ (46,763)	$ (32,436)	$ (22,765)	$ (25,816)	$ (24,538)
Aggregate accumulated benefit obligation	$ (109,718)	$ (112,822)	$ (96,672)	$ (22,765)	$ (25,816)	$ (24,538)

The following table summarizes pension plans with accumulated benefit obligations and projected benefit obligations in excess of plan assets:

	Pension Benefits	
(In thousands)	December 31, 2012	March 29, 2012
	(Successor)	(Predecessor)

Aggregated accumulated benefit obligation	$	(109,718)	$	(96,672)
Aggregated projected benefit obligation		(109,718)		(96,672)
Aggregated fair value of plan assets		68,219		64,236

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

Amounts recognized in accumulated other comprehensive income consist of the following:

(In thousands)	Pension Benefits December 31, 2012 (Successor)	August 30, 2012 (Predecessor)	March 29, 2012 (Predecessor)	Other Benefits December 31, 2012 (Successor)	August 30, 2012 (Predecessor)	March 29, 2012 (Predecessor)
Net actuarial (gain) loss	$ (4,118)	$	$ 21,639	$ (3,161)	$	$ 4,823
Prior service credit						(8,216)

Amounts in accumulated other comprehensive income expected to be recognized in components of net periodic pension cost during the calendar year 2013 are as follows:

(In thousands)	Pension Benefits	Other Benefits
Net actuarial gain	$	$ (78)

Actuarial Assumptions

The weighted-average assumptions used to determine benefit obligations are as follows:

(In thousands)	Pension Benefits December 31, 2012 (Successor)	August 30, 2012 (Predecessor)	March 29, 2012 (Predecessor)	Other Benefits December 31, 2012 (Successor)	August 30, 2012 (Predecessor)	March 29, 2012 (Predecessor)
Discount rate	4.17%	3.99%	4.86%	3.90%	3.65%	4.42%
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

The weighted-average assumptions used to determine net periodic benefit cost are as follows:

(In thousands)	Pension Benefits From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)	Other Benefits From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Discount rate	3.99%	4.86%	5.86%	6.16%	3.65%	4.42%	5.51%	5.97%
Weighted average expected long-term return on plan assets	7.27%	7.27%	8.00%	8.00%	N/A	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

In developing the expected long-term rate of return on plan assets at each measurement date, the Company considers the plan assets' historical returns, asset allocations, and the anticipated future economic environment and long-term performance of the asset classes. While appropriate consideration

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

is given to recent and historical investment performance, the assumption represents management's best estimate of the long-term prospective return.

For measurement purposes, the annual rate of increase in the per capita cost of covered health care benefits assumed for 2013 was 8.0% for medical. The rates were assumed to decrease gradually to 5.0% for medical in 2019. The health care cost trend rate assumption has a significant effect on the amounts reported. Increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 2012 by $2,292,000 and the aggregate of the service and interest cost components of postretirement expense for calendar year 2013 by $34,000. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement obligation for calendar year 2013 by $1,933,000 and the aggregate service and interest cost components of postretirement expense for calendar year 2013 by $28,000. The Company's retiree health plan provides a benefit to its retirees that is at least actuarially equivalent to the benefit provided by the *Medicare Prescription Drug, Improvement and Modernization Act of 2003* ("Medicare Part D").

Cash Flows

The Company expects to contribute $2,469,000 to the pension plans during the calendar year 2013.

The following table provides the benefits expected to be paid (inclusive of benefits attributable to estimated future employee service) in each of the next five fiscal years, and in the aggregate for the five years thereafter:

(In thousands)	Pension Benefits	Other Benefits Net of Medicare Part D Adjustments	Medicare Part D Adjustments
2013	$ 3,004	$ 902	$ 78
2014	2,445	926	90
2015	3,152	983	99
2016	3,631	1,032	106
2017	3,930	1,068	116
Years 2018 - 2022	25,510	5,637	804

Pension Plan Assets

The Company's investment objectives for its defined benefit pension plan investments are: (1) to preserve the real value of its principal; (2) to maximize a real long-term return with respect to the plan assets consistent with minimizing risk; (3) to achieve and maintain adequate asset coverage for accrued benefits under the plan; and (4) to maintain sufficient liquidity for payment of the plan obligations and expenses. The Company uses a diversified allocation of equity, debt, commodity and real estate

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

exposures that are customized to the Plan's cash flow benefit needs. The target allocations for plan assets are as follows:

Asset Category	Target Allocation
Fixed(1)	12%
High yield fund	4%
Equity Securities U.S.	23%
Equity Securities International	16%
Collective trust fund	26%
Private Real Estate	12%
Public REITs	2%
Commodities broad basket	5%
	100%

(1) Includes U.S. Treasury Securities and Bond market fund.

Valuation Techniques. The fair values classified within Level 1 of the valuation hierarchy were determined using quoted market prices from actively traded markets. The fair values classified within Level 2 of the valuation hierarchy included pooled separate accounts and collective trust funds, which valuations were based on market prices for the underlying instruments that were observable in the market or could be derived by observable market data from independent external valuation information.

The fair value of the pension plan assets at December 31, 2012, by asset class are as follows:

		Fair Value Measurements at December 31, 2012 Using		
(In thousands)	Total Carrying Value at December 31, 2012	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(Successor)			
Cash and cash equivalents	$ 19	$ 19	$	$
U.S. Treasury Securities	1,668	1,668		
Equity securities:				
U.S. companies	15,993	2,184	13,809	
International companies	11,098	11,098		
Public REITs	1,229		1,229	
Bond market fund	6,222	6,222		
Collective trust fund	17,551		17,551	
Commodities broad basket fund	3,304	3,304		
High yield bond fund	3,104		3,104	
Private real estate	8,031		8,031	

Total assets at fair value	$	68,219	$	24,495	$	43,724	$

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 13 EMPLOYEE BENEFIT PLANS (Continued)

The fair value of the pension plan assets at March 29, 2012, by asset class are as follows:

(In thousands)	Total Carrying Value at March 29, 2012 (Predecessor)	Fair Value Measurements at March 29, 2012 Using: Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash and cash equivalents	$ 15	$ 15	$	$
U.S. Treasury Securities	2,413	2,413		
Equity securities:				
U.S. companies	20,060	2,789	17,271	
International companies	10,169	10,157	12	
Public REITs	1,416		1,416	
Bond market fund	13,345	13,345		
Collective trust fund	6,510		6,510	
Commodities broad basket fund	3,090	3,090		
High yield bond fund	2,843		2,843	
Private real estate	4,375		4,375	
Total assets at fair value	$ 64,236	$ 31,809	$ 32,427	$

Defined Contribution Plan

The Company sponsors a voluntary 401(k) savings plan covering certain employees age 21 or older and who are not covered by a collective bargaining agreement. Effective January 1, 2011, under the Company's 401(k) Savings Plan, the Company began to match 100% of each eligible employee's elective contributions up to 3% and 50% of contributions up to 5% of the employee's eligible compensation. During the first three quarters of fiscal 2011, the Company matched 50% of each eligible employee's elective contributions up to 6% of the employee's eligible compensation. The Company's expense under the 401(k) savings plan was $1,182,000, $1,108,000, $2,676,000, and $1,650,000 for the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, respectively.

Union-Sponsored Plans

Certain theatre employees are covered by union-sponsored pension and health and welfare plans. Company contributions into these plans are determined in accordance with provisions of negotiated labor contracts. Contributions aggregated $80,000, $109,000, $261,000, and $380,000, for the period August 31, 2012 through December 31, 2012, the period March 30, 2012 through August 30, 2012, and the fiscal years ended March 29, 2012 and March 31, 2011, respectively.

As of December 31, 2012, the Company's liability related to the collectively bargained multiemployer pension plan withdrawals was immaterial. At March 29, 2012, the Company's withdrawal liabilities related to multiemployer pension plans where it had ceased making contributions was approximately $2,622,000.

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 14 COMMITMENTS AND CONTINGENCIES

The Company, in the normal course of business, is a party to various ordinary course claims from vendors (including an online ticketing vendor, food & beverage suppliers and film distributors), landlords and other legal proceedings. If management believes that a loss arising from these actions is probable and can reasonably be estimated, the Company records the amount of the loss, or the minimum estimated liability when the loss is estimated using a range and no point is more probable than another. As additional information becomes available, any potential liability related to these actions is assessed and the estimates are revised, if necessary. Management believes that the ultimate outcome of such other matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position or overall trends in results of operations. However, litigation and claims are subject to inherent uncertainties and unfavorable outcomes could occur. An unfavorable outcome could include monetary damages. If an unfavorable outcome were to occur, there exists the possibility of a material adverse impact on the results of operations in the period in which the outcome occurs or in future periods.

NOTE 15 THEATRE AND OTHER CLOSURE AND DISPOSITION OF ASSETS

The Company has provided reserves for estimated losses from theatres and screens which have been permanently closed and vacant space with no right to future use. As of December 31, 2012, the Company has reserved $61,344,000 for lease terminations which have either not been consummated or paid, related primarily to eight theatres and certain vacant restaurant space. The Company is obligated under long-term lease commitments with remaining terms of up to 15 years for theatres which have been closed. As of December 31, 2012, base rents aggregated approximately $8,919,000 annually and $79,369,000 over the remaining terms of the leases.

A rollforward of reserves for theatre and other closure is as follows:

(In thousands)	From Inception August 31, 2012 through December 31, 2012	March 30, 2012 through August 30, 2012	52 Weeks Ended March 29, 2012	52 Weeks Ended March 31, 2011
	(Successor)	(Predecessor)	(Predecessor)	(Predecessor)
Beginning balance	$ 62,935	$ 65,471	$ 73,852	$ 6,694
Theatre and other closure expense continuing operations	2,381	4,191	7,449	60,763
Theatre and other closure expense discontinued operations		7,562		
Transfer of lease liability	994	(697)	571	11,780
Net book value of abandoned and other property dispositions			(485)	(1,819)
Foreign currency translation adjustment	405	(38)	(511)	48
Cash payments	(5,371)	(13,554)	(15,405)	(3,614)
Ending balance	$ 61,344	$ 62,935	$ 65,471	$ 73,852

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 15 THEATRE AND OTHER CLOSURE AND DISPOSITION OF ASSETS (Continued)

The current portion of the ending balance is included with accrued expenses and other liabilities and the long-term portion of the ending balance is included with other long-term liabilities in the accompanying Consolidated Balance Sheets.

During the period of August 31, 2012 through December 31, 2012 and the period of March 30, 2012 through August 30, 2012, the Company recognized $2,381,000 and $4,191,000 of theatre and other closure expense primarily related to the early termination of a lease agreement and accretion on previously closed properties with remaining lease obligations. In addition, the Company closed one theatre with 20 screens located in Canada and paid the landlord $7,562,000 to terminate the lease agreement. See Note 4 Discontinued Operations for additional information.

During the fifty-two weeks ended March 29, 2012, the Company recognized $7,449,000 of theatre and other closure expense primarily related to accretion on previously closed properties with remaining lease obligations.

During the fourth quarter of fiscal year ending March 31, 2011, the Company evaluated excess capacity and vacant and under-utilized retail space throughout the theatre circuit. On March 28, 2011, management decided to permanently close 73 underperforming screens and auditoriums in six theatre locations in the United States and Canada while continuing to operate 89 screens at these locations. The permanently closed screens were physically segregated from the screens that are in operation and access to the closed space was restricted. Additionally, management decided to discontinue development of and cease use of (including for storage) certain vacant and under-utilized retail space at four other theatres in the United States and the United Kingdom. As a result of closing the screens and auditoriums and discontinuing the development of and use of the other spaces, the Company recorded a charge of $55,015,000 for theatre and other closure expense, which is included in operating expense in the Consolidated Statements of Operations during the fiscal year ending March 31, 2011. The charge to theatre and other closure expense reflects the discounted contractual amounts of the existing lease obligations of $53,561,000 for the remaining 7 to 13 year terms of the leases as well as expenses incurred for related asset removal and shutdown costs of $1,454,000. A significant portion of each of the affected properties was closed and is no longer used. The charges to theatre and other closure expense do not result in any new, increased or accelerated obligations for cash payments related to the underlying long-term operating lease agreements.

In addition to the auditorium closures, the Company permanently closed 22 theatres with 144 screens in the U.S. during the fifty-two weeks ended March 31, 2011. The Company recorded $5,748,000 for theatre and other closure expense, which is included in operating expense in the Consolidated Statements of Operations, due primarily to the remaining lease terms of 5 theatre closures and accretion of the closure liability related to theatres closed during prior periods. Of the theatre closures in fiscal 2011, 9 theatres with 35 screens were owned properties that were marketed for sale; 7 theatres with 67 screens that had leases were allowed to expire; a single screen theatre with a management agreement was allowed to expire; and 5 theatres with 41 screens were closed with remaining lease terms in excess of one month.

Theatre and other closure reserves for leases that have not been terminated are recorded at the present value of the future contractual commitments for the base rents, taxes and maintenance. As of

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 15 THEATRE AND OTHER CLOSURE AND DISPOSITION OF ASSETS (Continued)

December 31, 2012, the future lease obligations are discounted at annual rates ranging from 7.55% to 9.0%.

NOTE 16 FAIR VALUE MEASUREMENTS

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the entity transacts business. The inputs used to develop these fair value measurements are established in a hierarchy, which ranks the quality and reliability of the information used to determine the fair values. The fair value classification is based on levels of inputs. Assets and liabilities that are carried at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Recurring Fair Value Measurements. The following table summarizes the fair value hierarchy of the Company's financial assets carried at fair value on a recurring basis as of December 31, 2012:

(In thousands)	Total Carrying Value at December 31, 2012 (Successor)	Fair Value Measurements at December 31, 2012 Using: Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other long-term assets:				
Money Market Mutual Funds	$ 85	$ 85	$	$
Equity securities, available-for-sale:				
RealD Inc. Common Stock	13,707	13,707		
Mutual Fund Large U.S. Equity	1,995	1,995		
Mutual Fund Small/Mid U.S. Equity	413	413		
Mutual Fund International	249	249		
Mutual Fund Balance	150	150		
Mutual Fund Fixed Income	349	349		
Total assets at fair value	$ 16,948	$ 16,948	$	$

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 16 FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes the fair value hierarchy of the Company's financial assets carried at fair value on a recurring basis as of March 29, 2012:

		Fair Value Measurements at March 29, 2012 Using		
(In thousands)	Total Carrying Value at March 29, 2012 (Predecessor)	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other long-term assets:				
Money Market Mutual Funds	$ 72	$ 72	$	$
Equity securities, available-for-sale:				
RealD Inc. Common Stock	15,945	15,945		
Mutual Fund Large U.S. Equity	2,186	2,186		
Mutual Fund Small/Mid U.S. Equity	332	332		
Mutual Fund International	146	146		
Mutual Fund Broad U.S. Equity	34	34		
Mutual Fund Balance	79	79		
Mutual Fund Fixed Income	267	267		
Total assets at fair value	$ 19,061	$ 19,061	$	$

Valuation Techniques. The Company's money market mutual funds are invested in funds that seek to preserve principal, are highly liquid, and therefore are recorded on the balance sheet at the principal amounts deposited, which equals fair value. The equity securities, available-for-sale, primarily consist of common stock and mutual funds invested in equity and fixed income funds and are measured at fair value using quoted market prices. See Note 7 Investments, for further information regarding RealD Inc. common stock and the related other-than-temporary impairment. The unrealized gain on the equity securities recorded in accumulated other comprehensive income as of December 31, 2012 was approximately $1,913,000.

Nonrecurring Fair Value Measurements. See Note 2 Merger, for information regarding the Company's assets and liabilities that were measured at fair value on a nonrecurring basis due to the Merger on August 30, 2012. The following table summarizes the fair value hierarchy of the Company's assets that were measured at fair value on a nonrecurring basis during fiscal 2012:

		Fair Value Measurements During Fiscal 2012 Using			
(In thousands)	Total Carrying Value (Predecessor)	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total Losses
Property, net:					
Property owned, net	$ 99			$ 99	$ 285
Other long-term assets:					
Investment in a joint venture	2,761			2,761	2,742

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 16 FAIR VALUE MEASUREMENTS (Continued)

In accordance with the provisions of the impairment of long-lived assets subsections of ASC 360-10, long-lived assets held and used that were considered impaired were written down to their fair value at December 29, 2011, March 29, 2012 and March 31, 2011 of $2,761,000, $99,000 and $10,587,000, respectively. For the fifty-two weeks ending March 29, 2012, the Company recorded impairments of long-lived assets of $285,000 and a charge to equity in earnings of non-consolidated entities of $2,742,000.

Other Fair Value Measurement Disclosures. The Company is required to disclose the fair value of financial instruments that are not recognized at fair value in the statement of financial position for which it is practicable to estimate that value:

(In thousands)	Total Carrying Value at December 31, 2012 (Successor)	Fair Value Measurements at December 31, 2012 Using: Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current Maturities of Corporate Borrowings	$ 8,004	$	$ 8,063	$
Corporate Borrowings	2,070,671		2,115,919	

Valuation Technique. Quoted market prices were used to estimate fair value.

At March 29, 2012, the carrying amount of the Company's liabilities for corporate borrowings was $2,146,534,000 and the fair value was approximately $2,146,136,000.

NOTE 17 OPERATING SEGMENT

The Company reports information about operating segments in accordance with ASC 280-10, *Segment Reporting*, which requires financial information to be reported based on the way management organizes segments within a company for making operating decisions and evaluating performance. The Company has identified one reportable segment for its theatrical exhibition operations.

Information about the Company's revenues from continuing operations and assets by geographic area is as follows:

Revenues (In thousands)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
United States	$ 808,378	$ 1,202,179	$ 2,507,562	$ 2,346,677
Canada	809	885	2,814	4,324
Europe	2,305	3,008	11,601	11,537
Total revenues	$ 811,492	$ 1,206,072	$ 2,521,977	$ 2,362,538

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 17 OPERATING SEGMENT (Continued)

Long-term assets, net (In thousands)	December 31, 2012 (Successor)	March 29, 2012 (Predecessor)
United States	$ 3,940,971	$ 3,231,263
Canada	102	2,241
Europe	496	204
Total long-term assets(1)	$ 3,941,569	$ 3,233,708

(1) Long-term assets are comprised of property, intangible assets, goodwill and other long-term assets.

NOTE 18 RELATED PARTY TRANSACTIONS

Amended and Restated Fee Agreement

Upon the consummation of a change of control transaction or an initial public offering, each of the Sponsors were entitled to receive, in lieu of quarterly payments of the annual management fee, a fee equal to the net present value of the aggregate annual management fee that would have been payable to the Sponsors during the remainder of the term of the fee agreement (assuming a twelve year term from the date of the original fee agreement), calculated using the treasury rate having a final maturity date that is closest to the twelfth anniversary of the date of the original fee agreement date. The Sponsors waived their right to the payment described above that was triggered by the Merger. As a result of the Merger, the Company ceased paying the annual management fee of $5,000,000 to the Sponsors.

Control Arrangement

Wanda has the ability to control the Company's affairs and policies and the election of directors and appointment of management.

Equity Method Investees

In February 2007, Mr. Travis Reid was hired as the chief executive officer of DCIP, a joint venture between AMCE, Cinemark and Regal formed to explore the possibility of implementing digital cinema in our theatres and to create a financing model and establish agreements with major motion picture studios for the implementation of digital cinema. Mr. Reid resigned as CEO of DCIP in October 2010. Mr. Reid was a member of the Company's Board of Directors until October 15, 2010.

See Note 7 Investments for further information about related party transactions between us and our equity method investees.

Market Making Transactions

On December 15, 2010, AMCE sold $600,000,000 in aggregate principal amount of its Notes due 2020. J.P. Morgan Securities LLC, an affiliate of J.P. Morgan Partners, LLC, which prior to the Merger owned approximately 20.8% of Parent, and Credit Suisse Securities (USA) LLC, whose affiliates prior to the Merger owned approximately 1.62% of Parent, were initial purchasers of the Notes due 2020. As

AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 18 RELATED PARTY TRANSACTIONS (Continued)

of the Merger, the Company is not a related party to J.P. Morgan Partners, LLC and Credit Suisse Securities (USA) LLC.

On June 9, 2009, AMCE sold $600,000,000 in aggregate principal amount of its Notes due 2019. J.P. Morgan Securities LLC, an affiliate of J.P. Morgan Partners, LLC, which prior to the Merger owned approximately 20.8% of Parent, and Credit Suisse Securities (USA) LLC, whose affiliates prior to the Merger owned approximately 1.62% of Parent, were initial purchasers of the Notes due 2020. As of the Merger, the Company is not a related party to J.P. Morgan Partners, LLC and Credit Suisse Securities (USA) LLC.

NOTE 19 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

The Company is a holding company that conducts substantially all of its business operations through its subsidiaries.

There are significant restrictions on the Company's ability to obtain funds from any of its subsidiaries through dividends, loans or advances. Accordingly, these condensed financial statements have been presented on a "parent-only" basis. Under a parent-only presentation, the Company's investments in its consolidated subsidiaries are presented under the equity method of accounting. These parent-only financial statements should be read in conjunction with the Company's audited consolidated financial statements.

AMC Entertainment Holdings, Inc.

CONDENSED STATEMENTS OF OPERATIONS PARENT ONLY

(In thousands)	From Inception August 31, 2012 through December 31, 2012 (restated) (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
Operating Costs and Expenses				
General and administrative:				
Merger, acquisition and transaction costs	$	$ 4,245	$ 1,336	$ 2,753
Other		(2)	(281)	21
Operating costs and expenses		4,243	1,055	2,774
Other expense (income)				
Equity in (earnings) loss of AMC Entertainment Inc.	42,670	(94,400)	81,988	122,853
Other expense			563	14,840
Interest expense				
Corporate borrowings			10,514	33,937
Investment income			(22)	(100)
Total other (income) expense	42,670	(94,400)	93,043	171,530
Earnings (loss) before income taxes	(42,670)	90,157	(94,098)	(174,304)
Income tax provision				

Net earnings (loss)	$ (42,670)	$ 90,157	$ (94,098)	$ (174,304)

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 19 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (Continued)

AMC Entertainment Holdings, Inc.

CONSOLIDATED BALANCE SHEETS PARENT ONLY

(In thousands, except share data)	December 31, 2012 (Successor)	March 29, 2012 (Predecessor)
Assets		
Cash and equivalents	$ 2,143	$ 5,268
Total current assets	2,143	5,268
Goodwill	(2,143)	30,019
Investment in AMC Entertainment Inc.	768,585	154,340
Total assets	$ 768,585	$ 189,627
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses and other liabilities	$	$ 1,476
Total current liabilities		1,476
Deferred Taxes		30,550
Total liabilities		32,026
Class N Common Stock nonvoting ($.01 par value, 375,000 shares authorized; 2,021.01696 shares issued and outstanding as of March 29, 2012)	1,811	
Stockholders' Equity:		
Class A Common Stock voting ($.01 par value, 2,000,000 shares authorized; 1,531,424 shares issued and outstanding as of December 31, 2012)	15	
Class N Common Stock nonvoting ($.01 par value, 25,000 shares authorized; 3,497 shares issued and outstanding as of December 31, 2012)		
Class A-1 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 382,475.00000 and 382,475.00000 shares issued and outstanding as of March 29, 2012)		4
Class A-2 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 382,475.00000 shares issued and outstanding as of March 29, 2012)		4
Class L-1 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 256,085.61252 shares issued and outstanding as of March 29, 2012)		3
Class L-2 Common Stock voting ($.01 par value, 1,500,000 shares authorized; 256,085.61252 shares issued and outstanding as of March 29, 2012)		3
Additional paid-in capital	799,985	673,325
Treasury stock, 4,314 shares at cost		(2,596)
Accumulated other comprehensive earnings (loss)	9,444	(20,203)
Accumulated deficit	(42,670)	(492,939)
Total stockholders' equity	766,774	157,601

Total liabilities and stockholders' equity	$	768,585	$	189,627

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 19 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (Continued)

AMC Entertainment Holdings, Inc.

CONDENSED STATEMENTS OF CASH FLOWS PARENT ONLY

(In thousands)	From Inception August 31, 2012 through December 31, 2012 (Successor)	March 30, 2012 through August 30, 2012 (Predecessor)	52 Weeks Ended March 29, 2012 (Predecessor)	52 Weeks Ended March 31, 2011 (Predecessor)
INCREASE (DECREASE) IN CASH AND EQUIVALENTS				
Cash flows from operating activities				
Net earnings (loss)	$ (42,670)	$ 90,157	$ (94,098)	$ (174,304)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:				
Interest accrued to principal on Corporate borrowings			9,446	10,981
Discount on repurchase of Discount Notes due 2014				(70,877)
Interest paid and discount on Repurchase of Parent Term Loan			(59,965)	
Deferred income taxes				
Loss (gain) on extinguishment of debt			384	4,202
Equity in (earnings) loss of AMC Entertainment Inc.	42,670	(94,400)	81,988	122,853
Net change in operating activities:				
Receivables and other assets		1,118	1,364	120
Accrueds and other liabilities			(612)	(3,341)
Other, net			1,195	2,126
Net cash used in operating activities		(3,125)	(60,298)	(108,240)
Cash flows from investing activities				
Contribution from AMC Entertainment Inc.			109,581	278,258
Net cash provided by investing activities			109,581	278,258
Cash flows from financing activities				
Repayment of Discount Notes due 2014				(169,918)
Repurchase of Parent Term Loan			(159,440)	
Deferred financing costs			(825)	(100)
Net cash used in financing activities			(160,265)	(170,018)
Cash received from Marquee Holdings Inc. merger with Parent				2,605
Net increase (decrease) in cash and equivalents		(3,125)	(110,982)	2,605
Cash and equivalents at beginning of year	2,143	5,268	116,250	113,645
Cash and equivalents at end of year	$ 2,143	$ 2,143	$ 5,268	$ 116,250

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AMC ENTERTAINMENT HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 19 CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY (Continued)

AMC ENTERTAINMENT HOLDINGS, INC.

CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY PARENT ONLY

	Class A Voting Common Stock		Class A-1 Voting Common Stock		Class A-2 Voting Common Stock		Class N Nonvoting Common Stock		Class L-1 Voting Common Stock		Class L-2 Voting Common Stock		Additional		Accumulated Other Comprehensive		Tot
ousands, except share and hare data)	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Shares**	**Amount**	**Paid-in Capital**	**Treasury Stock**	**Income (Loss)**	**Accumulated Deficit**	**Stockho Equ**
ecessor																	
ce April 1, 2010		$	18,937,867	$4	18,937,867	4	84,205	$	12,679,823	$3	12,679,823	$3	$669,837	$(2,596)	$ (3,176)	$(224,537)	$ 439
ss																(174,304)	(174
rehensive loss															(815)		
-based compensation													1,526				1
nce of Class N common stock							15,864										
ce March 31, 2011			18,937,867	4	18,937,867	4	100,069		12,679,823	3	12,679,823	3	671,363	(2,596)	(3,991)	(398,841)	265
ss																(94,098)	(94
rehensive loss															(16,212)		(16
-based compensation													1,962				1
ce March 29, 2012			18,937,867	4	18,937,867	4	100,069		12,679,823	3	12,679,823	3	673,325	(2,596)	(20,203)	(492,939)	157
ce March 29, 2012																	
rnings																90,157	90
rehensive earnings															9,034		9
-based compensation													830				
ce August 30, 2012			18,937,867	4	18,937,867	4	100,069		12,679,823	3	12,679,823	3	674,155	(2,596)	(11,169)	(402,782)	257
ssor																	
ce August 30, 2012																	
ss																(42,670)	(42
rehensive earnings															9,444		9
r consideration	6,252,109	14											699,986				700
al contributions	9,574,819	1											99,999				100
ce December 31, 2012	75,826,928	$15		$		$		$		$		$	$799,985	$	$ 9,444	$ (42,670)	$ 766

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AMC ENTERTAINMENT HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 20 SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED) CONSOLIDATED STATEMENTS OF OPERATIONS BY QUARTER

(In thousands)	13 Weeks Ended March 29, 2012 (Predecessor)	13 Weeks Ended June 28, 2012 (Predecessor)	13 Weeks Ended June 30, 2011 (Predecessor)	9 Weeks Ended August 30, 2012 (Predecessor)	4 Weeks Ended September 27, 2012 (Successor)	13 Weeks Ended September 29, 2011 (Predecessor)	Period September 28, 2012 through December 31, 2012(4)(5) (restated) (Successor)	13 Weeks Ended December 29, 2011 (Predecessor)	March 30, 2012 through August 30, 2012 2012 (Predecessor)	August 31, 2012 through December 31, 2012(5) 2012 (restated) (Successor)	Fiscal 2012 (Predecessor)
Revenues											
Admissions	$425,826	$451,582	$463,485	$364,449	$ 76,356	$459,985	$472,276	$371,999	$ 816,031	$548,632	$1,721,295
Food & beverage	171,599	188,550	187,242	153,580	32,365	182,517	197,374	148,322	342,130	229,739	689,680
Other theatre(1)	39,018	30,239	21,523	17,672	5,785	28,207	27,336	22,254	47,911	33,121	111,002
Total revenues	636,443	670,371	672,250	535,701	114,506	670,709	696,986	542,575	1,206,072	811,492	2,521,977
Cost and Expenses											
Film exhibition costs	221,191	242,727	251,505	193,812	34,659	248,188	256,902	195,170	436,539	291,561	916,054
Food & beverage costs	22,620	26,599	25,353	20,727	4,778	24,520	25,767	21,088	47,326	30,545	93,581
Operating expense	171,352	170,729	172,937	126,599	46,059	181,943	184,375	170,551	297,328	230,434	696,783
Rent	110,719	112,046	111,489	77,040	33,493	112,330	109,881	110,788	189,086	143,374	445,326
General and administrative:											
Merger, acquisition and transaction costs	2,253	2,223	905	2,194	504	702	2,862	98	4,417	3,366	3,958
Management fee	1,250	1,250	1,250	1,250		1,250		1,250	2,500		5,000
Other	15,621	15,325	14,409	11,698	7,269	13,746	21,841	7,719	27,023	29,110	51,495
Depreciation and amortization	56,847	48,334	51,579	32,637	16,602	50,991	55,031	53,400	80,971	71,633	212,817
Impairment of long-lived assets	285										285
Total costs and expenses	602,138	619,233	629,427	465,957	143,364	633,670	656,659	560,064	1,085,190	800,023	2,425,299
Other expense (income)											
Other expense	1,536	121	380	839	49	36		13	960	49	1,965
Interest expense											
Corporate borrowings	42,346	39,759	42,987	27,855	10,241	43,326	35,018	43,500	67,614	45,259	172,159
Capital and financing lease obligations	1,488	1,418	1,498	972	442	1,493	1,431	1,489	2,390	1,873	5,968
Equity in (earnings) loss of non-consolidated entities	(10,695)	(8,753)	(496)	1,208	3,378	4,801	(898)	(6,169)	(7,545)	2,480	(12,559)

Investment expense (income)(2)	(25)	(26)	(44)	(15)	(1)	(13)	291	17,701	(41)	290	17,619
Total other expense (income)	34,650	32,519	44,325	30,859	14,109	49,643	35,842	56,534	63,378	49,951	185,152
Earnings (loss) from continuing operations before income taxes	(345)	18,619	(1,502)	38,885	(42,967)	(12,604)	4,485	(74,023)	57,504	(38,482)	(88,474)
Income tax provision (benefit)	505	400	525	2,100	100	545	3,400	440	2,500	3,500	2,015
Earnings (loss) from continuing operations	(850)	18,219	(2,027)	36,785	(43,067)	(13,149)	1,085	(74,463)	55,004	(41,982)	(90,489)
Earnings (loss) from discontinued operations, net of income taxes(3)	(620)	(2,254)	(1,097)	37,407	24	(161)	(712)	(1,731)	35,153	(688)	(3,609)
Net earnings (loss)	$ (1,470)	$ 15,965	$ (3,124)	$ 74,192	$ (43,043)	$ (13,310)	$ 373	$ (76,194)	$ 90,157	$ (42,670)	$ (94,098)

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AMC ENTERTAINMENT HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Periods Ended December 31, 2012, March 29, 2012 and March 31, 2011

NOTE 20 SUPPLEMENTAL FINANCIAL INFORMATION (UNAUDITED) CONSOLIDATED STATEMENTS OF OPERATIONS BY QUARTER (Continued)

(In thousands)	13 Weeks Ended March 29, 2012 (Predecessor)	13 Weeks Ended June 28, 2012 (Predecessor)	13 Weeks Ended June 30, 2011 (Predecessor)	9 Weeks Ended August 30, 2012 (Predecessor)	4 Weeks Ended September 27, 2012 (Successor)	13 Weeks Ended September 29, 2011 (Predecessor)	Period September 28, 2012 through December 31, 2012(4)(5) (restated) (Successor)	13 Weeks Ended December 29, 2011 (Predecessor)	March 30, 2012 through August 30, 2012 2012 (Predecessor)	August 31, 2012 through December 31, 2012(5) 2012 (restated) (Successor)	Fiscal 2012 (Predecessor)
Basic earnings (loss) per share:											
Earnings (loss) from continuing operations(6)	$ (0.01)	$ 0.29	$ (0.03)	$ 0.58	$ (0.60)	$ (0.21)	$ 0.01	$ (1.18)	$ 0.87	$ (0.56)	$ (1.43)
Earnings (loss) from discontinued operations(6)	(0.01)	(0.04)	(0.02)	0.59			(0.01)	(0.02)	0.55	(0.01)	(0.06)
Basic earnings (loss) per share:	$ (0.02)	$ 0.25	$ (0.05)	$ 1.17	$ (0.60)	$ (0.21)	$	$ (1.20)	$ 1.42	$ (0.57)	$ (1.49)
Diluted earnings (loss) per share:											
Earnings (loss) from continuing operations(6)	$ (0.01)	$ 0.29	$ (0.03)	$ 0.57	$ (0.60)	$ (0.21)	$ 0.01	$ (1.18)	$ 0.86	$ (0.56)	$ (1.43)
Earnings (loss) from discontinued operations(6)	(0.01)	(0.04)	(0.02)	0.59			(0.01)	(0.02)	0.55	(0.01)	(0.06)
Diluted earnings (loss) per share:	$ (0.02)	$ 0.25	$ (0.05)	$ 1.16	$ (0.60)	$ (0.21)	$	$ (1.20)	$ 1.41	$ (0.57)	$ (1.49)
Average shares outstanding											
Basic	63,335.34	63,335.34	63,335.34	63,335.34	71,383.84	63,335.34	76,000.03	63,335.34	63,335.34	74,987.96	63,335.34
Diluted	63,335.34	63,734.92	63,335.34	63,699.76	71,383.84	63,335.34	76,000.03	63,335.34	63,715.11	74,987.96	63,335.34

(1) Other theatre revenues for the thirteen weeks ended March 29, 2012 were impacted by a change in method of recognizing gift card breakage income from the Remote Method to the Proportional Method, which included a cumulative catch-up of $14,969,000 of income recognized as a result of the accounting change.

(2) During the thirteen weeks ended December 29, 2011, investment expense (income) included an impairment loss of $17,751,000, related to the Company's investment in RealD Inc. common stock.

(3) During the nine weeks ended August 30, 2012, the Company recorded gains, net of lease termination expense, on the disposition of the seven Canada theatres and the one United Kingdom theatre of approximately $39,000,000, primarily due to the write-off of long-term lease liabilities extinguished in connection with the sales and closure.

(4) The period September 28, 2012 through December 31, 2012 includes four more days than the thirteen weeks ended December 29, 2011. The last four days of the period ended December 31, 2012 also occurred during the year-end holiday season when the most marketable motion pictures are released, which generally drive higher attendance and revenues.

(5) Refer to Footnote 1, Prior Period Adjustments for corrections made applicable to this period.

(6) On December 17, 2013 the Company reclassified each share of existing Class A common stock and Class N common stock by filing an amendment to its certificate of incorporation. Pursuant to the reclassification, which substantially resulted in a stock split, each holder of shares of existing Class A common stock received 49.514 shares of Class B common stock for one share of existing Class A common stock, and each holder of shares of Class N common stock received 49.514 shares of new Class A common stock for one share of Class N common stock. All shares and per share amounts presented in the consolidated financial statements and notes thereto have been retroactively adjusted to reflect the Reclassification.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members of
National CineMedia, LLC
Centennial, Colorado

We have audited the accompanying balance sheets of National CineMedia, LLC (the "Company") as of December 27, 2012 and December 29, 2011 and the related statements of income, comprehensive income, members' equity / (deficit) and cash flows for the years ended December 27, 2012, December 29, 2011 and December 30, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of National CineMedia, LLC as of December 27, 2012 and December 29, 2011, and the results of its operations and its cash flows for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Denver, Colorado
March 20, 2013

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NATIONAL CINEMEDIA, LLC

BALANCE SHEETS

(In millions)

	As of December 27, 2012	As of December 29, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10.4	$ 9.2
Receivables, net of allowance of $4.5 and $4.3, respectively	98.5	96.6
Prepaid expenses	2.4	1.7
Prepaid administration fees to managing member	0.8	1.0
Total current assets	112.1	108.5
NON-CURRENT ASSETS:		
Property and equipment, net of accumulated depreciation of $63.1 and $54.8, respectively	25.7	24.6
Intangible assets, net of accumulated amortization of $32.5 and $20.8, respectively	280.3	274.9
Debt issuance costs, net of accumulated amortization of $12.2 and $9.8, respectively	18.3	12.6
Other investment	0.8	0.2
Other non-current assets	0.2	0.6
Total non-current assets	325.3	312.9
TOTAL	$ 437.4	$ 421.4
LIABILITIES AND MEMBERS' EQUITY/(DEFICIT)		
CURRENT LIABILITIES:		
Amounts due to founding members	$ 19.8	$ 22.0
Amounts due to managing member	15.3	21.2
Accrued expenses	18.3	16.2
Current portion of interest rate swap agreements		24.0
Accrued payroll and related expenses	9.6	9.0
Accounts payable (including $0.9 and $0.9 to related party affiliates, respectively)	13.9	12.8
Deferred revenue	5.7	2.9
Total current liabilities	82.6	108.1
NON-CURRENT LIABILITIES:		
Long-term debt	879.0	794.0
Interest rate swap agreements		46.8
Total non-current liabilities	879.0	840.8
Total liabilities	961.6	948.9
COMMITMENTS AND CONTINGENCIES (NOTE 9)		
MEMBERS' EQUITY/(DEFICIT) (including accumulated other comprehensive loss of $21.9 and $56.9 million, respectively)	(524.2)	(527.5)
TOTAL	$ 437.4	$ 421.4

See accompanying notes to financial statements.

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NATIONAL CINEMEDIA, LLC

STATEMENTS OF INCOME

(In millions)

	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
REVENUE:			
Advertising (including revenue from founding members of $39.9, $38.2 and $38.5, respectively)	$ 409.5	$ 386.2	$ 379.5
Fathom Events	39.3	49.2	48.0
Total	448.8	435.4	427.5
OPERATING EXPENSES:			
Advertising operating costs (including $4.2, $3.4 and $0.1 to related party affiliates, respectively)	31.3	24.6	21.7
Fathom Events operating costs (including $5.9, $9.3 and $8.6 to founding members, respectively)	29.0	34.1	32.4
Network costs	18.9	17.7	20.0
Theatre access fees founding members	64.5	55.4	52.6
Selling and marketing costs (including $1.1, $1.1 and $1.2 to founding members, respectively)	60.5	59.8	57.9
Administrative and other costs	20.3	17.6	17.9
Administrative fee managing member	12.1	13.7	16.6
Depreciation and amortization	20.4	18.8	17.8
Total	257.0	241.7	236.9
OPERATING INCOME	191.8	193.7	190.6
NON-OPERATING EXPENSES:			
Interest on borrowings	56.7	49.2	44.4
Change in derivative fair value	1.0	1.3	5.3
Loss on swap terminations	26.7		
Impairment on investment and other non-operating expense	5.8	8.4	0.2
Total	90.2	58.9	49.9
INCOME BEFORE INCOME TAXES	101.6	134.8	140.7
Income tax expense	0.6	0.3	0.5
Equity loss from investment, net			$ 0.7
NET INCOME	$ 101.0	$ 134.5	$ 139.5

See accompanying notes to financial statements.

NATIONAL CINEMEDIA, LLC

STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
NET INCOME	$ 101.0	$ 134.5	$ 139.5
OTHER COMPREHENSIVE INCOME (LOSS):			
Unrealized gain (loss) on cash flow hedges	35.1	1.4	(10.9)
COMPREHENSIVE INCOME	$ 136.1	$ 135.9	$ 128.6

See accompanying notes to financial statements.

NATIONAL CINEMEDIA, LLC

STATEMENTS OF MEMBERS' EQUITY/ (DEFICIT)

(In millions, except unit amounts)

	Units	Amount
Balance January 1, 2010	101,557,505	$ (639.6)
Capital contribution from founding members	472,259	3.5
Distribution to managing member		(71.0)
Distribution to founding members		(85.1)
Units issued for purchase of intangible asset	8,722,428	151.3
Comprehensive Income		128.6
Share-based compensation issued		(0.1)
Share-based compensation expense/capitalized		5.8
Balance December 30, 2010	110,752,192	$ (506.6)
Capital contribution from managing member	385,128	5.5
Distribution to managing member		(78.7)
Distribution to founding members		(83.0)
Equity returned from purchase of intangible asset	(322,751)	(5.5)
Comprehensive Income		135.9
Share-based compensation issued		(0.1)
Share-based compensation expense/capitalized		5.0
Balance December 29, 2011	110,814,569	$ (527.5)
Capital contribution from managing member	551,654	2.3
Distribution to managing member		(72.7)
Distribution to founding members		(76.8)
Units issued for purchase of intangible asset	651,612	10.1
Comprehensive Income		136.1
Share-based compensation issued		(0.0)
Share-based compensation expense/capitalized		4.3
Balance December 27, 2012	112,017,835	$ (524.2)

See accompanying notes to financial statements.

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NATIONAL CINEMEDIA, LLC

STATEMENTS OF CASH FLOWS

(In millions)

	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 101.0	$ 134.5	$ 139.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20.4	18.8	17.8
Non-cash share-based compensation	4.3	4.8	5.6
Net unrealized loss on hedging transactions	1.0	1.3	5.3
Impairment on investment		6.7	
Equity loss from investment			0.7
Amortization of debt issuance costs	2.4	2.3	1.9
Write-off of debt issuance costs	5.9	1.5	
Other non-cash operating activities			0.6
Loss on swap terminations	26.7		
Payment for swap terminations	(63.4)		
Changes in operating assets and liabilities:			
Receivables, net	(2.5)	3.3	(11.1)
Accounts payable and accrued expenses	3.5	9.7	(1.6)
Amounts due to/from founding members and managing member	(5.0)	(4.6)	4.1
Other, net	2.9	(1.1)	0.8
Net cash provided by operating activities	97.2	177.2	163.6
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(10.4)	(13.5)	(10.1)
Proceeds from sale of property and equipment to founding member			3.0
Payment from NCM LLC's founding members for intangible assets	0.2		
Purchases of intangible assets from affiliates	(7.2)	(15.9)	
Net cash used in investing activities	(17.4)	(29.4)	(7.1)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings	546.0	335.0	124.3
Repayments of borrowings	(461.0)	(317.2)	(152.5)
Payment of debt issuance costs	(14.0)	(9.1)	
Founding member integration payments		1.9	3.9
Distributions to founding members and managing member	(151.9)	(168.4)	(159.6)
Unit settlement of share-based compensation	2.3	5.4	3.4
Net cash used in financing activities	(78.6)	(152.4)	(180.5)
CHANGE IN CASH AND CASH EQUIVALENTS	1.2	(4.6)	(24.0)
CASH AND CASH EQUIVALENTS:			
Beginning of period	9.2	13.8	37.8
End of period	$ 10.4	$ 9.2	$ 13.8

Supplemental disclosure of non-cash financing and investing activity:

Accrued distributions to founding members and managing member	$	40.7	$	43.1	$	49.8
Purchase of an intangible asset with equity (equity returned)	$	10.1	$	(5.5)	$	151.3
Increase in cost method investment	$	0.6	$	0.2	$	
Supplemental disclosure of cash flow information:						
Cash paid for interest	$	50.7	$	39.2	$	49.8
Cash paid for income taxes	$	0.6	$	0.3	$	0.5

See accompanying notes to financial statements.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

National CineMedia, LLC ("NCM LLC" or "the Company") commenced operations on April 1, 2005 and operates the largest digital in-theatre network in North America, allowing us to distribute advertising, Fathom entertainment programming events and corporate events (the "Services") under long-term exhibitor services agreements ("ESAs") with American Multi-Cinema, Inc. ("AMC"), a wholly owned subsidiary of AMC Entertainment, Inc. ("AMCE"), Regal Cinemas, Inc., a wholly owned subsidiary of Regal Entertainment Group ("Regal"), and Cinemark USA, Inc. ("Cinemark USA"), a wholly owned subsidiary of Cinemark Holdings, Inc. ("Cinemark"). AMC, Regal and Cinemark and their affiliates are referred to in this document as "founding members." The Company also provides the Services to certain third-party theatre circuits under "network affiliate" agreements, which expire at various dates.

As of December 27, 2012, the Company had 112,017,835 common membership units outstanding, of which 54,486,259 (48.6%) were owned by NCM, Inc., 22,113,150 (19.7%) were owned by Regal, 18,094,644 (16.2%) were owned by Cinemark, and 17,323,782 (15.5%) were owned by AMC. The membership units held by the founding members are exchangeable into NCM, Inc. common stock on a one-for-one basis.

During the first quarter of 2012, the Company restructured Fathom Events by winding down its Fathom Business Events division, to place more focus on the Fathom Consumer Events division. The Company continued to operate the Fathom Business Events division for a portion of the first quarter of 2012 to satisfy contractual obligations for events and will continue to execute business events on a periodic basis for existing long-term Fathom clients, or if requested by the founding members or to support events staged for NCM's major advertising clients.

Basis of Presentation

The Company has prepared its financial statements and related notes of NCM, LLC in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain reclassifications have been made to the prior years' financial statements to conform to the current presentation. These reclassifications had no effect on previously reported results of operations or retained earnings

Estimates The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include those related to the reserve for uncollectible accounts receivable, share-based compensation and interest rate swaps. Actual results could differ from those estimates.

Significant Accounting Policies

Accounting Period The Company operates on a 52-week fiscal year, with the fiscal year ending on the first Thursday after December 25, which, in certain years, results in a 53-week year.

Segment Reporting Advertising is the principal business activity of the Company and is the Company's reportable segment under the requirements of ASC 280 S*egment Reporting*. Fathom Events is an operating segment under ASC 280. The Company does not evaluate its segments on a fully allocated cost basis, nor does the Company track segment assets separately. As such, the results are not

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

indicative of what segment results of operations would have been had it been operated on a fully allocated cost basis. The Company cautions that it would be inappropriate to assume that unallocated operating costs are incurred proportional to segment revenue or any directly identifiable segment expenses. Refer to Note 12 *Segment Reporting.*

Revenue Recognition Advertising revenue is recognized in the period in which an advertising contract is fulfilled against the contracted theatre attendees. Make-good provisions are made to defer contracted revenue to future periods when attendance is delivered and is included in accrued expenses. Deferred revenue refers to the unearned portion of advertising contracts. All deferred revenue is classified as a current liability. Fathom Events revenue is recognized in the period in which the event is held.

Barter Transactions The Company enters into barter transactions that exchange advertising program time for products and services used principally for selling and marketing activities. The Company records barter transactions at the estimated fair value of the advertising exchanged based on fair value received for similar advertising from cash paying customers. Revenues for advertising barter transactions are recognized when advertising is provided, and products and services received are charged to expense when used. The Company limits the use of such barter transactions to items and services for which it would otherwise have paid cash. Any timing differences between the delivery of the bartered revenue and the use of the bartered expense products and services are recorded through deferred revenue. Revenue and expense from barter transactions for the year ended December 27, 2012 were $3.0 million and $1.3 million, respectively, $1.6 million and $1.1 million for the year ended December 29, 2011 and $1.5 million and $1.1 million for the year ended December 30, 2010.

Operating Costs Advertising related operating costs primarily include personnel and other costs related to advertising fulfillment, payments due to unaffiliated theatre circuits under the network affiliate agreements, and to a lesser extent, production costs of non-digital advertising.

Fathom Events operating costs include revenue share under the amended and restated ESAs to the founding members and revenue share to affiliate theatres under separate agreements, payments to event content producers and other direct costs of the meeting or event, including equipment rental, catering and movie tickets acquired primarily from the founding members.

Payment to the founding members of a theatre access fee is comprised of a payment per theatre attendee, a payment per digital screen and a payment per digital cinema projector equipped in the theatres, all of which escalate over time.

Network costs include personnel, satellite bandwidth, repairs, and other costs of maintaining and operating the digital network and preparing advertising and other content for transmission across the digital network. These costs are not specifically allocated between the advertising business and the Fathom Events business.

Cash and Cash Equivalents All highly liquid debt instruments and investments purchased with an original maturity of three months or less are classified as cash equivalents and are considered available-for-sale securities. There are cash balances in a bank in excess of the federally insured limits or in the form of a money market demand account with a major financial institution.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Cash As of December 27, 2012 and December 29, 2011, other non-current assets included restricted cash of $0.3 million, which secures a letter of credit used as a lease deposit on our New York office.

Marketable Securities Marketable securities are reported at fair value, with unrealized gains and losses recognized in earnings. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market.

Concentration of Credit Risk and Significant Customers Bad debts are provided for based on historical experience and management's evaluation of outstanding receivables at the end of the period. Receivables are written off when management determines amounts are uncollectible. Trade accounts receivable are uncollateralized and represent a large number of geographically dispersed debtors. The collectability risk is reduced by dealing with large, national advertising agencies who have strong reputations in the advertising industry and clients with stable financial positions. As of December 27, 2012, there were no customers or advertising agency groups which accounted for more than 10% of the gross receivables balance or advertising revenues. As of December 29, 2011, there was one advertising agency group through which the Company sources national advertising revenues representing approximately 15% of the Company's outstanding gross receivables balance; however, none of the individual contracts related to the advertising agencies were more than 10% of advertising revenues.

Receivables consisted of the following (in millions):

	Years Ended December 27, 2012	Years Ended December 29, 2011
Trade accounts	$ 101.8	$ 98.4
Other	1.2	2.5 .5.5
Less allowance for doubtful accounts	(4.5)	(4.3)
Total	$ 98.5	$ 96.6

Long-lived Assets Property and equipment is stated at cost, net of accumulated depreciation or amortization. Generally, the equipment associated with the digital network of the founding member theatres is owned by the founding members, while the equipment associated with network affiliate theatres is owned by the Company. Major renewals and improvements are capitalized, while replacements, maintenance, and repairs that do not improve or extend the lives of the respective assets are expensed as incurred. The Company records depreciation and amortization using the straight-line method over the following estimated useful lives:

Equipment	4 - 10 years
Computer hardware and software	3 - 5 years
Leasehold improvements	Lesser of lease term or asset life

Software and web site development costs developed or obtained for internal use are accounted for in accordance with ASC Subtopic 350-40 *Internal Use Software* and ASC Subtopic 350-50 We*bsite*

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Development Costs. The subtopics require the capitalization of certain costs incurred in developing or obtaining software for internal use. The majority of software costs and website development costs, which are included in equipment, are depreciated over three to five years. As of December 27, 2012 and December 29, 2011, the Company had a net book value of $10.4 million and $9.3 million, respectively, of capitalized software and website development costs. Approximately $4.1 million, $4.8 million and $6.5 million was recorded for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively, in depreciation expense. For the years ended December 27, 2012, December 29, 2011 and December 30, 2010, the Company recorded $0.8 million, $0.9 million and $1.2 million in research and development expense, respectively.

The Company assesses impairment of long-lived assets pursuant with ASC 360 *Property, Plant and Equipment.* This includes determining if certain triggering events have occurred that could affect the value of an asset. The Company has not recorded impairment charges related to long-lived assets.

Intangible assets Intangible assets consist of contractual rights and are stated at cost, net of accumulated amortization. The Company records amortization using the straight-line method over the contractual life of the intangibles, corresponding to the term of the ESAs or the term of the contract with the network affiliate. Refer to Note 3 *Intangible Assets*.

Amounts Due to/from Founding Members Amounts due to/from founding members include amounts due for the theatre access fee, offset by a receivable for advertising time purchased by the founding members on behalf of their beverage concessionaire, revenue share earned for Fathom Events plus any amounts outstanding under other contractually obligated payments. Payments to or received from the founding members against outstanding balances are made monthly.

Amounts Due to Managing Member Amounts due to the managing member include amounts due under the NCM LLC operating agreement and other contractually obligated payments. Payments to or received from the managing member against outstanding balances are made monthly

Income Taxes As a limited liability company, NCM LLC's taxable income or loss is allocated to the founding members and managing member and, therefore, the only provision for income taxes included in the financial statements is for income-based state and local taxes.

Accumulated Other Comprehensive Loss Accumulated other comprehensive income/(loss) consists of the fair value of derivative instruments and income of $35.1 million, income of $1.4 million and a loss of $10.9 million as of December 27, 2012, December, 29, 2011 and December 30, 2010, respectively.

Debt Issuance Costs In relation to the issuance of outstanding debt discussed in Note 6 *Borrowings*, there is a balance of $18.3 million and $12.6 million in deferred financing costs as of December 27, 2012 and December 29, 2011, respectively. The debt issuance costs are being amortized on a straight-line basis over the terms of the underlying obligation and are included in interest on borrowings, which approximates the effective interest method.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The changes in debt issuance costs are as follows (in millions):

	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
Beginning Balance	$ 12.6	$ 7.3	$ 9.2
Debt issuance payments	14.0	9.1	
Amortization of debt issuance costs	(2.4)	(2.3)	(1.9)
Write-off of debt issuance costs	(5.9)	(1.5)	
Ending balance	$ 18.3	$ 12.6	$ 7.3

Other Investment The Company received equity securities in a privately held company as consideration for an advertising contract. The equity securities are accounted as a cost method investment. At December 27, 2012 and December 29, 2011, the carrying amount of the investment was $0.8 million and $0.2 million, respectively. There were no identified events or changes in circumstances that had an adverse effect on the fair value of the investment.

Share-Based Compensation NCM, Inc. issues two types of share-based compensation awards: stock options and non-vested (restricted) stock. Compensation cost of non-vested stock is valued based on the market price on the grant date, the probability of vesting and is expensed over the vesting period. Compensation cost of stock options is based on the estimated grant date fair value using the Black-Scholes option pricing model, which requires that NCM, Inc. make estimates of various factors. Under the fair value recognition provisions of ASC 718 *Compensation Stock Compensation*, the Company recognizes share-based compensation net of an estimated forfeiture rate, and therefore only recognizes compensation cost for those shares expected to vest over the requisite service period of the award. The recognized expense, including equity based compensation costs of NCM, Inc. employees, is included in the operating results of the Company. Refer to Note 7 *Share Based Compensation*.

Fair Value Measurements Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments The Company is exposed to various financial and market risks including changes in interest rates that exist as part of its ongoing operations. The Company utilizes certain derivative instruments to enhance its ability to manage these risks. In accordance with ASC 815 *Derivatives and Hedging,* the effective portion of changes in the fair value of a derivative that is designated as a cash flow hedge is recorded in Accumulated Other Comprehensive Income ("AOCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffectiveness associated with designated cash flow hedges, as well as any change in the fair value of a derivative that is not designated as a hedge, is recorded immediately in the Statements of Operations. Refer to Note 11 *Derivative Instruments and Hedging Activities*.

Recent Accounting Pronouncements

In December 2011, the FASB issued Accounting Standards Update 2011-12 *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05* ("ASU 2011-12"). ASU 2011-12 indefinitely defers the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. The effective dates for ASU 2011-12 are consistent with the effective dates for ASU 2011-05 and, similar to the Company's evaluation for the adoption of ASU 2011-05, the adoption of this guidance does not have a material effect on the Company's financial statements.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements.

2. PROPERTY AND EQUIPMENT

The following is a summary of property and equipment, at cost less accumulated depreciation (in millions):

	As of December 27, 2012	As of December 29, 2011
Equipment, computer hardware and software	$ 84.3	$ 73.7
Leasehold Improvements	3.4	3.4
Less accumulated depreciation	(63.1)	(54.8)
Subtotal	24.6	22.3
Construction in Progress	1.1	2.3
Total property and equipment	$ 25.7	$ 24.6

For the years ended December 27, 2012, December 29, 2011, and December 30, 2010, the Company recorded depreciation expense of $8.7 million, $8.8 million, and $11.4 million, respectively.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. INTANGIBLE ASSETS

The Company's intangible assets consist of contractual rights with the founding members and network affiliates. The Company records amortization using the straight-line method over the contractual life of the intangibles, corresponding to the term of the ESAs or the term of the contract with the network affiliate. The Company's intangible assets with its founding members are recorded at the fair market value of NCM, Inc.'s publicly traded stock as of the date on which the common membership units were issued. The Company's common membership units are fully convertible into NCM, Inc.'s common stock. The Company also records intangible assets for up-front fees paid to network affiliates upon commencement of a network affiliate agreement. Pursuant to ASC 350-10 *Intangibles Goodwill and Other*, the Company's intangible assets have a finite useful life and the Company amortizes the assets over the remaining useful life corresponding with the ESAs or the term of the contract with the network affiliate. If common membership units are issued to a founding member for newly acquired theatres that are subject to an existing on-screen advertising agreement with an alternative provider, the amortization of the intangible asset commences after the existing agreement expires and the Company can utilize the theatres for all of its services.

The following is a summary of the Company's intangible assets (in millions):

	As of December 29, 2011	Additions(1)	Amortization	Other(2)	As of December 27, 2012
Gross carrying amount	$ 295.7	$ 17.1	$	$	$ 312.8
Accumulated amortization	(20.8)		(11.7)		(32.5)
Total intangible assets, net	$ 274.9	$ 17.1	$ (11.7)	$	$ 280.3

	As of December 30, 2010	Additions(3)	Amortization	Other(2)	As of December 29, 2011
Gross carrying amount	$ 286.0	$ 10.4	$	$ (0.7)	$ 295.7
Accumulated amortization	(10.8)		(10.0)		(20.8)
Total intangible assets, net	$ 275.2	$ 10.4	$ (10.0)	$ (0.7)	$ 274.9

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(1) During the first quarter of 2012, the Company issued 651,612 common membership units to its founding members for the rights to exclusive access to net new theatre screens and attendees added by the founding members to NCM LLC's network during 2011. The Company recorded a net intangible asset of $9.9 million in the first quarter of 2012 as a result of the common unit adjustment. In lieu of surrendering 16,727 units, AMC paid NCM LLC $0.2 million in the first quarter of 2012.

During 2012, the Company purchased intangible assets for $7.2 million associated with network affiliate agreements. The assets will be amortized over the term of the respective agreements.

(2) See Note 5 *Related-Party Transactions* for further information on integration payments.

(3) During the first quarter of 2011, our founding members returned a net 322,751 common membership units to NCM LLC. This results in an adjustment to the previously issued common membership units issued in exchange for the rights to exclusive access in accordance with the ESA, to net new theatre screens and attendees added by the founding members to NCM LLC's network.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3. INTANGIBLE ASSETS (Continued)

As a result, the Company recorded a reduction to the intangible asset at fair value of the common membership units of $5.5 million.

During 2011, the Company purchased intangible assets for $15.9 million associated with network affiliate agreements. The assets will be amortized over the term of the respective agreements.

As of December 27, 2012 and December 29, 2011, the Company's intangible assets associated to the founding members, net of accumulated amortization was $258.7 million and $259.4 million, respectively with weighted average remaining lives of 23.6 years and 25.2 years as of December 27, 2012 and December 29, 2011, respectively.

As of December 27, 2012 and December 29, 2011, the Company's intangible assets related to the network affiliates, net of accumulated amortization was $21.6 and $15.5 million, respectively with weighted average remaining lives of 19.7 years and 19.2 years as of December 27, 2012 and December 29, 2011, respectively.

For the years ended December 27, 2012, December 29, 2011 and December 30, 2010 the Company recorded amortization expense of $11.7 million, $10.0 million and $6.4 million, respectively. The estimated aggregate amortization expense for each of the five succeeding years is as follows (in millions):

Year	Amortization
2013	$ 12.1
2014	12.1
2015	12.1
2016	12.1
2017	12.1

4. ACCRUED EXPENSES

The following is a summary of the Company's accrued expenses (in millions):

	As of December 27, 2012	As of December 29, 2011
Make-good reserve	$ 1.2	$ 2.7
Accrued interest	12.9	9.5
Deferred rent	2.8	2.9
Other accrued expenses	1.4	1.1
Total accrued expenses	$ 18.3	$ 16.2

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. RELATED-PARTY TRANSACTIONS

Founding Member and Managing Member Transactions Following is a summary of the transactions between the Company and the founding members and its managing member (in millions):

Included in the Statements of Income:	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
Revenues:			
Beverage concessionaire revenue (included in advertising revenue)(1)	$ 39.7	$ 38.0	$ 37.2
Advertising inventory revenue (included in advertising revenue)(2)	0.2	0.2	1.3
Operating expenses:			
Theatre access fee(3)	64.5	55.4	52.6
Revenue share from Fathom Events (included in Fathom Events operating costs)(4)	5.5	8.3	7.3
Purchase of movie tickets and concession products (included in Fathom Events operating costs)(5)	0.4	1.0	1.3
Purchase of movie tickets and concession products (included in selling and marketing costs)(5)	1.1	1.1	1.2
Administrative fee managing member(6)	12.1	13.7	16.6
Included in the Balance Sheets:			
Prepaid management fees to managing member(7)	0.8	1.0	0.8
Integration payments (in intangible assets)(8)		0.7	3.9

(1) For the years ended December 27, 2012, December 29, 2011 and December 30, 2010, the founding members purchased 60 seconds of on-screen advertising time (with a right to purchase up to 90 seconds) from the Company to satisfy their obligations under their beverage concessionaire agreements at a specified 30 second equivalent CPM.

(2) The value of such purchases is calculated by reference to the Company's advertising rate card.

(3) Comprised of payments per theatre attendee, payments per digital screen with respect to the founding member theatres included in the Company's network and payments for access to higher quality digital cinema equipment.

(4) These payments are at rates (percentage of event revenue) included in the ESAs based on the nature of the event.

(5) Used primarily for marketing to the Company's advertising clients and marketing resale to Fathom Business customers.

(6) Pursuant to the Company's operating agreement, as the sole manager of NCM LLC, NCM, Inc. provides certain specific management services to NCM LLC, including the services of the president and chief executive officer, president of sales and marketing, executive vice president and chief financial officer, executive vice president and chief operations officer and executive vice president and general counsel. In exchange for these services, the Company reimburses NCM, Inc. for compensation paid to the officers (including share based compensation) and other expenses of the officers and for certain out-of-pocket costs.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. RELATED-PARTY TRANSACTIONS (Continued)

(7)

The payments for estimated management services related to employment are made one month in advance. NCM LLC also provides administrative and support services to NCM, Inc. such as office facilities, equipment, supplies, payroll and accounting and financial reporting at no charge. Based on the limited activities of NCM, Inc. as a standalone entity, the Company does not believe such unreimbursed costs are significant.

(8)

On April 30, 2008, Regal acquired Consolidated Theatres and NCM LLC issued common membership units to Regal upon the closing of its acquisition in exchange for the right to exclusive access to the theatres. The Consolidated Theatres had a pre-existing advertising agreement and, as a result, Regal made integration payments pursuant to the ESAs on a quarterly basis in arrears through the second quarter of 2011 in accordance with certain run-out provisions.

Pursuant to the terms of the NCM LLC Operating Agreement in place since the completion of NCM, Inc.'s IPO, the Company is required to make mandatory distributions on a proportionate basis to its members of available cash, as defined in the NCM LLC Operating Agreement, on a quarterly basis in arrears. Mandatory distributions for the years ended December 27, 2012, December 29, 2011 and December 30, 2010 are as follows (in millions):

	Years Ended		
	December 27, 2012	December 29, 2011	December 30, 2010
AMC	$ 23.1	$ 25.3	$ 28.8
Cinemark	24.2	25.5	24.0
Regal	29.5	32.2	32.3
NCM, Inc.	72.8	78.7	71.0
Total	$ 149.6	$ 161.7	$ 156.1

The mandatory distributions of available cash by the Company to its founding members for the quarter ended December 27, 2012 of $20.9 million, is included in amounts due to founding members in the Balance Sheets as of December 27, 2012 and will be made in the first quarter of 2013.

Amounts due to founding members as of December 27, 2012 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	$ 0.6	$ 0.6	$ 0.9	$ 2.1
Cost and other reimbursement	(1.1)	(0.7)	(1.4)	(3.2)
Distributions payable	6.3	6.6	8.0	20.9
Total	$ 5.8	$ 6.5	$ 7.5	$ 19.8

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. RELATED-PARTY TRANSACTIONS (Continued)

Amounts due to founding members as of December 29, 2011 were comprised of the following (in millions):

	AMC	Cinemark	Regal	Total
Theatre access fees, net of beverage revenues	$ 0.5	$ 0.5	$ 0.6	$ 1.6
Cost and other reimbursement	(0.5)	(0.5)	(0.7)	(1.7)
Distributions payable, net	6.7	6.8	8.6	22.1
Total	$ 6.7	$ 6.8	$ 8.5	$ 22.0

Related Party Affiliates The Company enters into network affiliate agreements and Fathom agreements with network affiliates for NCM LLC to provide in-theatre advertising and Fathom Events at theatre locations that are owned by companies that are affiliates of certain of the founding members or directors of NCM, Inc. Related party affiliate agreements are entered into at terms that are similar to those of the Company's other network affiliates.

Following is a summary of advertising operating costs in the Statements of Income between the Company and its related party affiliates (in millions):

	Years Ended		
Related Party Affiliate	December 27, 2012	December 29, 2011	December 30, 2010
Starplex(1)	$ 3.2	$ 2.9	$
Showplex(2)	0.4	0.2	
Other(3)	0.6	0.3	0.1
Total	$ 4.2	$ 3.4	$ 0.1

Following is a summary of the accounts payable balance between the Company and its related party affiliates included in the Balance Sheets (in millions):

Related Party Affiliate	As of December 27, 2012	As of December 29, 2011
Starplex(1)	$ 0.7	$ 0.7
Showplex(2)	0.1	0.1
Other(3)	0.1	0.1
Total	$ 0.9	$ 0.9

(1) The Company entered into a network affiliate agreement in 2009 with Starplex Operating L.P. ("Starplex"), an affiliate of Cinemark.

(2) The Company entered into a digital content agreement and a Fathom agreement in 2011 with Showplex Cinemas, Inc. ("Showplex"), an affiliate of one of NCM, Inc.'s directors.

(3) Other affiliates include LA Live Cinemas LLC ("LA Live"), an affiliate of Regal, and Texas Cinemas, Corp., an affiliate of one of NCM, Inc.'s directors.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5. RELATED-PARTY TRANSACTIONS (Continued)

National CineMedia, Inc. The management services agreement provides that the Company may participate in the NCM, Inc., equity incentive plan (see Note 7 *Share-Based Compensation*).

Amounts due to/from managing member were comprised of the following (in millions):

	As of December 27, 2012	As of December 29, 2011
Distribution payable	$ 19.8	$ 21.0
Costs and other reimbursement	(4.5)	0.2
Total	$ 15.3	$ 21.2

6. BORROWINGS

The following table summarizes the Company's total outstanding debt as of December 27, 2012 and December 29, 2011 and the significant terms of its borrowing arrangements:

Borrowings ($ in millions)	Outstanding Balance as of December 27, 2012	Outstanding Balance as of December 29, 2011	Maturity Date	Interest Rate
Revolving Credit Facility	$ 14.0	$ 44.0	November 26, 2017(a)	(b)
Term Loan	265.0	550.0	November 26, 2019	(b)
Senior Unsecured Notes	200.0	200.0	July 15, 2021	7.875%
Senior Secured Notes	400.0		April 15, 2022	6.000%
Total	$ 879.0	$ 794.0		

(a) A portion of the revolving credit facility has a maturity date of December 31, 2014, as described in further detail below.

(b) The interest rates on the revolving credit facility and term loan are described below.

Senior Secured Credit Facility The Company's senior secured credit facility consists of a $124.0 million revolving credit facility and a $265.0 million term loan. The obligations under the senior secured credit facility are secured by a lien on substantially all of the assets of NCM LLC.

Revolving Credit Facility The revolving credit facility portion is available, subject to certain terms and conditions, for general corporate purposes of the Company in the ordinary course of business and for other transactions permitted under the senior secured credit facility, and a portion is available for letters of credit. The Company entered into two amendments to the senior secured credit facility during 2012. As a result, the Company's total availability under the revolving credit facility is $124.0 million. On April 27, 2012, the Company entered into an amendment (the "Amendment") to its senior secured credit facility which resulted in the maturity of the remaining $105.0 million available under the revolving credit facility to be extended to April 27, 2017, subject to acceleration if the term loan under the senior secured credit facility is not repaid, refinanced or extended by December 31, 2014. The Amendment became effective upon the completion of the private placement of the Senior Secured Notes (defined and discussed below) on April 27, 2012.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. BORROWINGS (Continued)

On November 26, 2012, the Company entered into an amendment and restatement of its senior secured credit facility, by and among NCM LLC, Barclays Bank PLC, as administrative agent, and certain lenders party thereto (the "Amended Credit Facility"). Under the Amended Credit Facility, the amount available under the Company's revolving credit facility was increased from $119.0 million to $124.0 million. The maturity date applicable to the $14.0 million outstanding principal formerly held by Lehman remained December 31, 2014. The maturity date applicable to the remaining outstanding principal was extended to November 26, 2017. The unused line fee is 0.50% per annum.

Of the total available, $14.0 million outstanding principal of the revolving credit facility formerly held by Lehman Brothers Holdings, Inc. ("Lehman") will not be repaid in connection with any future prepayments of the revolving credit facility amounts, but rather Lehman's share of the revolving credit facility will be paid in full by NCM LLC to the successor lenders, along with any accrued and unpaid fees and interest, on the termination date of December 31, 2014.

Borrowings under the revolving credit facility bear interest at the Company's option of either the LIBOR index plus an applicable margin or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the senior secured credit facility) plus an applicable margin. The applicable margin for the revolving credit facility is determined quarterly and is subject to adjustment based upon a net senior secured leverage ratio for NCM LLC (the ratio of secured funded debt less unrestricted cash and cash equivalents, over a non-GAAP measure defined in the credit agreement). As part of the July 2011 amendment, the applicable margins on the $110.0 million portion of the revolving credit facility increased by 75 basis points based upon the then current senior secured leverage ratio to the LIBOR index plus 2.25% or the base rate plus 1.25%. The margin on the $14.0 million portion of the revolving credit facility remained unchanged at the LIBOR index plus 1.50% or the base rate plus 0.50%. The weighted-average interest rate on the outstanding balance on the revolving credit facility as of December 27, 2012 was 1.74%.

Term Loan As a result of the Amended Credit Facility, the aggregate principal amount under the term loan increased from $225 million to $265 million and the maturity date was extended from February 13, 2015 to November 26, 2019. The interest rate was increased from the LIBOR index plus 1.50% or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the Credit Facility) plus 0.50%, at the Company's option, to the LIBOR index plus 3.25% or the base rate (Prime Rate or the Federal Funds Effective Rate, as defined in the Credit Facility) plus 2.25%, at the Company's option. The loan was entered into with an original issue discount of 0.75%. The amendment resulted in a $3.4 million non-cash charge for the write-off of net deferred issuance costs.

In connection with the amendment to the senior secured credit facility on April 27, 2012 and the private placement of $400.0 million of Senior Secured Notes (defined below), the Company paid down the term loan by $325.0 million, reducing the balance from $550.0 million to $225.0 million resulting in a non-cash charge of $2.5 million for the write-off of net deferred issuance costs associated with the payment on the term loan. Prior to the Amended Credit Facility, interest rate swaps resulted in the entire $225.0 million term loan having a fixed annual interest rate of 6.484% (both those accounted for as hedges and those that are not). The interest rate swaps were terminated as part of the Amended Credit Facility. See Note 11 *Derivative Instruments and Hedging Activities* for further discussion of the interest rate swaps.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. BORROWINGS (Continued)

The senior secured credit facility contains a number of covenants and financial ratio requirements, with which the Company was in compliance at December 27, 2012, including maintaining a consolidated net senior secured leverage ratio of 6.5 times on a quarterly basis. The Company is permitted to make quarterly dividend payments and other payments based on the Company's leverage ratios so long as no default or event of default has occurred and continues to occur. The quarterly dividend payments and other distributions are made if the consolidated net senior secured leverage ratio is less than or equal to 6.5 times.

There are no borrower distribution restrictions as long as the Company's consolidated net senior secured leverage ratio is below 6.5 times and the Company is in compliance with its debt covenants. If there are limitations on the restricted payments, the Company may not declare or pay any dividends, or make any payments on account of the Company, or set aside assets for the retirement or other acquisition of capital stock of the borrower or any subsidiary, or make any other distribution for obligations of the Company. When these restrictions are effective, the Company may still pay the services fee and reimbursable costs pursuant to terms of the management agreement. The Company can also make payments pursuant to the tax receivable agreement in the amount, and at the time necessary to satisfy the contractual obligations with respect to the actual cash tax benefits payable to the Company's founding members.

As of December 27, 2012, the Company's net senior secured leverage ratio was 3.1 times (versus the covenant of 6.5 times).

Senior Unsecured Notes due 2021 On July 5, 2011, the Company completed a private placement of $200.0 million in aggregate principal amount of 7.875% Senior Unsecured Notes ("Senior Unsecured Notes") for which the exchange offering was completed on September 22, 2011. The Senior Unsecured Notes have a maturity date of July 15, 2021 and pay interest semi-annually in arrears on January 15 and July 15 of each year, commencing January 15, 2012. The notes are subordinated to all existing and future secured debt, including indebtedness under the Company's existing senior secured credit facility and the Senior Secured Notes defined below. The Senior Unsecured Notes contain certain covenants with which the Company was in compliance as of December 27, 2012.

Senior Secured Notes due 2022 On April 27, 2012, the Company completed a private placement of $400.0 million in aggregate principal amount of 6.00% Senior Secured Notes (the "Senior Secured Notes"). The Senior Secured Notes have a maturity date of April 15, 2022 and pay interest semi-annually in arrears on April 15 and October 15 of each year, which commenced October 15, 2012. The Senior Secured Notes are senior secured obligations of NCM LLC, rank the same as NCM LLC's senior secured credit facility, subject to certain exceptions, and share in the same collateral that secures NCM LLC's obligations under the senior secured credit facility. The Senior Secured Notes contain certain covenants with which the Company was in compliance as of December 27, 2012.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. BORROWINGS (Continued)

Future Maturities of Borrowings The scheduled annual maturities on the senior secured credit facility and Senior Secured and Senior Unsecured Notes as of December 27, 2012 are as follows (in millions):

Year	Amount
2013	$
2014	14.0
2015	
2016	
2017	
Thereafter	865.0
Total	$ 879.0

7. SHARE-BASED COMPENSATION

At the date of the IPO, NCM, Inc. adopted the NCM, Inc. 2007 Equity Incentive Plan. As of December 27, 2012, there were 10,076,000 shares of common stock available for issuance or delivery under the Equity Incentive Plan of which 1,851,975 remain available for grants as of December 27, 2012. Options awarded under the Equity Incentive Plan are granted with an exercise price equal to the closing market price of NCM, Inc. common stock on the date NCM, Inc.'s board of directors approves the grant. Upon vesting of the restricted stock awards or exercise of options, NCM LLC will issue common membership units to NCM, Inc. equal to the number of shares of NCM, Inc.'s common stock represented by such awards. Options and non-vested restricted stock vest annually over a three or five-year period and options have either 10-year or 15-year contractual terms. A forfeiture rate of 5% was estimated to reflect the potential separation of employees.

The Company recognized $4.7 million, $7.5 million and $7.0 million for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively, of share-based compensation expense and $0.1 million were capitalized during each of the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively. As of December 27, 2012, unrecognized compensation cost related to unvested options was approximately $3.7 million, which will be recognized over a weighted average remaining period of 1.5 years.

The weighted average grant date fair value of granted options was $4.08, $3.81 and $4.84 for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively. The intrinsic value of options exercised during the year was $1.4 million, $1.5 million and $2.2 million for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively. The total fair value of awards vested during the years ended December 27, 2012, December 29, 2011 and December 30, 2010 was $7.8 million, $6.2 million and $3.2 million, respectively.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing valuation model that uses the assumptions noted in the table below. Expected volatilities are based on implied volatilities from traded options on the Company's stock, historical volatility of the Company's stock, and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. SHARE-BASED COMPENSATION (Continued)

are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The following assumptions were used in the valuation of the options for the years ended December 27, 2012, December 29, 2011 and December 30, 2010:

	Years Ended		
	December 27, 2012	December 29, 2011	December 30, 2010
Expected term (in years)	6.0	6.0	6.0
Risk free interest rate	.8% - 1.1%	1.2% - 2.4%	1.4% - 3.8%
Expected volatility	53.2% - 54.6%	30.0% - 53.6%	39.0%
Dividend yield	5.5%	3.8% to 4.0%	3.8% to 4.0%

A summary of option award activity under the Equity Incentive Plan as of December 27, 2012, and changes during the year then ended are presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 29, 2011	4,837,572	$ 16.25		
Granted	562,623	13.28		
Exercised	(241,939)	9.31		
Forfeited	(173,233)	19.64		
Expired	(71)	17.46		
Outstanding at December 27, 2012	4,984,952	$ 16.13	7.6	$ 3.6
Exercisable at December 27, 2012	3,083,131	$ 16.09	7.2	$ 2.8
Vested and Expected to Vest at December 27, 2012	4,965,564	$ 16.14	7.6	$ 3.5

The following table summarizes information about the stock options at December 27, 2012, including the weighted average remaining contractual life and weighted average exercise price:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding as of December 27, 2012	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Number Exercisable as of December 27, 2012	Weighted Average Exercise Price
$5.35 - $13.55	1,165,240	7.5	$ 11.09	604,908	$ 9.44
$13.56 - $16.66	1,114,470	8.3	16.01	916,694	16.23
$16.67 - $16.97	915,650	7.1	16.97	605,895	16.97
$16.98 - $18.38	1,237,326	8.1	18.28	487,744	18.23
$18.39 - $26.76	552,266	6.3	20.80	467,890	21.00
	4,984,952	7.6	$ 16.13	3,083,131	$ 16.09

Non-vested (Restricted) Stock NCM, Inc. has a non-vested stock program as part of the Equity Incentive Plan. The plan provides for non-vested stock awards to officers, board members and other

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. SHARE-BASED COMPENSATION (Continued)

key employees. Under the non-vested stock program, common stock of NCM, Inc. may be granted at no cost to officers, board members and key employees, subject to requisite service and meeting financial performance targets (for certain grants beginning in 2009), and as such restrictions lapse, the award vests in that proportion. The participants are entitled to cash dividends from NCM, Inc. and to vote their respective shares, although the sale and transfer of such shares is prohibited and the shares are subject to forfeiture during the restricted period. Additionally, the accrued cash dividends for 2010, 2011 and 2012 grants are subject to forfeiture during the restricted period. The shares are also subject to the terms and provisions of the Equity Incentive Plan. Non-vested stock awards granted in 2009 through 2012 (except grants to board members) include performance vesting conditions, which permit vesting to the extent that NCM, Inc. achieves specified non-GAAP targets at the end of the measurement period. The length of the measurement period is two to three years. Non-vested stock granted to non-employee directors vest after one year.

The Company recorded $4.3 million, $4.3 million and $7.0 million in compensation expense related to such outstanding non-vested shares during the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively. No compensation expense was recorded for the 2011 non-vested restricted stock grants subject to performance conditions as the grants are not expected to vest due to the projected underperformance against the specified non-GAAP targets as of December 27, 2012. Of the $7.0 million in compensation expense for the year ended December 30, 2010, $1.6 million was related to the Company's expected performance against the specified non-GAAP targets for the 2009 and 2010 grants as of December 30, 2010.

During the years ended December 27, 2012, December 29, 2011 and December 30, 2010 there was $0.1 million, $0.1 million and $0.1 million capitalized, respectively. As of December 27, 2012, unrecognized compensation cost related to non-vested stock was approximately $3.6 million, which will be recognized over a weighted average remaining period of 1.7 years. The weighted average grant date fair value of non-vested stock was $13.23, $17.66 and $17.24 for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively. The total fair value of awards vested was $6.9 million, $1.8 million and $1.6 million during the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively.

A summary of restricted stock award activity under the Equity Incentive Plan as of December 27, 2012, and changes during the year then ended are presented below:

	Number of Restricted Shares	Weighted Average Grant-Date Fair Value
Non-vested as of December 29, 2011	1,285,508	$ 16.92
Granted	911,491	13.23
Exercised/released	(454,850)	15.72
Forfeited	(35,021)	16.02
Non-vested as of December 27, 2012	1,707,128	$ 15.30

8. EMPLOYEE BENEFIT PLANS

The Company sponsors the NCM 401(k) Profit Sharing Plan (the "Plan") under Section 401(k) of the Internal Revenue Code of 1986, as amended, for the benefit of substantially all full-time employees.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE BENEFIT PLANS (Continued)

The Plan provides that participants may contribute up to 20% of their compensation, subject to Internal Revenue Service limitations. Employee contributions are invested in various investment funds based upon election made by the employee. The Company made discretionary contributions of $1.0 million, $0.9 million and $0.9 million during the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively.

9. COMMITMENTS AND CONTINGENCIES

Legal Actions The Company is subject to claims and legal actions in the ordinary course of business. The Company believes such claims will not have a material effect on its financial position or results of operations.

Operating Commitments The Company leases office facilities for its headquarters in Centennial, Colorado and also in various cities for its sales and marketing personnel as sales offices. The Company has no capital lease obligations. Total lease expense for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, was $2.3 million, $2.3 million and $2.2 million, respectively.

Future minimum lease payments under noncancelable operating leases as of December 27, 2012 are as follows (in millions):

Year	Minimum Lease Payments
2013	$ 2.5
2014	2.5
2015	2.5
2016	2.6
2017	2.0
Thereafter	5.9
Total	$ 18.0

Minimum Revenue Guarantees As part of the network affiliate agreements entered in the ordinary course of business under which the Company sells advertising for display in various network affiliate theatre chains, the Company has agreed to certain minimum revenue guarantees on a per attendee basis. If a network affiliate achieves the attendance set forth in their respective agreement, the Company has guaranteed minimum revenue for the network affiliate per attendee if such amount paid under the revenue share arrangement is less than its guaranteed amount. The amount and term varies for each network affiliate, but terms range from three to 20 years, prior to any renewal periods of which some are at the option of the Company. The maximum potential amount of future payments the Company could be required to make pursuant to the minimum revenue guarantees is $47.3 million over the remaining terms of the network affiliate agreements. As of December 27, 2012 and December 29, 2011, the Company had no liabilities recorded for these obligations as such guarantees are less than the expected share of revenue paid to the affiliate.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments The carrying amount of the revolving credit facility is considered a reasonable estimate of fair value due to its floating-rate terms. The estimated fair values of the Company's financial instruments where carrying values do not approximate fair value are as follows (in millions):

	As of December 27, 2012		As of December 29, 2011	
	Carrying Value	Fair Value(1)	Carrying Value	Fair Value(1)
Term Loan	$ 265.0	$ 265.8	$ 550.0	$ 530.6
Senior Unsecured Notes	200.0	222.0	200.0	198.4
Senior Secured Notes	400.0	425.5		

(1) The Company has estimated the fair value on an average of at least two non-binding broker quotes and the Company's analysis. If the Company were to measure the borrowings in the above table at fair value on the balance sheet they would be classified as Level 2.

Recurring Measurements The fair values of the Company's assets and liabilities measured on a recurring basis pursuant to ASC 820-10*Fair Value Measurements and Disclosures* are as follows (in millions):

		Fair Value Measurements at Reporting Date Using		
	As of December 27, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Other investment(1)	0.8		0.8	
Total assets	$ 0.8	$	$ 0.8	$

(1) *Other investment* The Company's other investment are equity securities in a privately held company.

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. FAIR VALUE MEASUREMENTS (Continued)

	As of December 29, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
ASSETS:				
Other investment(1)	$ 0.2	$	$ 0.2	$
Total assets	$ 0.2	$	$ 0.2	$
LIABILITIES:				
Current portion of interest rate swap agreements(2)	$ 24.0	$	$ 24.0	$
Interest rate swap agreements(2)	46.8		46.8	
Total liabilities	$ 70.8	$	$ 70.8	$

(1)
Other Investment The Company's other investment are equity securities in a privately held company.

(2)
Interest Rate Swap Agreements Refer to Note 11.

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objectives and Strategies

The Company is exposed to various financial and market risks including changes in interest rates that exist as part of its ongoing operations and utilizes certain derivative instruments to enhance its ability to manage these risks.

Accounting for Derivative Instruments and Hedging Activities

In accordance with ASC 815 *Derivatives and Hedging,* the effective portion of changes in the fair value of a derivative that is designated as a cash flow hedge is recorded in AOCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

The Company formally documents all relationships between hedging instruments and the underlying hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that have been designated as cash flow hedges to forecasted transactions. The Company formally assesses, both at inception of the hedge and on an ongoing basis, whether the hedge is highly effective in offsetting changes in cash flows of the underlying hedged items. The Company also performs an assessment of the probability of the forecasted transactions on a periodic basis. If it is determined that a derivative ceases to be highly effective during the term of the hedge or if the forecasted transaction is no longer probable, the Company discontinues hedge accounting prospectively for such derivative.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

As of December 27, 2012 and December 29, 2011, the estimated fair value and line item caption of derivative instruments recorded were as follows (in millions):

		Fair Value of Derivative Liability as of	
	Balance Sheet Location	December 27, 2012	December 29, 2011
Derivatives designated as hedging instruments in cash flow hedges:			
Current portion of interest rate swap agreements	Current Liabilities	$	$ 18.0
Interest rate swap agreements	Other Liabilities		35.1
Derivatives not designated as hedging instruments:			
Current portion of interest rate swap agreements	Current Liabilities		6.0
Interest rate swap agreements	Other Liabilities		11.7
Total derivatives		$	$ 70.8

During 2012, the Company entered into two amendments to the senior secured credit facility (see Note 6 *Borrowings*) resulting in amendments to our derivative instruments.

On April 27, 2012, the Company amended its existing interest rate swap agreements terminating a notional amount of $325.0 million (the aggregate amount of the term loan prepayment) such that 100% of the Company's interest rate exposure relating to the remaining $225.0 million term loan debt balance remained hedged at 6.484%. Since the forecasted transactions, or quarterly interest payments, on the $325.0 million term loan prepayment are no longer probable of occurring, the Company discontinued cash flow hedge accounting on those swaps and reclassified the corresponding outstanding balance in AOCI related to those interest rate swaps into earnings. As a result, the Company recorded a loss of approximately $26.7 million related to the partial swap terminations and paid approximately $40.2 million in breakage fees.

The swaps were terminated ratably among the four counterparties, however the Company's cash flow hedge accounting designation for each swap was pegged to varying balances of the underlying term loan. Cash flow hedge accounting was discontinued because the underlying debt instrument is no longer outstanding and the interest payments are no longer probable.

The Company also discontinued cash flow hedge accounting for swaps in which the Company terminated its swap with the counterparty, however, the corresponding term loan associated with those swaps remained outstanding. In accordance with ASC 815, the net derivative loss related to the discontinued cash flow hedges shall continue to be reported in AOCI because it is probable that the forecasted transaction will occur by the end of the originally specified time period.

In connection with the amendment to the term loans on November 26, 2012, the entire notional amount of NCM LLC's interest rate swaps with four counterparties, equal to $225.0 million, was terminated such that the Company's interest rate exposure related to the Amended Term Loan will be unhedged. The Company paid approximately $23.2 million in breakage fees in connection with the swap. The net derivative loss related to the discontinued cash flow hedges shall continue to be reported in AOCI because it is probable that the forecasted transaction will occur by the end of the originally specified time period.

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

As of December 27, 2012, a total of $21.9 million of cash flow hedges remaining in AOCI will be amortized in the Statements of Income over the original swap term or February 13, 2015. The Company estimates approximately $10.3 million will be amortized to change in derivative fair value in the Statements of Income in the next 12 months.

During the periods presented, the Company also recorded changes in the fair value and amortization of AOCI related to an interest rate swap in which the Company discontinued cash flow hedge accounting in 2008 due to the bankruptcy of its counterparty. In connection with the swap terminations in April 2012, the entire balance of this swap was terminated and the remaining balance in AOCI of $3.5 million was reclassified into earnings during the second quarter of 2012.

The effect of derivative instruments in cash flow hedge relationships on the financial statements for the years ended December 27, 2012, December 29, 2011 and December 30, 2010 were as follows (in millions):

	Unrealized Gain (Loss) Recognized in NCM, Inc.'s Other Comprehensive Income (Pre-tax)			Realized Loss Recognized in Interest on Borrowings (Pre-tax)		
	Years Ended			Years Ended		
	December 27, 2012	December 29, 2011	December 30, 2010	December 27, 2012	December 29, 2011	December 30, 2010
Interest Rate Swaps	$ 26.0	$ (18.1)	$ (30.3)	$ (9.1)	$ (19.5)	$ (19.4)

The effect of derivatives not designated as hedging instruments under ASC 815 on the financial statements for the years ended December 27, 2012, December 29, 2011 and December 30, 2010 were as follows (in millions):

		Gain (Loss) Recognized in Non-Operating Expenses (Pre-tax)		
		Years Ended		
Derivative Instruments not Designated as Hedging Instruments	Income Statement Location	December 27, 2012	December 29, 2011	December 30, 2010
Realized loss on derivative instruments	Interest on borrowings	$ (5.1)	$ (6.5)	$ (6.2)
Gain (loss) from change in fair value on cash flow hedges	Change in derivative fair value	3.0		(4.0)
Amortization of AOCI on discontinued cash flow hedges	Change in derivative fair value	(4.0)	(1.3)	(1.3)
Total		$ (6.1)	$ (7.8)	$ (11.5)

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SEGMENT REPORTING

Advertising revenue accounts for 91.2%, 88.7% and 88.7%, of revenue for the years ended December 27, 2012, December 29, 2011 and December 30, 2010, respectively. The following table presents revenues less directly identifiable expenses to arrive at income before income taxes for the advertising reportable segment, the combined Fathom Events operating segments, and network, administrative and unallocated costs. Refer to Note 1 *Segment Reporting*.

Year Ended December 27, 2012 (in millions)

	Advertising	Fathom Events and Other	Network, Administrative and Unallocated Costs	Total
Revenue	$ 409.5	$ 39.3	$	$ 448.8
Operating costs	95.8	29.0	18.9	143.7
Selling and marketing costs	53.9	4.2	2.4	60.5
Administrative and other costs	2.6	0.8	29.0	32.4
Depreciation and amortization			20.4	20.4
Interest and other costs			90.2	90.2
Income before income taxes	$ 257.2	$ 5.3	$ (160.9)	$ 101.6

Year Ended December 29, 2011 (in millions)

	Advertising	Fathom Events and Other	Network, Administrative and Unallocated Costs	Total
Revenue	$ 386.2	$ 49.2	$	$ 435.4
Operating costs	80.0	34.1	17.7	131.8
Selling and marketing costs	49.2	7.9	2.7	59.8
Administrative and other costs	2.6	0.8	27.9	31.3
Depreciation and amortization			18.8	18.8
Interest and other costs			58.9	58.9
Income before income taxes	$ 254.4	$ 6.4	$ (126.0)	$ 134.8

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NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. SEGMENT REPORTING (Continued)

Year Ended December 30, 2010 (in millions)	Advertising	Fathom Events and Other	Network, Administrative and Unallocated Costs	Total
Revenue	$ 379.5	$ 48.0	$	$ 427.5
Operating costs	74.3	32.4	20.0	126.7
Selling and marketing costs	46.5	8.1	3.3	57.9
Administrative and other costs	3.2	0.8	30.5	34.5
Depreciation and amortization			17.8	17.8
Interest and other costs			49.9	49.9
Income before income taxes	$ 255.5	$ 6.7	$ (121.5)	$ 140.7

The following is a summary of revenues by category (in millions):

	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
National advertising revenue	$ 288.7	$ 267.6	$ 272.0
Local advertising revenue	81.1	80.6	70.3
Founding member advertising revenue from beverage concessionaire agreements	39.7	38.0	37.2
Fathom Consumer revenue	34.2	35.0	31.5
Fathom Business revenue	5.1	14.2	16.5
Total revenue	$ 448.8	$ 435.4	$ 427.5

During the first quarter of 2012, the Company began to wind down the Fathom Business Events division, to place more focus on the Fathom Consumer Events division.

13. VALUATION AND QUALIFYING ACCOUNTS

The Company's valuation allowance for doubtful accounts for the years ended December 27, 2012, December 29, 2011 and December 30, 2010 were as follows (in millions):

	Years Ended December 27, 2012	December 29, 2011	December 30, 2010
ALLOWANCE FOR DOUBTFUL ACCOUNTS:			
Balance at beginning of period	$ 4.3	$ 3.7	$ 3.6
Provision for bad debt	1.2	2.1	2.3
Write-offs, net	(1.0)	(1.5)	(2.2)
Balance at end of period	$ 4.5	$ 4.3	$ 3.7

NATIONAL CINEMEDIA, LLC

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following represents selected information from the Company's unaudited quarterly Statements of Income for the years ended December 27, 2012 and December 29, 2011 (in millions):

2012	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 79.1	$ 110.1	$ 143.7	$ 115.9
Operating expenses	62.1	64.8	65.6	64.5
Operating income	17.0	45.3	78.1	51.4
Net income(1)	3.2	1.8	62.9	33.1

2011	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$ 70.8	$ 114.0	$ 136.0	$ 114.6
Operating expenses	55.8	63.8	62.0	60.1
Operating income	15.0	50.2	74.0	54.5
Net income	5.1	37.6	56.6	35.2

(1) During the second quarter, the Company recorded a loss of approximately $26.7 million related to partial swap terminations. See Note 11 *Derivative Instruments and Hedging Activities*.

15. SUBSEQUENT EVENTS

During the first quarter of 2013, NCM LLC issued 4,536,014 common membership units to its founding members, which is an adjustment to the previously issued common membership units issued in exchange for the rights to exclusive access, in accordance with the ESAs, to net new theatre screens and attendees added by the founding members to NCM LLC's network. As a result, NCM LLC recorded an intangible asset at fair value of the common membership units of $69.0 million. The Company based the fair value of the intangible asset on the market value of the common membership units when issued, which are freely convertible into NCM, Inc.'s common stock. Pursuant to ASC 350-10 *Intangibles Goodwill and Other*, the intangible asset has a finite useful life and the Company will amortize the asset over the remaining useful life corresponding with the ESAs.

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INDEPENDENT AUDITOR'S REPORT

The Members
Digital Cinema Implementation Partners, LLC

We have audited the accompanying consolidated financial statements of Digital Cinema Implementation Partners, LLC and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, members' equity and cash flows for each of the years in the three-year period ended December 31, 2012 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Cinema Implementation Partners, LLC and Subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

/s/ CohnReznick LLP

Roseland, New Jersey
February 20, 2013

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

CONSOLIDATED BALANCE SHEETS

($ in thousands)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,161	$ 2,866
Accounts receivable, net	36,953	29,976
Other current assets	208	195
Total current assets	56,322	33,037
Property and equipment, net	900,186	776,387
Deferred financing costs, net	24,894	32,091
Deferred warranty reimbursement costs, net	190,351	219,757
Restricted cash	11,396	14,271
Other noncurrent assets	26,783	12,239
Total assets	$ 1,209,932	$ 1,087,782
LIABILITIES AND MEMBERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 22,455	$ 28,153
Current maturities of long-term debt	24,700	2,200
Warranty reimbursement liability, current	7,056	3,790
Total current liabilities	54,211	34,143
Warranty reimbursement liability (excluding current)	223,464	236,554
Long-term debt (excluding current)	763,176	692,416
Derivative liabilities	29,419	34,580
Other noncurrent liabilities	76	42
Total liabilities	1,070,346	997,735
Commitments		
Members' equity	139,586	90,047
Total liabilities and members' equity	$ 1,209,932	$ 1,087,782

See Notes to Consolidated Financial Statements.

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS

($ in thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
REVENUES			
Virtual print fees	$ 158,327	$ 109,396	$ 31,893
Exhibitor lease fees	13,114	8,633	2,413
Additional rent			154
Alternative content fees	955	764	180
Peak period payments	343	243	120
Management fees	2,149	1,672	
Subtotal, operating revenues	174,888	120,708	34,760
Warranty reimbursement costs	(23,371)	(16,737)	(5,111)
Exhibitor lease, step-up rent adjustment	14,500	9,453	2,747
Net operating revenues	166,017	113,424	32,396
OPERATING EXPENSES			
General and administrative	9,796	7,749	9,268
Depreciation and amortization	53,558	35,167	10,311
Total operating expenses	63,354	42,916	19,579
Operating income	102,663	70,508	12,817
INTEREST EXPENSE			
Interest	58,574	43,918	13,511
Paid-in-kind interest	5,459	4,286	1,980
Amortization of deferred financing costs	7,198	7,658	4,371
Derivative (gain) loss	(5,161)	17,160	17,420
Total interest expense	66,070	73,022	37,282
OTHER INCOME (EXPENSE)			
Interest income	5	4	4
Loss on sale of assets	(43)		
Other income	197		
Total other income, net	159	4	4
Net income (loss)	$ 36,752	$ (2,510)	$ (24,461)

See Notes to Consolidated Financial Statements.

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

($ in thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Balance, beginning of year	$ 90,047	$ 63,942	$ 1,891
Capital contributions	12,787	28,615	90,897
Distributions to Members			(4,385)
Net income (loss)	36,752	(2,510)	(24,461)
Balance, end of year	$ 139,586	$ 90,047	$ 63,942

See Notes to Consolidated Financial Statements.

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ in thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Operating activities:			
Net income (loss)	$ 36,752	$ (2,510)	$ (24,461)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	53,558	35,167	10,311
Amortization of deferred warranty reimbursement costs	23,371	16,737	5,111
Amortization of deferred financing costs	7,198	7,658	4,371
Derivative loss	(5,161)	17,160	17,420
Loss on sale of assets	43		
Paid-in-kind interest	5,459	4,286	1,980
Changes in operating assets and liabilities:			
Accounts receivable	(6,977)	(15,997)	(13,979)
Other current and noncurrent assets	(14,557)	(9,311)	(3,002)
Accounts payable and accrued liabilities	2,432	207	(1,835)
Warranty reimbursement liability	(2,428)	(733)	
Payment of prior period warranty reimbursement liability	(528)		
Other noncurrent liabilities	34	(37)	50
Net cash provided by (used in) operating activities	99,196	52,627	(4,034)
Investing activities:			
Purchase of property and equipment	(160,320)	(423,927)	(280,532)
Payment of prior period property and equipment in accounts payable	(26,341)	(37,416)	
Sale of property and equipment	298		
Restricted cash	2,875	(7,797)	(6,474)
Net cash used in investing activities	(183,488)	(469,140)	(287,006)
Financing activities:			
Increase in long-term debt	90,000	603,750	291,250
Paydown of long-term debt	(2,200)	(206,650)	
Capital contributions from Members	12,787	28,615	40,173
Distributions to Members			(4,352)
Deferred financing costs		(11,684)	(31,460)
Net cash provided by financing activities	100,587	414,031	295,611
Net increase (decrease) in cash and cash equivalents	16,295	(2,482)	4,571
Cash and cash equivalents, beginning of year	2,866	5,348	777
Cash and cash equivalents, end of year	$ 19,161	$ 2,866	$ 5,348
Supplemental schedule of non-cash investing and financing activities:			
Additions to property and equipment included in accounts payable and accrued liabilities	$ 17,378	$ 26,341	$ 37,416
Warranty reimbursement payable in accounts payable and accrued liabilities	$ 1,361	$ 528	$

Deferred warranty asset and warranty reimbursement obligation	$	(6,035)	$	122,636	$	118,969
Non-cash contributions from Members	$		$		$	50,724
Non-cash distributions to Members	$		$		$	33

See Notes to Consolidated Financial Statements.

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Nature of Operations

Digital Cinema Implementation Partners, LLC, ("DCIP", and together with its consolidated wholly-owned subsidiaries, the "Company") was formed as a Delaware limited liability company on February 12, 2007 for the purpose of raising third-party capital to purchase and deploy digital cinema projection equipment ("Digital Systems") in theatres located throughout the United States and Canada. The Company is headquartered in New Jersey and has offices in Colorado and Minnesota. The Company is owned by its founding members American Multi-Cinema, Inc. ("AMC"), Cinemark Media, Inc. ("Cinemark") and Regal/DCIP Holdings, LLC ("Regal") (collectively, the "Founding Members").

On March 10, 2010, the Company completed an initial financing transaction for the deployment of Digital Systems utilizing its subsidiary entities Kasima, LLC ("Kasima"), Kasima Holdings, LLC ("Holdings") and Kasima Parent Holdings, LLC ("Parent") to execute its business plan. Kasima is a wholly-owned subsidiary of Holdings, Holdings is a wholly-owned subsidiary of Parent and Parent is a wholly-owned subsidiary of the DCIP. On March 31, 2011, the Company obtained the incremental financing necessary to complete its planned deployment of Digital Systems. See Note 3 for a more detailed description of these financing transactions.

Digital Systems are purchased by Kasima and leased to each Founding Member or one of its affiliates (each such entity, an "Exhibitor") pursuant to the terms of a Master Equipment Lease Agreement ("ELA"). Kasima facilitates the installation of the leased Digital Systems into each Exhibitor's theatres pursuant to the terms of an Installation Agreement. The Exhibitor is responsible for the ongoing maintenance and insurance of the Digital Systems. The Company has also entered into (and assigned to Kasima) long-term Digital Cinema Deployment Agreements ("DCDAs") with six major motion picture studios ("Major Studios") pursuant to which Kasima receives a virtual print fee ("VPF") each time the studio books a film or certain other content on the Digital Systems. Other content distributors have entered into DCDAs or shorter term agreements with the Company that provide for the payment of VPFs to Kasima for bookings of the distributor's content on a Digital System.

On June 20, 2011, DCIP and Canadian Digital Cinema Partnership ("CDCP") entered into a long-term management services agreement (an "MSA" and with respect to CDCP, the "CDCP MSA") to manage a similar deployment of Digital Systems in Canada and to perform certain other specified services for CDCP related thereto (see Note 2). CDCP is a Canadian limited partnership formed by Cineplex Entertainment LP ("Cineplex") and Empire Theatres Ltd. ("Empire") to facilitate the purchase and deployment of Digital Systems to their theatres in Canada. On April 1, 2012, DCIP entered into a long-term MSA with Cinemark USA, Inc., a Texas corporation and an affiliate of Cinemark, to manage deployment of Digital Systems to theatres operated by its affiliates in Latin America (the "CNI MSA").

Note 2 Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of DCIP and its subsidiaries. Intercompany accounts have been eliminated in consolidation.

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company's most significant estimates relate to depreciation and recoverability of property and equipment, amortization, the valuation of derivative agreements and the reimbursement liability concerning equipment warranty and replacement costs under the ELAs. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates under different assumptions or conditions.

Cash and cash equivalents

The Company considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amount of the Company's cash equivalents approximates fair value due to the short maturities of these investments and consists primarily of money market funds and other overnight investments. The Company maintains bank accounts with major banks, which from time to time may exceed the Federal Deposit Insurance Corporation's insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Concentration of credit risk

At December 31, 2012, 2011 and 2010 the Company had five customers that represented 56%, 62% and 69%, respectively, of operating revenues and five customers that represented 63% and 71%, respectively, of net accounts receivable. These customers are each parties to DCDAs. None of the Company's other customers individually represented more than 10% of operating revenues for the years ended December 31, 2012, 2011 or 2010 or accounts receivable at December 31, 2012 or 2011.

The Company has credit risk associated with certain accounts receivable, which consists primarily of amounts owed by the Major Studios and other digital content distributors. The Company actively monitors the status of its accounts receivable and has mechanisms in place to minimize the potential for incurring material accounts receivable credit losses. At December 31, 2012 and 2011 management has determined that there is no requirement for an allowance for doubtful accounts.

Concentration of supplier risk

The Company currently purchases Digital System components from a limited number of suppliers. The inability to obtain certain components on a timely basis would limit the Company's ability to complete installation of such systems in a timely manner and could affect the amount of future revenues. In 2012, 2011 and 2010, two suppliers represented 81%, 74% and 76%, respectively, of the amount spent by the Company on Digital System component purchases.

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

Concentration in foreign countries

The Company leases Digital Systems to AMC (pursuant to its ELA) for theatres located in Canada and receives revenues from CDCP pursuant to the CDCP MSA. During 2012, AMC sold the majority of its Canadian theatres to Cineplex and Empire, significantly reducing the number of Digital Systems leased by Kasima to AMC in Canada. The revenue earned from these operations is paid to the Company in U.S. dollars. For the years ended December 31, 2012, 2011 and 2010, revenues earned from Canadian sources totaled $2,494,000, $2,228,000 and $261,000, respectively. The carrying value of equipment deployed in Canada at December 31, 2012 and 2011, totaled $197,000 and $2,798,000, respectively. The CNI MSA did not produce revenue for the year ended December 31, 2012.

Fair value and credit risk

All current assets and liabilities are carried at cost, which approximates fair value due to the short-term maturities of those instruments. The Company's Credit Facility (see Note 7) is comprised of floating rate instruments and management believes fair value approximates carrying value. The Note Facility (see Note 7) is a fixed rate instrument for which the Company estimates fair value at approximately $172.8 million, a premium of $37.8 million to its carrying value. This estimate is based on the present value of the cash flows discounted at an estimated market interest rate. This rate was estimated based on the change in interest rates for risk free treasury bonds from the inception of the Note Facility to December 31, 2012 and was further adjusted based on management's assessment of business risk for the current operating entity contrasted to the development-stage entity at the inception of the Note Facility.

Property and equipment, net

Property and equipment, net, is stated at cost, less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets as follows:

Computer equipment and software	3 - 5 years
Leasehold improvements	5 years
Digital cinema projection equipment	17.5 years
Furniture and fixtures	7 years

Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets. Certain costs of computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over three to five years. Costs for general and administrative expenses, overhead, maintenance and training, as well as the cost of software coding that does not add functionality to existing systems, are expensed as incurred. Upon the sale or other disposition of any property and equipment, the cost and related accumulated depreciation and amortization are removed from the accounts and the gain or loss on disposal is included in the statements of operations.

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

Deferred financing costs, net

Deferred financing costs are amortized on a straight-line basis by a charge to interest expense over the terms of the respective financing agreements. Accumulated amortization of deferred financing costs at December 31, 2012, and 2011totaled $19,228,000 and $12,029,000, respectfully.

Fair value measurements

The Company accounts for and reports the fair value of certain assets and liabilities. The Company applies fair value accounting for financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements.

The Company utilizes valuation techniques that maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3) within the fair value hierarchy established by the Financial Accounting Standards Board Accounting Standards Codification ("ASC"):

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The following table sets forth, by level, the fair value measurements of the Company's consolidated financial liabilities ($ in thousands):

Fair Value Measurements

	December 31, 2012	Level 1	Level 2	Level 3
Fair value of Interest Rate Swap	$ (29,725)(1)	$	$ (29,725)	$
Fair value of Interest Rate Cap	306 (1)		306	
	$ (29,419)(1)	$	$ (29,419)	$

(1) Reported in derivative liabilities on the consolidated balance sheets.

The fair value of the Company's obligation under its Interest Rate Swap and Interest Rate Cap (each as defined below) is based upon observable market-based inputs that reflect the present values of the difference between estimated future fixed rate payments and future variable receipts and, therefore, is classified within Level 2. The Level 2 fair value of the Interest Rate Swap and Interest Rate Cap at December 31, 2011 was $(35,800) and $1,220, respectively.

Accounting for derivatives

In March 2010, the Company executed (and in March 2011 amended) an interest rate swap agreement (as amended, the "Interest Rate Swap") and an interest rate cap agreement (the "Interest Rate Cap") to limit the Company's exposure to changes in interest rates. Derivative financial instruments such as the Interest Rate Swap and Interest Rate Cap are recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized in accumulated other comprehensive income (a component of Member's equity) or in the consolidated statements of

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

operations depending on whether the derivative is being used to hedge changes in cash flows or fair value. The Company has determined that the Interest Rate Swap and Interest Rate Cap are not effective hedging transactions; therefore, the changes in market value of the Interest Rate Swap and Interest Rate Cap are recorded as interest expense in the consolidated statements of operations.

Income taxes

The Company is a limited liability company and, as such, is treated as a partnership for federal and state income tax purposes. Accordingly, as a partnership for tax purposes, the Company is not a taxable entity and is not subject to federal or state income taxes. Income or loss of the Company as a limited liability company is reported to and included in the individual income tax returns of its members. Tax years ended on or about December 31, 2012, 2011, 2010 and 2009 remain open to examination by federal and state taxing authorities with regard to the allocation of income or losses by the Company to its members.

Impairment of long-lived assets

The Company reviews the recoverability of its long-lived assets when events or conditions exist that indicate a possible impairment. The assessment for recoverability is based primarily on the Company's ability to recover the carrying value of its long-lived assets from expected future undiscounted net cash flows. If the total of expected future undiscounted net cash flows is less than the total carrying value of an asset, the asset is deemed not to be recoverable and possibly impaired. The Company then estimates the fair value of the asset to determine whether an impairment loss should be recognized. An impairment loss will be recognized if the carrying value of the asset exceeds its fair value. Fair value is determined by computing the expected future discounted cash flows. No impairment charges were recorded for the years ended December 31, 2012, 2011 or 2010.

Revenue recognition

The majority of the Company's revenues are VPFs from Major Studios under the DCDAs. The Company earns VPF revenue when movies and certain other content distributed by Major Studios and other content distributors are booked and exhibited on screens utilizing the Company's Digital Systems. VPFs are earned and payable based on a fee schedule outlined in the DCDAs and other VPF agreements. The VPF revenue is recognized in the period in which it is earned, generally the first time the content is booked and exhibited in the theatre auditorium for which a Digital System has been installed.

The DCDAs with the Major Studios require the payment of VPFs for a period that ends on the earlier to occur of (i) the tenth anniversary of the "mean deployment date" for all Digital Systems scheduled to be deployed over a period of up to five years, or (ii) the date the Company achieves "cost recoupment", each as defined in the DCDAs. Cost recoupment occurs when revenues attributable to the Digital Systems exceed the costs associated with their purchase (including financing), deployment, administration and other allowed amounts, all as defined in the DCDAs.

In addition to VPF revenue, the Company also earns a fee each time certain digital content other than feature films (e.g., concerts, sporting events and opera performances) is booked and exhibited on a Digital System. The Company refers to fees derived on a per-exhibition basis from these alternative forms of digital content as alternative content fees ("ACFs"). ACFs may be paid by the distributor of

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

the alternative content pursuant to an agreement with the Company or by the Exhibitor showing the content pursuant to its ELA. ACF revenue is recognized in the period in which the alternative content is exhibited.

Lease revenues in respect of the Digital Systems and certain other rental and usage fees are earned by the Company in accordance with the terms of the ELAs. All amounts due to the Company under these agreements are recognized as revenue when earned and any unearned amounts are recorded as deferred revenue. The initial lease term for each piece of equipment deployed under the ELAs begins on the date the equipment is placed in service and continues for 12 years, with the first and last month incurring one-half of the monthly lease payment otherwise due.

The Company generates multiple revenue streams from the leased Digital Systems under the ELAs as follows:

Lease fees are payable by the Exhibitors monthly and are comprised of a fixed base lease rate with a step-up in rate for all equipment (regardless of lease commencement date) on October 1, 2016. The Company recognizes lease revenue from these fees on a straight-line method making an allowance for the step-up in rent.

Subject to certain minimum revenue tests in the ELAs, additional rent ("Additional Rent") may be due in respect of complexes ("Additional Rent Complexes") that are not 100% converted to digital within four weeks of the initial deployment of a Digital System in the complex by the Company. Additional Rent, if any, is calculated and recognized on a monthly basis, but billed and paid semi-annually.

Contingent rent may be due under the ELAs if total revenues in respect of the Digital Systems deployed thereunder (calculated quarterly on a rolling last twelve month basis) fail to meet certain minimum revenue thresholds. The minimum revenue thresholds were prorated for the initial four quarters of the ELAs. Contingent rent, if any, is calculated and recognized monthly, but billed and paid quarterly.

Peak period payments are due under the ELAs when the leased Digital Systems are taken out of service by an Exhibitor for one or more consecutive defined "peak periods" (generally a weekend) as a result of relocation, damage or a complex closing. Peak period payments, if any, are recognized, billed and paid monthly.

In accordance with the ELAs the Exhibitors are required to acquire extended warranties with respect to the leased Digital Systems covering the period from the expiration of the initial included manufacturer's warranty through the date of repayment of the Credit Facility and Note Facility (each as defined in Note 7) (the "Warranty End Date"), but in no event later than 12 years from the effective date of the ELAs. Following the Warranty End Date, the Exhibitors may choose to continue extended warranty coverage through the expiration of the DCDAs (the "DCDA End Date"). The DCDA End Date will occur on the earlier of (i) the tenth anniversary of the "mean deployment date" of the Digital Systems or (ii) the date the Company achieves "cost recoupment", each as defined in the DCDAs. The Company expects that the Exhibitors will maintain extended warranty coverage through the DCDA End Date. Pursuant to the ELAs, the Company is required to reimburse the Exhibitor for the costs of the extended warranties (and/or equipment replacement costs) subject to quarterly caps set forth in the ELAs. This contractual obligation by the Company to incur costs at a future date for the extended warranties or replacement costs when the leased equipment is purchased creates a liability at

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

the purchase date and a contra revenue adjustment in respect of revenues derived under the ELAs that is recognized on a straight-line basis over the term of the lease. During the year ended December 31, 2012, based on deployments to date and revised projections of future deployments, management estimated that the "mean deployment date" has been accelerated by approximately one year from the date originally projected. As a result, management now estimates that the DCDA End Date will occur and the warranty reimbursement obligation will end during 2021 rather than 2022. This change in estimate resulted in a $45,481,000 reduction in the overall warranty liability and related warranty asset. The impact of this change on the Company's results of operations for the year ended December 31, 2012 and subsequent years is not material.

The Company also earns revenues in respect of the services DCIP provides under the CDCP MSA. The revenues are earned ratably as the services are performed under the agreement.

Subsequent events

The Company has evaluated subsequent events through February 20, 2013, which is the date the consolidated financial statements were available to be issued.

Note 3 Financing Transactions

On March 10, 2010, the Company completed a financing transaction to enable the purchase, deployment and leasing of Digital Systems for approximately 10,000 movie theatre screens operated by the Exhibitors in the United States and Canada over the subsequent three to five years. On March 31, 2011, the Company completed an incremental financing transaction to enable the purchase, deployment and leasing of Digital Systems for approximately 4,700 additional movie theatre screens operated by the Exhibitors in the United States and Canada.

The financing transaction completed in March 2010 consisted of a $79,472,000 equity contribution to DCIP from the Founding Members (subsequently contributed as equity to Kasima), a $135,000,000 long-term promissory note commitment (the Note Facility described in Note 7) to Parent from an investor group and a $445,000,000 senior secured loan commitment (also described in Note 7) to Kasima from a group of commercial banks. The equity contribution from the Founding Members consisted of $50,724,000 of previously installed Digital Systems and $28,748,000 of cash. The contributed Digital Systems were recorded by the Company at their fair value on the date of contribution. The financing transaction completed in March 2011 consisted of a $220,000,000 incremental senior secured term loan (the Incremental Term Loan described in Note 7) to Kasima from a group of commercial banks and institutional investors.

Note 4 Consolidated Balance Sheet Components

Restricted cash

The Company had restricted cash of $11,396,000 and $14,271,000 on hand at December 31, 2012 and 2011, respectively, in the form of an interest reserve escrow account related to the Credit Facility (see Note 7) and an excess cost escrow account for the funding of Digital Systems in excess of costs caps established in the related credit agreement.

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 4 Consolidated Balance Sheet Components (Continued)

Accounts receivable, net

Accounts receivable, net consists of the following ($ in thousands):

	December 31,	
	2012	2011
Accounts receivable	$ 38,087	$ 30,807
Accrued revenue	41	129
Deferred revenue(1)	(1,175)	(960)
Total accounts receivable, net	$ 36,953	$ 29,976

(1) Deferred revenue consists of unearned amounts billed but not collected at December 31, 2012, 2011 and 2010.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consists of the following ($ in thousands):

	December 31,	
	2012	2011
Accounts payable	$ 13,257	$ 23,814
Accrued equipment purchases leased to others	3,533	2,430
Accrued bonus and compensation	3,327	721
Warranty reimbursement payable	1,361	528
Accrued taxes payable	184	306
Accrued interest payable	163	288
Other accrued liabilities	51	66
Accrued equipment purchases, not deployed	579	
Total accounts payable and accrued liabilities	$ 22,455	$ 28,153

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5 Property and Equipment, net

Property and equipment, net consists of the following ($ in thousands):

	December 31, 2012	December 31, 2011
Equipment leased to others(1)	$ 993,648	$ 807,696
Equipment, not deployed	1,263	10,065
Computer equipment and software	4,674	4,599
Leasehold improvements	382	298
Furniture and fixtures	244	244
Total property and equipment	1,000,211	822,902
Less accumulated depreciation and amortization	(100,025)	(46,515)
Property and equipment, net	$ 900,186	$ 776,387

(1) At December 31, 2012, the approximate cost and carrying value of equipment leased to others was $994,000 and $898,000 and at December 31, 2011, $808,000 and $764,000.

Note 6 Exhibitor Lease Fees

The Company earns lease revenues and other fees through the lease of Digital Systems to the Exhibitors in accordance with the ELAs described in Note 2. The aggregate future minimum lease revenues due under non-cancellable equipment lease agreements that have initial or remaining terms in excess of one year as of December 31, 2012 are as follows ($ in thousands):

Year ending December 31,	Amount
2013	$ 14,147
2014	14,147
2015	14,147
2016	23,578
2017	42,441
Thereafter	224,677
Total	$ 333,137

Revenues earned under the ELAs for the years ended December 31, 2012, 2011 and 2010 totaled $13,649,000, $9,603,000 and $2,749,000, respectively.

Note 7 Long-term Debt

Credit facility

On March 10, 2010, DCIP, Holdings and Kasima entered into a Credit Agreement with JPMorgan Chase Bank, N.A. as Administrative Agent and a group of lenders which agreed to provide Kasima a $110 million revolving line of credit ("Revolver") and a $335 million delayed draw term loan ("Term Loan"). On March 31, 2011 the Credit Agreement was amended and restated to include a $220 million incremental term loan (the "Incremental Term Loan" and together with the Revolver and the Term Loan, the "Credit Facility"). Borrowings under the Credit Facility are being used (i) to fund the

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Long-term Debt (Continued)

purchase and installation of Digital Systems by Kasima, (ii) to reimburse the Company for its permitted operating expenses associated with management services it provides to Kasima and Holdings pursuant to a management services agreement (the "MSA"), (iii) to fund payment of fees, interest and expenses payable under the Credit Facility, (iv) to fund distributions in respect of the Note Facility as permitted by the Credit Facility and (v) for other permitted operating expenses of Kasima and Holdings including interest reserve requirements, closing costs and upfront fees, associated with the Credit Facility. All costs of the Digital Systems exceeding established caps are funded by capital contributions from the Founding Members. Each borrowing under the Credit Facility must be at least $20 million and in $5 million increments.

The net proceeds from the Incremental Term Loan ($205 million) were used to prepay a portion of the Company's then outstanding delayed draw Term Loans and the Company's existing lenders agreed to increase their lending commitments by the amount prepaid and to extend the date of their Term Loan commitments from March 10, 2012 to September 30, 2012. The Incremental Term Loan was fully drawn at closing on March 31, 2011. The Revolver is available following the availability of the Term Loan and subject to certain conditions through March 10, 2015, the maturity date (the "Original Maturity Date") of the Term Loan and Revolver. The maturity date of the Incremental Term Loan is March 31, 2017 (the "Incremental Maturity Date"). At December 31, 2012, the Revolver was fully drawn, subject to hold-back provisions contained in the Credit Facility. Each Term Loan, Incremental Term Loan and Revolver borrowing bears interest, at the option of Kasima, at either the Adjusted LIBO Rate or the Alternate Base Rate, each as defined in the Credit Facility, plus the defined Applicable Rate, which is 2.75% in the case of borrowings based on the Alternate Base Rate and 3.75% for borrowings based on the Adjusted LIBO Rate. The Incremental Term Loan is further subject to an Adjusted LIBO Rate floor of 1.25%. The commitment fee on undrawn amounts in respect of the Term Loan is 1.25% per annum and in respect of the Revolver is 0.50% per annum.

The Incremental Term Loan amortizes at a rate of 1.00% of its original principal amount per annum, payable in quarterly increments of $550,000 that commenced on June 30, 2011, with the remaining balance, including any unpaid interest and fees, payable on the Incremental Maturity Date. Beginning September 30, 2013, in addition to interest in respect of all of its borrowings under the Credit Facility and undrawn commitment fees in respect of the Term Loan and Revolver, the Company must repay a principal amount of the Term Loan equal to $78.5 million in installments over a six quarter period ending December 31, 2014, with the balance of the Term Loan and Revolver, including any unpaid interest and fees outstanding, due on the Original Maturity Date. Kasima may at any time terminate or permanently reduce commitments under the Credit Facility without premium or penalty in $5 million increments of not less than $20 million. Following the first four quarter period for which Cash Flow from Operations exceeds Consolidated Fixed Charges (each as defined), the Credit Facility will be permanently reduced by quarterly prepayments required to be made by Kasima based on defined Excess Cash Flow.

The "Borrower" under the Credit Facility is Kasima and the Credit Facility is guaranteed by Holdings and each direct or indirect subsidiary of Holdings other than the Borrower. The Credit Facility is secured by a first priority lien on all of the assets of the Company (with certain negotiated exclusions), including contract rights, cash and securities accounts and the Digital Systems on Exhibitors' premises. Company assets excluded from the Credit Facility collateral package include, but are not limited to the rights to receivables under the MSA and the membership interest in Holdings, which is pledged in support of the Note Facility.

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Long-term Debt (Continued)

Under the Credit Facility, the Borrower is required to maintain compliance with certain financial covenants. Material covenants include an interest coverage ratio beginning June 30, 2013, average revenues and bookings per screen performance measures, a minimum liquidity of $25 million comprised of undrawn Revolver balance, cash balances and interest reserve, and capital expenditure limitations. At December 31, 2012, the Borrower was in compliance with all of its Credit Facility covenants.

Note purchase agreement

On March 10, 2010, Parent entered into a Note Purchase Agreement with Wilmington Trust Company as Parent Note Agent pursuant to which a group of mezzanine debt funds (the "Noteholders") affiliated with Highbridge Mezzanine Partners agreed to purchase, subject to certain conditions, notes (the "Parent Notes") issued by Parent due March 10, 2025 (the "Note Maturity Date") totaling $135 million (the "Note Facility"). The first purchase of Parent Notes occurred on March 10, 2010 in the amount of $52.5 million. The second purchase of Parent Notes occurred on May 14, 2010 in the amount of $28.8 million. The final purchase of Parent Notes occurred on April 6, 2011 in the amount of $53.7 million. The proceeds of the Note Facility are being and will be used for the purposes described for the Credit Facility above. The Company provides management services to Parent and is reimbursed for its out-of-pocket expenses up to a cap set forth in a management services agreement between the Company and Parent. All net proceeds of the Note Facility are being and will be contributed as equity to Holdings and then to Kasima, by each of Parent and Holdings, respectively. The Parent Notes issued bear interest at 15.12% per annum, of which 12.0% (the "Current Yield") is paid in cash quarterly subject to restrictions set forth in the Credit Facility. Accrued and unpaid interest ("PIK Interest") is added to the outstanding principal balance of Parent Notes on each Current Yield payment date. All outstanding Parent Notes together with any PIK Interest are due on the Note Maturity Date. The Company may at any time prepay the Parent Notes in increments of $1 million, subject to restrictions, on or after March 10, 2014 as set forth in the Note Facility.

The Company's long-term debt at December 31, 2012, 2011 and 2010 consisted of the following ($ in thousands):

			Carrying Amount	
Instrument	**Maturity Date**	**Interest Rate(2)**	**2012**	**2011**
Term Loan	03/10/2015	4.07%	$ 335,000	$ 335,000
Incremental Term Loan	03/31/2017	5.00%	216,150	218,350
Revolver	03/10/2015	4.07%	90,000	
Parent Notes(1)	03/10/2025	15.12%	146,726	141,266
Total Long-term Debt			$ 787,876	$ 694,616

(1) Parent Notes include PIK Interest of $11,726 and $6,266 at December 31, 2012 and 2011, respectively.

(2) Interest rates in effect at December 31, 2012. At December 31, 2011, Term Loan, Incremental Term Loan and Parent Notes interest rates were 4.33%, 5.00% and 15.12%, respectfully.

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Long-term Debt (Continued)

The Company's aggregate maturities of long-term debt are as follows ($ in thousands):

Years Ending December 31,	Amount
2013	$ 24,700
2014	58,200
2015	348,700
2016	2,200
2017	207,350
2018 to 2024	
2025	146,726
Total	$ 787,876

Interest expense on long-term debt was $64,033,000, $48,204,000 and $15,491,000, for the years ended December 31, 2012, 2011 and 2010, respectively, consisting of cash interest of $58,574,000, $43,918,000 and $13,421,000 respectively, and PIK Interest of $5,460,000,$4,286,000 and $1,980,000, respectively.

Derivatives

The Interest Rate Swap and Interest Rate Cap contracts were entered into for interest expense cost protection from rising variable interest rates and are currently associated with the Company's Term Loan and Revolver, which mature on March 10, 2015, and its Incremental Term Loan, which matures on March 31, 2017. Under the Interest Rate Swap contracts, the Company receives current market LIBOR interest rate payments, subject to an interest rate floor for the Incremental Term Loan of 1.25%, and pays a fixed rate of 3.71% for the Term Loan and Revolver and 2.93% for the Incremental Term Loan per annum, each calculated on the same notional principal amount which changes for each fiscal quarterly period commencing as of the quarter ended September 30, 2010 and terminating on the contract expiration dates of March 31, 2015 and 2017, respectively. The Interest Rate Swap contracts in effect for the quarterly period ended December 31, 2012 required the Company to pay a fixed rate of 3.71% per annum on a notional contract amount of $334,075,000 (Term Loan) and 2.93% per annum on a notional contract amount of $172,920,000 (Incremental Term Loan). The Company received an interest payment based on the same notional contract value and calculated at a LIBOR interest rate of 0.32% per annum (Term Loan) and 1.25% per annum (Incremental Term Loan), as in effect for the quarter ended December 31, 2012. This protection against rising market interest rates extends until March 31, 2015 in respect of the Term Loan and Revolver and March 31, 2017 in respect of the Incremental Term Loan and is based on notional amounts as determined by the Interest Rate Swap contracts which increased quarterly up to a maximum of $509,800,000 at March 31, 2012 and then decline to $55,479,000 for the quarter ended March 31, 2017.

The Interest Rate Cap protects the Company from rising quarterly LIBOR market interest rates that exceed 3.71% based on a notional contract schedule of $222,998,000 beginning for the quarter ended March 31, 2015 then decline to a notional contract value of $13,043,000 for the quarterly period ended December 31, 2015. The Company expects to have LIBOR based bank borrowings during this term and will receive an interest rate payment in the event that quarterly LIBOR interest rates then in effect exceed 3.71%. These payments, if any are based on an interest rate equal to the rate by which

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DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 Long-term Debt (Continued)

the LIBOR rate exceeds 3.71% per annum and are calculated on the applicable notional contract value in effect for each quarterly contract period.

Note 8 Retirement Plan

The Company maintains a defined contribution plan for eligible employees under Section 401(k) of the Internal Revenue Code. The Company's plan provides for eligible employees to contribute up to 80% of eligible compensation with a Company match of 50% of the first 6% of employee contributions. All employees are eligible to participate in the plan upon hire. The Company's contributions to the plan totaled $48,000, $34,000 and $32,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

Note 9 Commitments

Operating leases

The Company has leased facilities in the states of New Jersey, Colorado and Minnesota. The aggregate future minimum lease payments under non-cancellable operating leases that have initial or remaining terms in excess of one year as of December 31, 2012 are as follows ($ in thousands):

Year Ending December 31,	Amount
2013	$ 165
2014	138
2015	156
2016	160
2017	120
Total	$ 739

Rent expense for operating leases for the years ended December 31, 2012, 2011 and 2010 totaled $213,000, $183,000 and $193,000, respectively.

Employment agreements

The Company has employment agreements with two of its key executives setting forth key compensation terms (generally annual salary plus a defined bonus) and providing each executive with a severance benefit in the case the executive's employment is terminated without cause or the executive resigns with good reason, each as defined.

Note 10 Related Party Transactions

At December 31, 2012, all of the Company's Digital Systems are leased to the Exhibitors under the ELAs. For the fiscal years ended December 31, 2012, 2011 and 2010, revenues earned from the Exhibitors totaled $13,649,000, $9,603,000 and $2,749,000, respectively. Net accounts receivable due from the Exhibitors totaled $1,629,000 and $1,951,000 at December 31, 2012 and 2011, respectively, and will be settled in cash. Payments under the ELAs are generally due on the fifth day of the month after billing. At times, the Company purchases digital equipment from the Exhibitors at cost subject to caps established in the ELAs. At December 31, 2012 and 2011 the Company had liabilities for

DIGITAL CINEMA IMPLEMENTATION PARTNERS, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 10 Related Party Transactions (Continued)

reimbursement of equipment purchases due to the Exhibitors of $4,871,000 and, zero, respectively. The $230,520,000 warranty reimbursement liability represents a liability to reimburse the Exhibitors for the extended equipment warranty and other replacement costs (as defined in the ELAs) as cash payments beginning in 2011 and continuing through the DCDA End Date (see Note 2). Warranty reimbursements earned in 2012, 2011 and 2010 totaled $3,789,000, $1,261,000 and zero, respectively, consisting of reimbursement payments of $2,956,000, $733,000 and zero, respectively, and payables of $1,361,000 and $528,000 at December 31, 2012 and 2011.

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KPMG LLP
Suite 2000
355 South Grand Avenue
Los Angeles, CA 90071-1568

Independent Auditors' Report

The Board of Directors
Open Road Releasing, LLC:

We have audited the accompanying consolidated financial statements of Open Road Releasing, LLC and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Open Road Releasing, LLC and its subsidiary as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Los Angeles, California
February 6, 2013

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OPEN ROAD RELEASING, LLC

Consolidated Balance Sheets

December 31, 2012 and 2011

(Dollar amounts in thousands)

		2012	2011
Assets			
Current assets:			
Cash and cash equivalents	$	9,418	9,991
Restricted cash		21,090	186
Accounts receivable, net of allowance for doubtful accounts		12,051	252
Prepaid expenses and other		153	77
Total current assets		42,712	10,506
Property and equipment, net		487	590
Film costs		4,132	700
Other assets		167	213
Deferred financing cost, net		2,566	3,627
Total assets	$	50,064	15,636
Liabilities and Members' Equity			
Current liabilities:			
Accounts payable	$	5,213	1,016
Accrued expenses		42,097	3,520
Notes payable		20,000	
Capital lease obligation, current portion		92	92
Total current liabilities		67,402	4,628
Long term liabilities:			
Accrued residuals and participations long term		5,133	542
Deferred compensation		1,883	
Capital lease obligation, net of current portion		44	130
Total liabilities		74,462	5,300
Members' equity		(24,398)	10,336
Total liabilities and members' equity	$	50,064	15,636

See accompanying notes to consolidated financial statements.

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OPEN ROAD RELEASING, LLC

Consolidated Statements of Operations

Years ended December 31, 2012 and 2011

(Dollar amounts in thousands)

	2012	2011
Revenues	$ 117,960	9,146
Direct costs:		
Distribution and marketing costs	117,466	30,511
Participations, residuals, and other costs	22,884	737
Total direct costs	140,350	31,248
Gross profit	(22,390)	(22,102)
Operating expenses:		
General and administrative	10,054	5,896
Depreciation and amortization	147	36
Total operating expenses	10,201	5,932
Interest expense	2,143	1,130
Net loss	$ (34,734)	(29,164)

See accompanying notes to consolidated financial statements.

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OPEN ROAD RELEASING, LLC

Consolidated Statements of Changes in Members' Equity

Years ended December 31, 2012 and 2011

(Dollar amounts in thousands)

Balance as of December 31, 2010	$	
Capital contributions		39,500
Net loss		(29,164)
Balance as of December 31, 2011		10,336
Capital contributions		
Net loss		(34,734)
Balance as of December 31, 2012	$	(24,398)

See accompanying notes to consolidated financial statements.

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OPEN ROAD RELEASING, LLC

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(Dollar amounts in thousands)

	2012	2011
Cash flows from operating activities:		
Net loss	$ (34,734)	(29,164)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	147	36
Amortization of minimum guarantees	6,847	
Amortization of deferred financing cost	1,062	619
Amortization on administration agent fees	125	73
Changes in operating assets and liabilities:		
Accounts receivable	(11,799)	(252)
Deposits and other	35	(202)
Prepaid expenses and other	(76)	(25)
Minimum guarantees on films	(10,279)	(700)
Accounts payable	4,197	1,016
Accrued expenses	43,168	4,062
Deferred compensation	1,883	
Net cash provided by (used in) operating activities	576	(24,537)
Cash flows from investing activity:		
Purchase of property and equipment	(34)	(379)
Net cash used in investing activity	(34)	(379)
Cash flows from financing activities:		
Members' contributions		39,500
Borrowing from credit facility	31,700	
Repayments to credit facility	(11,700)	
Principal payments under capital lease obligation	(86)	(36)
Deferred financing cost		(4,246)
Administrative agent fees	(125)	(125)
Increase in restricted cash	(20,904)	(186)
Net cash provided by (used in) financing activities	(1,115)	34,907
Net increase (decrease) in cash and cash equivalents	(573)	9,991
Cash and cash equivalents at beginning of year	9,991	
Cash and cash equivalents at end of year	$ 9,418	9,991
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, excluding deferred financing costs	$ 903	438
Capital lease		241

See accompanying notes to consolidated financial statements.

OPEN ROAD RELEASING, LLC

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(1) Organization and Operations

The accompanying financial statements include the consolidated accounts of Open Road Releasing, LLC (the Company), formerly REGAMC, LLC, and its wholly owned subsidiary Open Road Films, LLC (Open Road Films), formerly REGAMC, LLC.

The Company was incorporated on December 20, 2010 in the state of Delaware as a limited liability company (LLC). The Company is governed by the terms of its Limited Liability Company Agreement (the Operating Agreement). The Company is an independent distributor of motion pictures to exhibitors in the United States and certain territories. The Company licenses motion pictures in ancillary markets, principally to home entertainment, subscription and transactional video on demand, free television, and non-theatrical.

(2) Summary of Significant Accounting Policies

(a) Cash and Cash Equivalents and Restricted Cash

The Company considers money market accounts and other highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash consists of advances held in distribution bank accounts for marketing and distribution costs to be paid on behalf of third parties.

(b) Film Costs

Film costs include unamortized costs of acquisition for motion pictures, including minimum guarantees.

Film costs are amortized using the individual-film-forecast method, whereby these costs are amortized and participation and residual costs are accrued in the proportion that current year's revenue bears to management's estimate of ultimate revenue expected to be recognized from the sale of the films at the beginning of the current year. Ultimate revenue includes estimates of sales and license fees following the date of initial release.

Film costs are stated at the lower of unamortized cost and fair value. The valuation is reviewed, on a title-by-title basis, when an event or change in circumstance indicates that the fair value is less than unamortized cost. Fair value is determined using management's future revenue and cost estimates. Distribution and marketing expenses are expensed as incurred.

(c) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from two to five years.

(d) Participations and Residuals Payable

Participations payable, included in accrued expenses, consist of amounts due under contractual arrangements for producers, participants and promoted content distribution obligations to founding members under the Operating Agreement. Residuals payable consist of amounts due to talent for the reuse of the talent's work in media subsequent to initial exploitation. These costs are accrued

OPEN ROAD RELEASING, LLC

Notes to Consolidated Financial Statements (Continued)

December 31, 2012 and 2011

(2) Summary of Significant Accounting Policies (Continued)

using the individual-film-forecast method. The Company expects that approximately $18,983,000 of accrued participations and residuals as of December 31, 2012 will be paid within one year.

(e) Revenue Recognition and Trade Receivable

Revenue from the sale or licensing of films is recognized when all of the following criteria have been met: a) persuasive evidence of a sales or licensing arrangement with a customer exists; b) the film is complete and has been delivered or is available for immediate and unconditional delivery; c) the license period of the arrangement has begun; d) the arrangement fee is fixed or determinable; and e) collection of the arrangement fee is reasonably assured. Each film is distributed theatrically to major and independent exhibitors of motion pictures in the United States and certain territories. Home entertainment, subscription and transactional video on demand, free television, and non-theatrical distribution of each film are generally effected through one of the major film distribution or television broadcasting companies in the United States. Minimum guarantees from the licensing or sale of film rights are recognized in revenue when all of the aforementioned conditions are met. For multiple media rights contracts where the contract provides for media holdbacks (defined as contractual media release restrictions), the license fee is allocated to the various media based on management's assessment of the relative fair value of the rights to exploit each media and is recognized as each holdback is released. Amounts due from distributors in excess of the minimum guarantees, if any, are recognized in revenue when such amounts are reported by distributors. Amounts received or contractually due prior to the film's availability are recorded as deferred revenue. Trade receivable are recorded at invoiced amount and do not bear interest.

(f) Commitment Fees

The Company has entered into a credit facility, which requires quarterly payments of commitment fees on the unused facility amount (note 5). Commitment fees of $732,000 and $438,000 are included in interest expense in the accompanying consolidated statements of operations for the years ended December 31, 2012 and 2011, respectively.

(g) Income Taxes

The Company is a disregarded entity for income tax purposes, and substantially all federal and state income taxes are recorded by its members, except for a minimum annual tax and a limited liability company fee in the state of California. Accordingly, the Company does not provide for income taxes. The Company may incur certain state and local taxes imposed by states and localities in which the Company conducts business, which are included in direct costs and general and administrative expenses in the accompanying consolidated statements of operations.

(h) Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

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OPEN ROAD RELEASING, LLC

Notes to Consolidated Financial Statements (Continued)

December 31, 2012 and 2011

(2) Summary of Significant Accounting Policies (Continued)

(i) Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, and trade receivable. The Company places its cash investments with high-quality financial institutions. Management believes that credit risk related to the Company's trade receivable is limited due to the creditworthiness of its customers.

(j) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the balance sheet date, as well as the reported amounts of revenues and expenses during the reporting period. The most significant estimates made by the Company's management in the preparation of the financial statements relate to: ultimate revenue, costs, and fair value for minimum guarantees on films. The actual results could differ significantly from those estimates.

(k) Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash, cash equivalents, trade receivable, accounts payable, accrued expenses, and notes payable. The carrying amounts of these instruments approximate fair value due to their short-term maturities.

(3) Film Costs

Film costs, at December 31, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Minimum guarantees:		
Released films	$ 10,600	
Films not released	379	700
Total film costs	10,979	700
Accumulated amortization	(6,847)	
Total minimum guarantees, net	$ 4,132	700

Amortization of minimum guarantees is included in participations, residuals, and other costs on the consolidated statements of operations. The Company expects approximately 42% of unamortized minimum guarantees will be amortized during 2013 and 83% of unamortized minimum guarantees for released films will be amortized within 3 years from the date of the balance sheet.

OPEN ROAD RELEASING, LLC

Notes to Consolidated Financial Statements (Continued)

December 31, 2012 and 2011

(4) Property and Equipment

Property and equipment at December 31, 2012 and 2011 consist of the following (in thousands):

	2012	2011
Furniture and office equipment	$ 135	120
Computer software and equipment	468	486
Leasehold improvements	51	14
	654	620
Accumulated depreciation	(167)	(30)
	$ 487	590

(5) Senior Revolving Credit Facility

On June 3, 2011, the Company entered into a four-year senior secured revolving credit facility (the Credit Facility) with a syndicate of four banks permitting borrowings at closing up to $100,000,000. Amounts borrowed under the Credit Facility either carry interest at one-, two-, three-, or six-month LIBOR plus 3.75%, or are base rate loans, which bear fluctuating interest rates per annum equal to the highest of the federal funds rate plus 0.5%, the Bank of America prime rate, or the Eurodollar rate plus 1.0%. The Credit Facility also carries a fee of 0.75% per annum on the unused borrowings, which are calculated and payable quarterly. The Company may borrow against the Credit Facility to the extent of the available borrowing base, as defined. The borrowing base primarily comprises seven-year remaining ultimate revenue and expense estimates, based on contracted distribution rights to motion pictures. Additionally, as part of the borrowing base calculation, there is a discounting calculation and tiered advance rates applied to future net remaining cash flows. There was approximately $16,989,000 available under the Credit Facility at December 31, 2012.

On December 31, 2012, there were two outstanding obligations under the Credit Facility totaling $20,000,000. Both obligations carry interest at 3.9617% and mature January 31, 2013. The maturity dates may be converted to new obligations for similar or longer maturity periods. On December 31, 2011, there was no outstanding debt under the Credit Facility. The amounts outstanding under the Credit Facility are secured by substantially all of the Company's assets.

Deferred financing costs represent costs incurred in connection with the establishment of the Company's Credit Facility. Deferred financing costs are amortized using the straight-line method over the expected term of the facility of four years. Deferred financing costs were $2,566,000, net of accumulated amortization of $1,681,000 as of December 31, 2012 and were $3,627,000, net of accumulated amortization of $619,000 as of December 31, 2011. Amortization of deferred financing cost of $1,062,000 and $619,000 for the years ended December 31, 2012 and 2011, respectively, is included in interest expense in the accompanying consolidated statements of operations.

The Credit Facility agreement includes covenants that the Company must comply with on a quarterly or annual basis, including a film performance test and annual limits on selling, general, and administrative expenses. The Company was in compliance with all covenants as of December 31, 2012.

OPEN ROAD RELEASING, LLC

Notes to Consolidated Financial Statements (Continued)

December 31, 2012 and 2011

(6) Commitments and Contingencies

At December 31, 2012, the Company had outstanding commitments to pay minimum guarantees and advances on films in the amount of $6,621,000 in 2013.

The Company leases corporate offices in Los Angeles, California, under a seven-year operating lease expiring in 2018. The Company has the onetime right to terminate the lease at the end of the fifth year.

Total rental expense from the operating lease was $311,000 and $130,000 for the years ended December 31, 2012 and 2011, respectively.

In August 2011, the Company entered into a three-year capital lease for the acquisition of its theatrical distribution software system.

The total future minimum annual payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and capital leases at December 31, 2012 are presented below (in thousands):

	Capital lease obligation	Operating leases
2013	$ 92	326
2014	53	336
2015		346
2016		357
2017		367
Thereafter		218
Total minimum payments	145	$ 1,950
Less imputed interest at 4%	(9)	
Present value of minimum lease payments	136	
Less current portion	(92)	
Long-term capital lease obligation	$ 44	

(7) Members' Equity

In December 2010, the members of the Company made a contribution of $500,000. During 2011, the Company received capital contributions from the members of $39,500,000. Accordingly, the members have effectively contributed $40,000,000 to the Company.

The members will not be personally liable for any debt, obligation, or liability of the Company solely by reason of being members of the Company.

(8) Deferred Compensation

The Company has a deferred compensation plan with key executives. Amounts will be paid in the years 2015 and 2016 based on the Company's performance, as defined in the agreements. During the year ended December 31, 2012, the Company recorded expense of $1,834,000 and has a liability of

OPEN ROAD RELEASING, LLC

Notes to Consolidated Financial Statements (Continued)

December 31, 2012 and 2011

(8) Deferred Compensation (Continued)

$1,883,000 at December 31, 2012. The Company will continue to estimate the liability and compensation expense through settlement.

(9) Related-Party Transactions

The Company recognized revenue in the amount of $24,880,000 and $4,312,000 from its members for the years ended December 31, 2012 and 2011, respectively. The Company had $583,000 and $33,000 in outstanding accounts receivable at December 31, 2012 and 2011, respectively, from its members. At December 31, 2012, the Company has recorded direct costs of $4,173,000 and a $4,147,000 liability to its members related to a promoted content distribution obligation as defined in the Company's Operating Agreement. The Company paid $222,000 in 2012 under that agreement. In 2011, the Company also paid consulting fees in the amount of $400,000 to Apollo Management, a related party at that time. Furthermore, the Company paid $520,000 and $55,000 in marketing costs to its members for the years ended December 31, 2012 and 2011, respectively.

(10) Subsequent Events

The Company has evaluated subsequent events and transactions for potential recognition or disclosure through the date the accompanying financial statements were available to be issued.

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