READING INTERNATIONAL INC
Form 10-Q
August 08, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2007

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 number 1-8625

READING INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

NEVADA	**95-3885184**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
500 Citadel Drive, Suite 300 Commerce CA (Address of principal executive offices)	90040 (Zip Code)

Registrant's telephone number, including area code: (213) 235-2240

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 6, 2007, there were 20,992,453 shares of Class A Nonvoting Common Stock, $0.01 par value per share and 1,495,490 shares of Class B Voting Common Stock, $0.01 par value per share outstanding.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
PART I - Financial Information	1
Item 1 – Financial Statements	1
Consolidated Balance Sheets (Unaudited)	1
Consolidated Statements of Operations (Unaudited)	2
Consolidated Statements of Cash Flows (Unaudited)	3
Notes to Consolidated Financial Statements (Unaudited)	4
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3 – Quantitative and Qualitative Disclosure about Market Risk	41
Item 3A – Quantitative and Qualitative Disclosure about Interest Risk	43
Item 4 – Controls and Procedures	44
PART II – Other Information	45
Item 1 - Legal Proceedings	45
Item 2 - Change in Securities	45
Item 3 - Defaults upon Senior Securities	45
Item 4 - Submission of Matters to a Vote of Securities Holders	45
Item 5 - Other Information	45
Item 6 - Exhibits	45
SIGNATURES	46
CERTIFICATIONS	47

Table of Contents

PART I – Financial Information

Item 1 – Financial Statements

Reading International, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)
(U.S. dollars in thousands)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 22,391	$ 11,008
Receivables	7,619	6,612
Inventory	529	606
Investment in marketable securities	15,653	8,436
Restricted cash	714	1,040
Prepaid and other current assets	3,002	2,589
Total current assets	49,908	30,291
Land held for sale	1,985	--
Property held for development	1,721	1,598
Property under development	55,464	38,876
Property & equipment, net	179,939	170,667
Investment in unconsolidated joint ventures and entities	16,179	19,067
Investment in Reading International Trust I	1,547	--
Goodwill	19,027	17,919
Intangible assets, net	8,038	7,954
Other assets	5,214	2,859
Total assets	$ 339,022	$ 289,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 12,176	$ 13,539
Film rent payable	3,691	4,642
Notes payable – current portion	2,140	2,237
Note payable to related party – current portion	5,000	5,000
Current tax liabilities	4,376	9,128
Deferred current revenue	1,985	2,565
Other current liabilities	170	177
Total current liabilities	29,538	37,288
Notes payable – long-term portion	101,317	113,975
Note payable to related parties	9,000	9,000
Subordinated debt	51,547	--
Noncurrent tax liabilities	4,954	--
Deferred non-current revenue	532	528
Other liabilities	15,099	18,178
Total liabilities	211,987	178,969
Commitments and contingencies	--	--
Minority interest in consolidated affiliates	5,292	2,603

Stockholders' equity:		
Class A Nonvoting Common Stock, par value $0.01, 100,000,000 shares authorized, 35,495,729 issued and 20,992,453 outstanding at June 30, 2007 and 35,468,733 issued and 20,980,865 outstanding at December 31, 2006	216	216
Class B Voting Common Stock, par value $0.01, 20,000,000 shares authorized and 1,495,490 issued and outstanding at June 30, 2007 and December 31, 2006	15	15
Nonvoting Preferred Stock, par value $0.01, 12,000 shares authorized and no outstanding shares	--	--
Additional paid-in capital	131,449	128,399
Accumulated deficit	(49,579)	(50,058)
Treasury shares	(4,306)	(4,306)
Accumulated other comprehensive income	43,948	33,393
Total stockholders' equity	121,743	107,659
Total liabilities and stockholders' equity	$ 339,022	$ 289,231

See accompanying notes to consolidated financial statements.

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(U.S. dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenue				
Cinema	$ 26,034	$ 23,954	$ 50,540	$ 46,463
Real estate	4,105	2,824	7,575	5,515
	30,139	26,778	58,115	51,978
Operating expense				
Cinema	19,931	18,004	38,051	35,144
Real estate	1,864	1,756	3,865	3,468
Depreciation and amortization	3,047	3,337	6,016	6,577
General and administrative	3,879	3,076	7,555	6,441
	28,721	26,173	55,487	51,630
Operating income	1,418	605	2,628	348
Non-operating income (expense)				
Interest income	84	26	229	87
Interest expense	(2,034)	(1,537)	(3,930)	(3,382)
Net gain (loss) on sale of assets	--	--	(185)	3
Other income (expense)	465	1	(271)	(1,157)
Loss before minority interest expense, income tax expense, and equity earnings of unconsolidated joint ventures and entities	(67)	(905)	(1,529)	(4,101)
Minority interest expense	(154)	(192)	(495)	(272)
Loss from continuing operations	(221)	(1,097)	(2,024)	(4,373)
Gain on sale of a discontinued operation	1,912	--	1,912	--
Income (loss) before income tax expense and equity earnings of unconsolidated joint ventures and entities	1,691	(1,097)	(112)	(4,373)
Income tax expense	(443)	(344)	(942)	(681)
Income (loss) before equity earnings of unconsolidated joint ventures and entities	1,248	(1,441)	(1,054)	(5,054)
Equity earnings of unconsolidated joint ventures and entities	386	1,207	2,042	1,674
Net income (loss)	$ 1,634	$ (234)	$ 988	$ (3,380)
Earnings (loss) per common share – basic and diluted:				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.15)
Earnings from discontinued operations	0.08	--	0.08	--
Basic and diluted earnings (loss) per share	$ 0.07	$ (0.01)	$ 0.04	$ (0.15)
Weighted average number of shares outstanding – basic and diluted	22,487,943	22,413,995	22,485,480	22,431,834

See accompanying notes to consolidated financial statements.

-2-

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(U.S. dollars in thousands)

	Six Months Ended June 30,	
	2007	**2006**
Operating Activities		
Net income (loss)	$ 988	$ (3,380)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Gain) loss recognized on foreign currency transactions	(132)	6
Equity earnings of unconsolidated joint ventures and entities	(2,042)	(1,674)
Distributions of earnings from unconsolidated joint ventures and entities	4,318	483
Gain on sale of marketable securities	(224)	--
Gain on sale of a discontinued operation	(1,912)	--
Gain (loss) on disposal of assets	185	(3)
Loss on extinguishment of debt	97	--
Depreciation and amortization	6,016	6,577
Stock based compensation expense	539	45
Minority interest	495	272
Changes in operating assets and liabilities:		
Decrease (increase) in receivables	1,617	1,062
Increase in prepaid and other assets	(183)	(780)
Decrease in accounts payable and accrued expenses	(2,645)	(1,134)
Decrease in film rent payable	(1,167)	(220)
Increase in deferred revenues and other liabilities	1,207	450
Net cash provided by operating activities	7,157	1,704
Investing activities		
Acquisitions	(11,768)	(3,689)
Purchase of property and equipment	(7,944)	(4,645)
Change in restricted cash	326	193
Investment in Reading International Trust I	(1,547)	--
Distributions of investment in unconsolidated joint ventures and entities	1,434	--
Investments in unconsolidated joint ventures and entities	--	(1,800)
Purchase of marketable securities	(11,861)	(219)
Sale of marketable securities	4,010	--
Net cash used in investing activities	(27,350)	(10,160)
Financing activities		
Repayment of long-term borrowings	(43,539)	(2,907)
Proceeds from borrowings	78,204	8,038
Capitalized borrowing costs	(2,254)	--
Option deposit received	--	3,000
Proceeds from exercise of stock options	--	87
Repurchase of Class A Nonvoting Common Stock	--	(792)
Minority interest distributions	(838)	(1,489)
Net cash provided by financing activities	31,573	5,937
Effect of exchange rate changes on cash and cash equivalents	3	86
Increase (decrease) in cash and cash equivalents	11,383	(2,433)

Cash and cash equivalents at beginning of period		11,008		8,548
Cash and cash equivalents at end of period	$	22,391	$	6,115
Supplemental Disclosures				
Interest paid	$	5,208	$	4,021
Income taxes paid	$	123	$	166
Non-cash transactions				
Increase (decrease) in cost basis of Cinemas 1, 2, & 3 related to the purchase price adjustment of the call option liability to related party	$	(2,100)	$	1,037
Adjustment to retained earnings related to adoption of FIN 48 (Note 10)	$	509	$	--
Decrease in deposit payable and increase in minority interest liability related to the exercise of the Cinemas 1, 2 & 3 call option by a related party	$	(3,000)	$	--
Decrease in call option liability and increase in additional paid in capital related to the exercise of the Cinemas 1, 2 & 3 call option by a related party	$	(2,513)	$	--
Accrued construction-in-progress costs	$	(2,440)	$	--

See accompanying notes to consolidated financial statements.

Table of Contents

Reading International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
For the Six Months Ended June 30, 2007

Note 1 – Basis of Presentation

Reading International, Inc., a Nevada corporation ("RDI" and collectively with our consolidated subsidiaries and corporate predecessors, the "Company," "Reading" and "we," "us," or "our"), was founded in 1983 as a Delaware corporati and reincorporated in 1999 in Nevada. Our businesses consist primarily of:

- the development, ownership and operation of multiplex cinemas in the United States, Australia, and New Zealand and

- the development, ownership, and operation of retail and commercial real estate in Australia, New Zealand, and the United States, including entertainment-themed retail centers ("ETRC") in Australia and New Zealand, and live theatre assets in Manhattan and Chicago in the United States.

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission for interim reporting. As such, certain information and footnote disclosures typically required by US GAAP for complete financial statements have been condensed or omitted. There have been no material changes in the information disclosed in the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2006 ("2006 Annual Report"). The financial information presented in this quarterly report on Form 10-Q for the period ended June 30, 2007 (the "June Report"), including the information under the heading, Management's Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with our 2006 Annual Report which contains the latest audited financial statements and related footnotes.

In the opinion of management, all adjustments of a normal recurring nature considered necessary to present fairly in all material respects our financial position, results of our operations and cash flows as of and for the three months and six months ended June 30, 2007 have been made. The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results of operations to be expected for the entire year.

Marketable Securities

We have investments in marketable securities of $15.7 million at June 30, 2007. These investments are accounted for as available for sale investments in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*." In accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") 03-1, "*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*," assessments of potential impairment for these investments are performed for each applicable reporting period. We have determined that there was no impairment for these investments at June 30, 2007. These investments have a cumulative unrealized gain of $639,000 included in accumulated other comprehensive income at June 30, 2007. For the three months and six months ended June 30, 2007 our net unrealized gain on marketable securities was $385,000 and $738,000, respectively. During the three months ended June 30, 2007, we sold $5.7 million of our marketable securities resulting in realized gain on sale of $224,000.

Adjustments

Subsequent to the issuance of our June 30, 2006 consolidated financial statements, we determined that we had overstated our real estate revenue and cinema operating expense by $1.2 million and $1.9 million for the three and six months ended June 30, 2006, respectively, due to an error in the elimination of intercompany rental

Table of Contents

charges among our international subsidiaries. We have adjusted our consolidated statements of operations for the three and six months ended June 30, 2006 to correctly present consolidated real estate revenue and cinema operating expenses. The effects of the adjustment on our originally reported statements of operations are summarized below (dollars in thousands):

	Three months ended June 30, 2006		Six months ended June 30, 2006	
	Real Estate Revenue	**Cinema Expense**	**Real Estate Revenue**	**Cinema Expense**
As originally reported	$ 4,007	$ 19,187	$ 7,435	$ 37,064
Intercompany eliminations	(1,183)	(1,183)	(1,920)	(1,920)
As adjusted	$ 2,824	$ 18,004	$ 5,515	$ 35,144

This adjustment had no impact on our operating income, on our losses from continuing operations, or on our net loss for the three and six months ended June 30, 2006. These adjustments were not material to the presentation of our consolidated financial statements for the three and six months ended June 30, 2006.

Changes in Accounting Policies

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158).*" SFAS No. 158 requires an employer to recognize the funded status of each pension and other postretirement benefit plan as an asset or liability on their balance sheet with all unrecognized amounts to be recorded in other comprehensive income. SFAS No. 158 also ultimately requires an employer to measure the funded status of a plan as of the date of the employer's fiscal year-end statement of financial position. As required, we adopted the provisions of SFAS No. 158 and initially applied it to the funded status of our defined benefit pension plan as of March 1, 2007 (the inception date of the pension plan). The adoption of SFAS No. 158 had no effect on net earnings or cash flows.

New Accounting Pronouncements

Statement of Financial Accounting Standards No. 159

In February 2007, the FASB issued SFAS No. 159 - *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115.* This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. The provisions of SFAS 159 are effective at the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. If adopted, we do not anticipate the application of this pronouncement will have a material impact on our results of operations or financial condition.

Statement of Financial Accounting Standards No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal

years beginning after November 15, 2007. We do not anticipate the

Table of Contents

application of this pronouncement will have a material impact on our results of operations or financial condition.

FASB Interpretation No. 48

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "*Accounting for Income Taxes*." FIN 48 prescribes rules for financial statement recognition and measurement of a tax positions taken or expected to be taken in a tax return. We adopted FIN 48 on January 1, 2007. As a result, we recognized a $509,000 cumulative increase to reserves for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of accumulated deficit in 2007. Overall, we had approximately $12.5 million of gross tax benefits unrecognized on the financial statements as of the date of adoption.

Note 2 – Stock-Based Compensation

Stock Based Compensation

As part of his compensation package, Mr. John Hunter, our Chief Operating Officer, was granted $100,000 of restricted Class A Non-Voting Common Stock on February 12, 2007. This stock grant has a vesting period of two years and a stock grant exercise price of $8.63. During the three months and six months ended June 30, 2007, we recorded compensation expense of $59,000 and $119,000, respectively, for the vesting of all our restricted stock grants. The following table details the grants and vesting of restricted stock to our employees (dollars in thousands):

	Non-Vested Restricted Stock	Weighted Average Share Price
Outstanding – December 31, 2006	46,313	$ 8.10
Granted	11,587	$ 8.63
Outstanding – June 30, 2007	57,900	$ 8.20

We have formed two new wholly owned subsidiaries, Landplan Property Partners, Pty Ltd and Landplan Property Partners New Zealand, Ltd collectively referred to as Landplan Property Partners ("LPP"), to engage in the real estate development business under the leadership of Mr. Doug Osborne. We have an agreement with Mr. Osborne pursuant to which he has a contingent interest in certain property trusts, owned by LPP, ranging between 27.5% and 15%, depending on a number of factors including the amount and duration of the investments of LPP. Mr. Osborne's interest is subordinated to (i) the repayment of all third party indebtedness, (ii) the repayment of all funds invested or advanced by Reading, and (iii) the realization by Reading of an 11% annual compounded preferred return on its capital. Based on SFAS 123(R), we have calculated the fair value of Mr. Osborne's interest for book purposes at $171,000 with respect to property acquired by LPP in the first quarter. During the three and six months ended June 30, 2007, we expensed $57,000 and $97,000, respectively, associated with Mr. Osborne's interests. At June 30, 2006, the total unrecognized compensation expense related to the LPP equity awards was $138,000, which is expected to be recognized over the remaining weighted average period of approximately 12 months.

Table of Contents

Employee/Director Stock Option Plan

We have a long-term incentive stock option plan that provides for the grant to eligible employees and non-employee directors of incentive stock options and non-qualified stock options to purchase shares of the Company's Class A Nonvoting Common Stock.

When the Company's tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. SFAS 123(R) requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the three months ended June 30, 2007 and 2006, there was no impact to the consolidated statement of cash flows because there were no recognized tax benefits from stock option exercises during these periods.

SFAS No. 123(R) requires companies to estimate forfeitures. Based on our historical experience and the relative market price to strike price of the options, we do not currently estimate any forfeitures of vested or unvested options.

In accordance with SFAS No. 123(R), we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility, and the expected life of the options. The dividend yield is excluded from the calculation, as it is our present intention to retain all earnings. We expense the estimated grant date fair values of options issued on a straight-line basis over the vesting period.

We granted 231,250 and 301,250 of options during the three and six months ended June 30, 2007, respectively. Of these options, 70,000 were granted to our directors as fully vested options during the six months ended June 30, 2007. Also, there were 20,000 options granted to our employees during the three and six months ended June 30, 2006. We estimated the fair value of these options at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006
Stock option exercise price	$8.35 - $10.30	$8.10
Risk-free interest rate	4.636 - 4.824%	4.220%
Expected dividend yield	--	--
Expected option life	9.60 - 9.96 yrs	9.66 yrs
Expected volatility	33.64 - 33.74%	34.70%
Weighted average fair value	$4.42 - $4.82	$4.33

Using the above assumptions and in accordance with the SFAS No. 123(R) modified prospective method, we recorded $92,000 and $418,000 in compensation expense for the total estimated grant date fair value of stock options that vested during the three and six months ended June 30, 2007, respectively. We also recorded $25,000 and $45,000 in compensation expense for the total estimated grant date fair value of stock options that vested during the three and six months ended June 30, 2006, respectively. At June 30, 2007, the total unrecognized estimated compensation cost related to non-vested stock options granted was $1.0 million, which is expected to be recognized over a weighted average vesting period of 1.44 years. We recorded cash received from stock options exercised of $88,000 for the six months ended June 30, 2006 and the total realized value of these exercised stock options was $131,000. No options were exercised during the three or six months ended June 30, 2007 or during the three months ended June 30, 2006; therefore, no cash was received from the exercising of stock options and no value was realized from the exercise of options during those periods. Except for the 70,000 fully vested options granted to our directors during the first quarter, only 5,000 options vested during the three and six months ended June 30, 2007; therefore, the grant date fair value of options vesting during the three and six months ended June 30, 2007 was $41,000. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at June 30, 2007 was $2.3 million of which 98.9% are

currently exercisable.

Table of Contents

All stock options granted have a contractual life of 10 years at the grant date. The aggregate total number of shares of Class A Nonvoting Common Stock and Class B Voting Common Stock authorized for issuance under our 1999 Stock Option Plan is 1,293,400. At the time that options are exercised, at the discretion of management, we will either issue treasury shares or make a new issuance of shares to the employee or board member. Dependent on the grant letter to the employee or board member, the required service period for option vesting is between zero and four years.

We had the following stock options outstanding and exercisable as of June 30, 2007 and December 31, 2006:

	Common Stock Options Outstanding		Weighted Average Exercise Price of Options Outstanding		Common Stock Exercisable Options		Weighted Average Price of Exercisable Options	
	Class A	**Class B**	**Class A**	**Class B**	**Class A**	**Class B**	**Class A**	**Class B**
Outstanding-January 1, 2006	521,100	185,100	$ 5.00	$ 9.90	474,600	185,100	$ 5.04	$ 9.90
Exercised	(27,000)	--	$ 3.22	$ --				
Granted	20,000	--	$ 8.10	$ --				
Outstanding-December 31, 2006	514,100	185,100	$ 5.21	$ 9.90	488,475	185,100	$ 5.06	$ 9.90
Granted	151,250	150,000	$ 9.37	$ 10.24				
Expired	(81,250)	(150,000)	$ 10.25	$ 10.24				
Outstanding-June 30, 2007	584,100	185,100	$ 5.59	$ 9.90	482,225	35,100	$ 4.70	$ 8.47

The weighted average remaining contractual life of all options outstanding, vested and expected to vest, at June 30, 2007 and December 31, 2006 was approximately 6.72 and 3.60 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at June 30, 2007 and December 31, 2006 was approximately 5.24 and 3.39 years, respectively.

Note 3 – Business Segments

Our operations are organized into two reportable business segments within the meaning of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Our reportable segments are **(1)** cinema exhibition and **(2)** real estate. The cinema segment is engaged in the development, ownership, and operation of multiplex cinemas. The real estate segment is engaged in the development, ownership, and operation of commercial properties, including ETRC's in Australia and New Zealand and live theatres in the United States. Historically, our development projects have included a cinema component. Incident to our real estate operations we have acquired, and continue to hold, raw land in urban and suburban centers in Australia and New Zealand.

Effective the fourth quarter of 2006, we changed the presentation of our segment reporting such that our intersegment revenues and expenses are reported separately from our segments' operating activity. The effect of this change is to include intercompany rent revenues and rent expenses into their respective cinema and real estate business segments. The revenues and expenses for the six months ending June 30, 2006 have been adjusted to conform to the current year presentation. We believe that this presentation more accurately portrays how our operating decision makers' view the operations, how they assess segment performance, and how they make decisions about allocating resources to the segments.

The tables below summarize the results of operations for each of our principal business segments for the three ("2007 Quarter") and six ("2007 Six Months") months ended June 30, 2007 and the three ("2006 Quarter") and six ("2006 Six

Months") months ended June 30, 2006, respectively. Operating expenses include costs associated with the day-to-day operations of the cinemas and live theatres and the management of rental properties.

Table of Contents

All operating results from discontinued operations are included in "Loss from discontinued operations" (dollars in thousands):

Three months ended June 30, 2007	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 26,034	$ 5,564	$ (1,459)	$ 30,139
Operating expense	21,390	1,864	(1,459)	21,795
Depreciation & amortization	1,798	1,108	--	2,906
General & administrative expense	761	271	--	1,032
Segment operating income	$ 2,085	$ 2,321	$ --	$ 4,406

Three months ended June 30, 2006	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue[1]	$ 23,954	$ 4,164	$ (1,340)	$ 26,778
Operating expense[1]	19,344	1,756	(1,340)	19,760
Depreciation & amortization	2,271	999	--	3,270
General & administrative expense	732	312	--	1,044
Segment operating income	$ 1,607	$ 1,097	$ --	$ 2,704

Reconciliation to consolidated net loss:	2007 Quarter	2006 Quarter
Total segment operating income	$ 4,406	$ 2,704
Non-segment:		
Depreciation and amortization expense	141	67
General and administrative expense	2,847	2,032
Operating income	1,418	605
Interest expense, net	(1,950)	(1,511)
Other income	465	1
Minority interest	(154)	(192)
Gain on sale of a discontinued operation	1,912	--
Income tax expense	(443)	(344)
Equity earnings of unconsolidated joint ventures and entities	386	1,207
Net income (loss)	$ 1,634	$ (234)

Six months ended June 30, 2007	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 50,540	$ 10,405	$ (2,830)	$ 58,115
Operating expense	40,881	3,865	(2,830)	41,916
Depreciation & amortization	3,592	2,146	--	5,738
General & administrative expense	1,525	457	--	1,982
Segment operating income	$ 4,542	$ 3,937	$ --	$ 8,479

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[1] For the three months ended June 30, 2006, the real estate revenues and cinema operating expenses have been adjusted from the amounts previously reported. See Note 1 – *Basis of Presentation*.

Table of Contents

Six months ended June 30, 2006	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue[2]	$ 46,463	$ 8,164	$ (2,649)	$ 51,978
Operating expense[2]	37,793	3,468	(2,649)	38,612
Depreciation & amortization	4,355	2,019	--	6,374
General & administrative expense	1,899	412	--	2,311
Segment operating income	$ 2,416	$ 2,265	$ --	$ 4,681

Reconciliation to consolidated net loss:	2007 Six Months	2006 Six Months
Total segment operating income	$ 8,479	$ 4,681
Non-segment:		
Depreciation and amortization expense	278	203
General and administrative expense	5,573	4,130
Operating income	2,628	348
Interest expense, net	(3,701)	(3,295)
Other income (expense)	(456)	(1,154)
Minority interest	(495)	(272)
Gain on sale of a discontinued operation	1,912	--
Income tax expense	(942)	(681)
Equity earnings of unconsolidated joint ventures and entities	2,042	1,674
Net income (loss)	$ 988	$ (3,380)

Note 4 – Operations in Foreign Currency

We have significant assets in Australia and New Zealand. To the extent possible, we conduct our Australian and New Zealand operations on a self-funding basis. The carrying value of our Australian and New Zealand assets fluctuate due to changes in the exchange rates between the US dollar and the functional currency of Australia (Australian dollar) and New Zealand (New Zealand dollar). We have no derivative financial instruments to hedge foreign currency exposure.

Presented in the table below are the currency exchange rates for Australia and New Zealand as of June 30, 2007 and December 31, 2006:

	US Dollar	
	June 30, 2007	December 31, 2006
Australian Dollar	$ 0.8491	$ 0.7884
New Zealand Dollar	$ 0.7730	$ 0.7046

Note 5 – Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net income (loss) to common stockholders by the weighted average number of common shares outstanding during the period after giving effect to all potentially dilutive common shares that would have

[2] For the six months ended June 30, 2006, the real estate revenues and cinema operating expenses have been adjusted from the amounts previously reported. See Note 1 – *Basis of Presentation*.

Table of Contents

been outstanding if the dilutive common shares had been issued. Stock options give rise to potentially dilutive common shares. In accordance with SFAS No. 128, "*Earnings Per Share*", these shares are included in the dilutive loss per share calculation under the treasury stock method. The following is a calculation of earnings (loss) per share (dollars in thousands, except share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
Loss from continuing operations	$ (278)	$ (234)	$ (924)	$ (3,380)
Gain on sale of a discontinued operation	1,912	--	1,912	--
Net income (loss)	$ 1,634	$ (234)	$ 988	$ (3,380)
Earnings (loss) per common share – basic:				
Loss from continuing operations	$ (0.01)	$ (0.01)	$ (0.04)	$ (0.15)
Gain on sale of a discontinued operation	0.08	--	0.08	--
Basic earnings (loss) per share	$ 0.07	$ (0.01)	$ 0.04	$ (0.15)
Weighted average common stock – basic and diluted	22,487,943	22,413,995	22,485,480	22,431,834

For the three and six months ended June 30, 2007 and 2006, we recorded losses from continuing operations. As such, the incremental shares of 262,428 and 204,055 in 2007 and 2006 from stock options to purchase shares of common stock were excluded from the computation of diluted loss per share because they were anti-dilutive in those periods.

Note 6 - Property Under Development and Property and Equipment

As of June 30, 2007 and December 31, 2006, we owned property under development summarized as follows (dollars in thousands):

Property Under Development	**June 30, 2007**	**December 31, 2006**
Land	$ 35,975	$ 30,296
Construction-in-progress (including capitalized interest)	19,489	8,580
Property Under Development	$ 55,464	$ 38,876

We recorded capitalized interest related to our properties under development for the three months ended June 30, 2007 and 2006 of $900,000 and $354,000, respectively, and $2.0 million and $705,000 for six months ended June 30, 2007 and 2006, respectively.

Incident to the development of our Burwood property, in late 2006, we began various fill and earth moving operations. In late February 2007, it became apparent that our cost estimates with respect to site preparation were low, as the extent of the contaminated soil present at the site – a former brickworks – was greater than we had originally believed. Our previous estimated cost of $500 million included the approximately $1.4 million (AUS$1.8 million) of estimated cost to remove the contaminated soil. As we were not the source of this contamination, we are not currently under any legal obligation to remove this contaminated soil from the site. However, as a practical matter we intend to address these issues in connection with our planned redevelopment of the site as a mixed-use retail, entertainment, commercial and residential complex. As of June 30, 2007, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $7.5 million (AUS$8.9 million) and as of that date we had incurred a total of $4.1 million (AUS$4.8 million) of these costs. In accordance with EITF 90-8 *Capitalization of Costs to Treat Environmental*

-11-

Table of Contents

Contamination, contamination clean up costs that improve the property from its original acquisition state are capitalized as part of the property's overall development costs.

As of June 30, 2007 and December 31, 2006, we owned investments in property and equipment as follows (dollars in thousands):

Property and equipment	**June 30, 2007**	**December 31, 2006**
Land	$ 57,766	$ 56,830
Building	111,928	99,285
Leasehold interest	11,770	11,138
Construction-in-progress	651	425
Fixtures and equipment	62,796	58,164
	244,911	225,842
Less accumulated depreciation	(64,972)	(55,175)
Property and equipment, net	$ 179,939	$ 170,667

Depreciation expense for property and equipment was $2.8 million and $3.1 million for the three months ended June 30, 2007 and 2006, respectively, and $5.5 million and $6.2 million for the six months ended June 30, 2007 and 2006, respectively.

Note 7 – Investments in Unconsolidated Joint Ventures and Entities

Except as noted below regarding our investment in Malulani Investments, Limited, investments in unconsolidated joint ventures and entities are accounted for under the equity method of accounting, and, as of June 30, 2007 and December 31, 2006, include the following (dollars in thousands):

	Interest	**June 30, 2007**	**December 31, 2006**
Malulani Investments, Ltd.	18.4%	$ 1,800	$ 1,800
Rialto Distribution	33.3%	953	782
Rialto Cinemas	50.0%	6,131	5,608
205-209 East 57th Street Associates, LLC	25.0%	1,761	5,557
Mt. Gravatt Cinema	33.3%	4,888	4,713
Berkeley Cinemas – Botany	50.0%	646	607
Total		$ 16,179	$ 19,067

For the three months and six months ended June 30, 2007 and 2006, we recorded our share of equity earnings (loss) from our investments in unconsolidated joint ventures and entities as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Malulani Investments, Ltd.	$ --	$ --	$ --	$ --
Rialto Distribution	63	(22)	88	(22)
Rialto Cinemas	3	--	(20)	--
205-209 East 57th Street Associates, LLC	39	918	1,349	918
Mt. Gravatt Cinema	211	97	427	285

Berkeley Cinemas – Group & Palms	--	196	--	278
Berkeley Cinema – Botany	70	18	198	215
	$ 386	$ 1,207	$ 2,042	$ 1,674

Table of Contents

Malulani Investments, Limited

We continue to treat this investment on a cost basis by recognizing earnings as they are distributed to us.

205-209 East 57th Street Associates, LLC

During 2007, this joint venture has been in the process of completing the development of a predominately-residential condominium complex in midtown Manhattan called Place 57. During the three and six months ending June 30, 2007, the partnership closed on the sale of one and seven of its remaining eight residential condominiums resulting in gross sales of $2.3 million and $22.6 million, respectively, which resulted in equity earnings from unconsolidated joint ventures and entities to us of $39,000 and $1.3 million, respectively. One remaining residential condominium is under contract to be sold and the retail condominium is still available to be sold. The condensed statement of operations for 205-209 East 57th Street Associates, LLC (Unaudited) is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net revenue	$ 2,347	$ 15,820	$ 22,597	$ 15,820
Operating expense	2,193	12,146	16,832	12,146
Net income	$ 154	$ 3,674	$ 5,765	$ 3,674

Note 8 – Goodwill and Intangible Assets

Subsequent to January 1, 2002, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill. Instead, we perform an annual impairment review of our goodwill and other intangible assets in the fourth quarter unless changes in circumstances indicate that an asset may be impaired. As of June 30, 2007 and December 31, 2006, we had goodwill consisting of the following (dollars in thousands):

	Cinema	Real Estate	Total
Balance as of January 1, 2007	$ 12,713	$ 5,206	$ 17,919
Foreign currency translation adjustment	1,036	72	1,108
Balance at June 30, 2007	$ 13,749	$ 5,278	$ 19,027

We have intangible assets other than goodwill that are subject to amortization and are being amortized over various periods. We amortize our beneficial leases over the lease period, the longest of which is 20 years, and our option fee and other intangible assets over 10 years. For the three months ended June 30, 2007 and 2006, amortization expense totaled $248,000 and $218,000, respectively; and for the six months ended June 30, 2007 and 2006, amortization expense totaled $475,000 and $414,000, respectively.

Intangible assets subject to amortization consist of the following (dollars in thousands):

As of June 30, 2007	Beneficial Leases	Option Fee	Other Intangible Assets	Total
Gross carrying amount	$ 11,523	$ 2,773	$ 239	$ 14,535
Less: Accumulated amortization	4,000	2,474	23	6,497
Total, net	$ 7,523	$ 299	$ 216	$ 8,038

Table of Contents

As of December 31, 2006		Beneficial Leases		Option Fee		Other Intangible Assets		Total
Gross carrying amount	$	10,984	$	2,773	$	219	$	13,976
Less: Accumulated amortization		3,577		2,426		19		6,022
Total, net	$	7,407	$	347	$	200	$	7,954

Note 9 – Prepaid and Other Assets

Prepaid and other assets are summarized as follows (dollars in thousands):

		June 30, 2007		December 31, 2006
Prepaid and other current assets				
Prepaid expenses	$	880	$	1,214
Prepaid taxes		551		552
Deposits		1,053		534
Other		518		289
Total prepaid and other current assets	$	3,002	$	2,589
Other non-current assets				
Other non-cinema and non-rental real estate assets	$	1,270	$	1,270
Deferred financing costs, net		2,923		898
Interest rate swaps		317		206
Other		704		485
Total non-current assets	$	5,214	$	2,859

Note 10 – Income Tax

The income tax provision for the three months and six months ended June 30, 2007 and 2006 was composed of the following amounts (dollars in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
		2007		2006		2007		2006
Foreign income tax provision	$	73	$	30	$	160	$	59
Foreign withholding tax		172		137		312		273
Federal tax provision		128		128		255		255
Other income tax		70		49		215		94
Net tax provision	$	443	$	344	$	942	$	681

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "*Accounting for Income Taxes*." FIN 48 prescribes rules for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return.

Table of Contents

The incremental effects of applying FIN 48 on line items in the accompanying consolidated balance sheet at January 1, 2007 was as follows (dollars in thousands):

	Before Application of FIN 48 on January 1, 2007	FIN 48 Adjustments as of January 1, 2007	After Application of FIN 48 on January 1, 2007
Current tax liabilities	$ 9,128	$ (4,000)	$ 5,128
Noncurrent tax liabilities	$ --	$ 4,509	$ 4,509
Accumulated deficit	$ (50,058)	$ (509)	$ (50,567)

We adopted FIN 48 on January 1, 2007. As a result, we recognized a $509,000 cumulative increase to reserves for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of accumulated deficit in 2007. As of that date, we also reclassified approximately $4.0 million in reserves from current taxes liabilities to noncurrent tax liabilities. We had approximately $12.5 million of gross tax benefits unrecognized on the financial statements as of the date of adoption, mostly reflecting operating loss carry forwards and the IRS litigation matter described below. Of the $12.5 million total gross unrecognized tax benefits at January 1, 2007, $4.5 million would impact the effective tax rate if recognized. The remaining balance consists of items that would not impact the effective tax rate due to the existence of the valuation allowance. We recorded an increase to our gross unrecognized tax benefits of approximately $390,000 during the period January 1, 2007 to June 30, 2007, and the total balance at June 30, 2007 was approximately $12.9 million.

Interest and/or penalty related to income tax matters are recorded as part of income tax expense. Of the total reserve for uncertain tax positions as of the date of adoption, approximately $1.7 million represented accrued interest and penalties. Approximately $370,000 of additional interest and penalties were accrued for the period January 1, 2007 to June 30, 2007, mostly related to the IRS assessment described below.

Our company and subsidiaries are subject to U.S. federal income tax, income tax in various U.S. states, and income tax in Australia, New Zealand, and Puerto Rico.

Generally, changes to our federal and most state income tax returns for the calendar year 2002 and earlier are barred by statutes of limitations. Certain domestic subsidiaries filed federal and state tax returns for periods before these entities became consolidated with us. These subsidiaries were examined by IRS for the years 1996 to 1999 and significant tax deficiencies were assessed for those years. We are contesting these deficiencies in Tax Court. Our income tax returns of Australia filed since inception in 1995 are currently open for examination. The income tax returns filed in New Zealand and Puerto Rico for calendar year 2002 and afterward are also currently open for examination.

We do not anticipate that within 12 months following June 30, 2007 our total unrecognized tax benefits will change significantly because of settlement of audits and expiration of statutes of limitations.

Table of Contents

Note 11 – Notes Payable

Notes payable are summarized as follows (dollars in thousands):

Name of Note Payable or Security	Interest Rates as of June 30, 2007	Interest Rates as of December 31, 2006	Maturity Date	Balance as of June 30, 2007	Balance as of December 31, 2006
Australian Corporate Credit Facility	7.34%	7.33%	January 1, 2009	$ 73,023	$ 70,516
Australian Shopping Center Loans	--	--	2007-2013	1,099	1,147
Euro-Hypo Loan	6.73%	--	July 1, 2012	15,000	--
New Zealand Corporate Credit Facility	9.50%	9.15%	November 23, 2010	5,179	35,230
Trust Preferred Securities	9.22%	--	April 30, 2027	51,547	--
US Sutton Hill Capital Note 1 – Related Party	9.69%	9.69%	July 28, 2007	5,000	5,000
US Royal George Theatre Term Loan	7.86%	7.86%	November 29, 2007	1,736	1,819
US Sutton Hill Capital Note 2 – Related Party	8.25%	8.25%	December 31, 2010	9,000	9,000
US Union Square Theatre Term Loan	6.26%	6.26%	January 1, 2010	7,420	7,500
Total				$ 169,004	$ 130,212

Notes Payable

During the first six months of 2007, we retired a portion of our bank indebtedness in Australia of $5.8 million (AUS$7.4 million). We subsequently drew down $3.4 million (AUS$4.0 million) during the second quarter of 2007. This credit facility remains available to us in full to draw on when needed either for additional working capital or for acquisitions.

Euro-Hypo Loan

On June 28, 2007, Sutton Hill Properties LLC ("SHP"), one of our consolidated subsidiaries, entered into a $15.0 million loan that is secured by SHP's interest in the Cinemas 1, 2, & 3 land and building. SHP is owned 75% by Reading and 25% by Sutton Hill Capital, LLC ("SHC"), a joint venture indirectly wholly owned by Mr. James J. Cotter, our Chairman and Chief Executive Officer and an unrelated third party. The terms of the credit agreement require interest only payments at 6.725% fixed until the loan matures on July 1, 2012. The most restrictive covenant for the service of this loan will be the monthly interest payments to be made by SHP. Because, the cash flows from SHP are insufficient, the ownership partners of SHP, Reading International, Inc. and Sutton Hill Capital, LLC, will be required to regularly contribute capital to the partnership to service the debt. Reading will be responsible for 75% and SHC will be responsible for 25% of any such shortfall.

New Zealand Corporate Credit Facility

On June 29, 2007, we finalized the renegotiation of our New Zealand Corporate Credit Facility as a $46.4 million (NZ$60.0 million) line of credit. This renegotiated agreement carries the same terms as noted in our 2006 Consolidated Financial Statements except that it is now a line of credit instead of term debt, the maturity date has been extended by one year to November 23, 2010, the interest rate for the facility will be based on the 90-day Bank Bill Bid Rate (BBBR) plus a 1.00% margin, and a 0.20% line charge will be incurred on the total line of credit of $46.4 million

(NZ$60.0 million). The current interest rate for the outstanding loan balance at June 30, 2007 was 9.50%. As noted below, we had previously paid off our term debt of this facility of $34.4 million (NZ$50.0 million) as a use of the proceeds from our new Subordinated Notes from Reading International Trust I. On June 29, 2007, we drew down on this new line of credit by $5.2 million (NZ$6.7 million) to purchase a property in New Zealand (see Note 17 – Acquisitions and Dispositions).

Table of Contents

UBS Financial Services Line of Credit

In order to finance a portion of our purchases of marketable securities, we had arranged a line of credit (a broker margin account) with UBS Financial Services, Inc. which carried an interest rate of 7.25%. The line of credit was secured by the marketable securities which we purchased on the account. Under the line of credit, we were able to borrow approximately 50% of the market value of our securities in our UBS account. During the second quarter of 2007, we paid off this line of credit in conjunction with our sale of the associated marketable securities.

Subordinated Notes – Reading International Trust I

On February 5, 2007, we issued $51.5 million in 20-year fully subordinated notes to a trust which we control, and which in turn issued $51.5 million in securities. Of the $51.5 million, $50.0 million in trust preferred securities were issued to unrelated investors in a private placement and $1.5 million of common trust securities were issued by the trust to Reading. This $1.5 million is shown on our balance sheet as "Investment in Reading International Trust I." The interest on the notes and preferred dividends on the trust securities carry a fixed rate for five years of 9.22% after which the interest will be based on an adjustable rate of LIBOR plus 4.00% unless we exercise our right to refix the rate at the current market rate at that time. There are no principal payments due until maturity in 2027 when the notes and the trust securities are scheduled to be paid in full. We may pay off the debt after the first five years at 100.0% of the principal amount without any penalty. The trust is essentially a pass through, and the transaction is accounted for on our books as the issuance of fully subordinated notes. The credit facility includes a number of affirmative and negative covenants designed to monitor our ability to service the debt. Currently, the most restrictive covenant of the facility requires that we must maintain a fixed charge coverage ratio at a certain level. The placement generated $49.9 million in net proceeds, which were used principally to make our investment in the common trust securities of $1.5 million, to retire all of our bank indebtedness in New Zealand of $34.4 million (NZ$50.0 million) and to retire a portion of our bank indebtedness in Australia of $5.8 million (AUS$7.4 million). During the three and six months ended June 30, 2007, we paid $1.1 million in preferred dividends to the unrelated investors. At June 30, 2007, we had preferred dividends payable of $768,000.

Note 12 – Other Liabilities

Other liabilities are summarized as follows (dollars in thousands):

	June 30, 2007	December 31, 2006
Current liabilities		
Security deposit payable	$ 169	$ 177
Other	1	--
Other current liabilities	$ 170	$ 177
Other liabilities		
Foreign withholding taxes	$ 5,346	$ 5,212
Straight-line rent liability	3,750	3,693
Purchase option liability	--	3,681
Environmental reserve	1,656	1,656
Executive pension plans	2,933	174
Option deposit	--	3,000
Other	1,414	762
Other liabilities	$ 15,099	$ 18,178

Table of Contents

Executive Pension Plans

On March 15, 2007, the Board of Directors of Reading International, Inc. ("Reading") approved a Supplemental Executive Retirement Plan ("SERP") pursuant to which Reading has agreed to provide James J. Cotter, its Chief Executive Officer and Chairman of the Board of Directors, supplemental retirement benefits effective March 1, 2007. Under the SERP, Mr. Cotter will receive a monthly payment of the greater of (i) 40% of the average monthly earnings over the highest consecutive 36-month period of earnings prior to Mr. Cotter's separation from service with Reading or (ii) $25,000 per month for the remainder of his life, with a guarantee of 180 monthly payments following his separation from service with Reading or following his death. The beneficiaries under the SERP may be designated by Mr. Cotter or by his beneficiary following his or his beneficiary's death. The benefits under the SERP are fully vested as of March 1, 2007.

The SERP initially will be unfunded, but Reading may choose to establish one or more grantor trusts from which to pay the SERP benefits. As such, the SERP benefits are unsecured, general obligations of Reading. The SERP is administered by the Compensation Committee of the Board of Directors of Reading. In accordance with SFAS 158 - *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, the initial pension benefit obligation of $2.7 million is included in our other liabilities with a corresponding amount of unrecognized prior service cost included in accumulated other comprehensive income (see Note 16 – *Comprehensive Income*). The $2.7 million will be amortized as a prior service cost over the estimated service period of 10 years combined with an annual interest cost. For the three and six months ended June 30, 2007, we recognized $39,000 and $52,000, respectively, of interest cost and $76,000 and $101,000, respectively, of amortized prior service cost. The balance of the other liability for this pension plan is $2.7 million at June 30, 2007 and the accumulated other comprehensive income balance was $2.6 million at June 30, 2007. The value of the SERP is based on a discount rate of 5.75% and an annual compensation growth rate of 3.50%.

In addition to the aforementioned SERP, Mr. S. Craig Tompkins has a vested interest in the pension plan originally established by Craig Corporation prior to its merger with our company of $181,000, which amount accrues interest at 30 day LIBOR and is maintained as an unfunded Executive Pension Plan obligation included in other liabilities.

Sutton Hill Capital – Cinemas 1, 2, & 3 Purchase Option

As part of the purchase of the real property underlying our leasehold interest in the Cinemas 1, 2, & 3 on June 1, 2005, we granted a purchase option to Sutton Hill Capital, LLC ("SHC"), a limited liability company beneficially owned in equal 50/50 shares by Messrs. James J. Cotter and Michael Forman, to acquire at the acquisition date cost basis, up to a 25% non-managing membership interest in Sutton Hill Properties, LLC ("SHP"). SHP is the limited liability company that we formed to acquire these interests. In relation to this option, we estimated, based on a June 2007 property appraisal, the fair value of the option for the three months ending June 30, 2007 remained unchanged and the fair value of the option had increased for the six months ended June 30, 2007 by $950,000 which was expensed for the six months ending June 30, 2007. During 2006, the value of the option at June 30, 2006 had increased from approximately $1.7 million at January 1, 2006 to $3.5 million, resulting in an expense for the three and six months ended June 30, 2006 of $275,000 and $1.4 million, respectively.

On June 28, 2007, SHC exercised this option with the application of their $3.0 million deposit plus the assumption of their proportionate share of SHP's liabilities giving them a 25% non-managing membership interest in SHP. Upon exercise, the settlement of the previously capitalized option liability of $4.6 million resulted in an increase in additional paid-in-capital of $2.5 million as the transfer of the 25% non-managing membership interest to SHC constituted a transfer of an equity interest between entities under common control.

Note 13 – Commitments and Contingencies

Unconsolidated Debt

Total debt of unconsolidated joint ventures and entities was $5.3 million and $4.8 million as of June 30, 2007 and December 31, 2006, respectively. Our share of unconsolidated debt, based on our ownership percentage, was $2.4 million and $2.2 million as of June 30, 2007 and December 31, 2006, respectively. This debt is without recourse to Reading as of June 30, 2007 and December 31, 2006.

Litigation

There have not been any material changes to our litigation exposure since our December 31, 2006 Consolidated Financial Statements.

Note 14 – Minority Interest

Minority interest is composed of the following enterprises:

- 50% of membership interest in Angelika Film Center LLC (“AFC LLC”) owned by a subsidiary of National Auto Credit, Inc.;
- 25% minority interest in Australia Country Cinemas Pty Ltd (“ACC”) owned by Panorama Cinemas for the 21st Century Pty Ltd.;
- 33% minority interest in the Elsternwick Joint Venture owned by Champion Pictures Pty Ltd.;
- Up to 27.5% minority interest in certain property holding trusts established by Landplan Property Partners to hold, manage and develop properties identified by Doug Osborne;
- 25% minority interest in the Sutton Hill Properties, LLC owned by Sutton Hill Capital, LLC; and
- 20% minority interest in Big 4 Farming LLC by Cecelia Packing Corporation.

The components of minority interest are as follows (dollars in thousands):

	June 30, 2007	December 31, 2006
AFC	$ 1,843	$ 2,264
Australian Country Cinemas	165	174
Elsternwick Unincorporated Joint Venture	166	151
Landplan Property Partners Property Trusts	117	13
Sutton Hill Properties	3,000	--
Other	1	1
Minority interest in consolidated affiliates	$ 5,292	$ 2,603

Table of Contents

	Expense for the Three Months Ended June 30,		Expense for the Six Months Ended June 30,	
	2007	**2006**	**2007**	**2006**
AFC LLC	$ 61	$ 187	$ 329	$ 257
Australian Country Cinemas	26	--	52	3
Elsternwick Unincorporated Joint Venture	(19)	5	18	12
Landplan Property Partners Property Trusts	86	--	96	--
Sutton Hill Properties	--	--	--	--
Minority interest expense	$ 154	$ 192	$ 495	$ 272

Landplan Property Partners

As fully described in our 2006 Consolidated Financial Statements, we have formed two new wholly-owned subsidiaries, Landplan Property Partners, Pty Ltd and Landplan Property Partners New Zealand, Ltd collectively referred to as Landplan Property Partners ("LPP"), to engage in the real estate development business under the leadership of Mr. Doug Osborne. We have an agreement with Mr. Osborne pursuant to which he has a contingent interest in certain property trusts, owned by LPP, ranging between 27.5% and 15%, depending on a number of factors including the amount and duration of the investments of LPP. Mr. Osborne's interest is subject to (i) the repayment of all third party indebtedness, (ii) the repayment of all funds invested or advanced by Reading, and (iii) the realization by Reading of an 11% annual compounded preferred return on its capital. Based on SFAS 123(R), we have calculated the fair value of Mr. Osborne's interest for book purposes at $171,000 with respect to property acquired by LPP in the first quarter. During the three and six months ended June 30, 2007, we expensed $57,000 and $97,000, respectively, associated with Mr. Osborne's interests.

Sutton Hill Properties

On June 28, 2007, SHC exercised its Cinemas 1, 2, & 3 Purchase Option for a cash contribution of $3.0 million plus the assumption of their proportionate share of SHP's liabilities giving them a 25% non-managing membership interest in SHP.

Big 4 Farming LLC

The Big 4 Farming entity that is subject to this minority interest is not an operating company.

Note 15 – Common Stock

Employee Stock Grants

As part of his compensation package, Mr. John Hunter, our Chief Operating Officer, was granted $100,000 of restricted Class A Non-Voting Common Stock on February 12, 2007. This stock grant has a vesting period of two years and a stock grant price of $8.63.

Note 16 - Comprehensive Income

U.S. GAAP requires that the effect of foreign currency translation adjustments and unrealized gains and/or losses on securities that are available-for-sale ("AFS") be classified as comprehensive income. The following table sets forth our comprehensive income for the periods indicated (dollars in thousands):

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	$ 1,634	$ (234)	$ 988	$ (3,380)
Foreign currency translation gain (loss)	8,582	2,497	12,417	(999)
Accrued pension	76	--	(2,600)	--
Unrealized gain on AFS securities	385	10	738	17
Comprehensive income (loss)	$ 10,677	$ 2,273	$ 11,543	$ (4,362)

Note 17 – Acquisitions, Dispositions, and Assets Held for Sale

New Zealand Property Acquisitions

On June 29, 2007, we acquired a commercial property for $5.9 million (NZ$7.6 million), rented to an unrelated third party, to be held for current income and long term appreciation. We have not yet completed our purchase price allocation for this property and the related acquired operating lease in accordance with SFAS 141 – *Business Combinations*. The initial purchase price allocation was based on the assets acquired from the seller. The preliminary purchase price allocation for this acquisition is $1.2 million (NZ$1.6 million) allocated to land and $4.7 million (NZ$6.1 million) allocated to building. In addition, we entered into a contract, through a Landplan Property Partners property trust, to purchase 64.0 acres of undeveloped agricultural land for $9.2 million (NZ$11.9 million), and made a deposit of $907,000 (NZ$1.2 million) with respect to that transaction. The property was subsequently acquired on July 27, 2007 (see Note 19 – *Subsequent Events*). We anticipate rezoning the property from its current agricultural use to commercial use, and thereafter to redevelop the property in accordance with its proposed new zoning. No assurances can be given that such rezoning will be achieved, or if achieved, that it will be achieved in the near term.

On February 14, 2007, we acquired, through a Landplan Property Partners property trust, a 1.0 acre parcel of commercial real estate for approximately $5.3 million (NZ$7.7 million). The property is currently improved with a motel, but we anticipate that this use will be discontinued as we renovate the property and sell the units as condominiums. A portion of this property includes unimproved land that we do not intend to develop. At the time of purchase, this land was determined to have a fair value of $1.8 million (NZ$2.6 million) and is included on our balance sheet as land held for sale. The remaining property and its cost basis of $3.5 million (NZ$5.1 million) was included in property under development. The operating activities of the motel are not material. We have completed our purchase price allocation for this property in accordance with SFAS 141 – *Business Combinations*.

Cinemas 1, 2, & 3 Building

On June 28, 2007, we purchased the building associated with our Cinemas 1, 2, & 3 for $100,000 from Sutton Hill Capital ("SHC"). Our option to purchase that building has been previously disclosed, and was granted to us by SHC at the time that we acquired the underlying ground lease from SHC on June 1, 2005. As SHC is a related party to our corporation, our Board's Audit and Conflicts Committee, comprised entirely of outside independent directors, and subsequently our entire Board of Directors unanimously approved the purchase of the property. The Cinemas 1, 2 & 3 is located on 3rd Avenue between 59th and 60th Streets.

Tower Ground Lease

On February 8, 2007, we purchased the tenant's interest in the ground lease underlying the building lease for one of our domestic cinemas. The purchase price of $493,000 was paid in two installments; $243,000 was paid on February 8, 2007 and $250,000 was paid on June 28, 2007.

Table of Contents

Discontinued Operation

In June 2007, upon the fulfillment of our commitment, we recorded the release of a deferred gain on the sale of a discontinued operation of $1.9 million associated with a previously sold property.

Note 18 – Derivative Instruments

The following table sets forth the terms of our interest rate swap derivative instruments at June 30, 2007:

Type of Instrument	Notional Amount	Pay Fixed Rate	Receive Variable Rate	Maturity Date
Interest rate swap	$ 9,128,000	5.7000%	6.5650%	December 31, 2007
Interest rate swap	$ 14,222,000	6.4400%	6.5650%	December 31, 2008
Interest rate swap	$ 13,861,000	6.6800%	6.5650%	December 31, 2008
Interest rate swap	$ 10,338,000	5.8800%	6.5650%	December 31, 2008
Interest rate swap	$ 2,972,000	6.3600%	6.5650%	December 31, 2008
Interest rate swap	$ 2,972,000	6.9600%	n/a	December 31, 2008

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we marked our Australian interest rate swap instruments to market on the consolidated balance sheet resulting in a $74,000 (AUS$73,000) and $111,000 (AUS$112,000) decrease to interest expense during the three and six months ended June 30, 2007, respectively, and a $442,000 (AUS$621,000) and $553,000 (AUS$755,000) increase to interest expense during the three and six months ended June 30, 2006, respectively. At June 30, 2007 and December 31, 2006, we have recorded the fair market value of our interest rate swaps of $317,000 (AUS$373,000) and $206,000 (AUS$261,000), respectively, as an other noncurrent asset. The last swap listed above with a notional amount of $2,972,000 does not have a "Receive Variable Rate" because the instrument will not be effective until July 1, 2007. In accordance with SFAS No. 133, we have not designated any of our current interest rate swap positions as financial reporting hedges.

Note 19 – Subsequent Events

New Zealand Property Acquisition

On July 27, 2007, we purchased through a Landplan Property Partners property trust a 64.0 acre parcel of undeveloped agricultural real estate for approximately $9.2 million (NZ$11.9 million). We anticipate rezoning the property from its current agricultural use to commercial use, and thereafter to redevelop the property in accordance with its new zoning. No assurances can be given that such rezoning will be achieved, or if achieved, that it will be achieved in the near term.

Table of Contents

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

As Reading International, Inc. (RDI and collectively with our consolidated subsidiaries, "Reading" and "we," "us" or "our") our businesses consist primarily of:

- the development, ownership, and operation of multiplex cinemas in the United States, Australia, and New Zealand; and

- the development, ownership, and operation of retail and commercial real estate in Australia, New Zealand, and the United States, including entertainment-themed retail centers ("ETRCs") in Australia and New Zealand and live theater assets in Manhattan and Chicago in the United States.

We believe cinema exhibition to be a business that will likely continue to generate fairly consistent cash flows in the years ahead. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home and that, when compared to other forms of outside the home entertainment, movies continue to be a popular and competitively priced option. While we intend to be opportunistic in adding to our existing cinema portfolio (and are continuing to consider the acquisition of existing cinema assets as they come on the market), we believe it is likely that, over the long term, we will be reinvesting the majority our free cash flow more in our general real estate development activities than in our cinema activities. Over time, we anticipate that our cinema operations will become increasingly a source of cash flow to support our real estate oriented activities, rather than a focus of growth, and that our real estate activities will become the principal thrust of our business.

In short, while we do have operating company attributes, we see ourselves principally as a hard asset company and intend to add to shareholder value by building the value of our portfolio of tangible assets.

In addition, we may from time to time identify opportunities to expand our existing businesses and asset base, or to otherwise profit, through the acquisition of interests in other publicly traded companies, both in the United States and in the overseas jurisdictions in which we do business. At June 30, 2007, our investments in the securities of other public companies aggregated $15.7 million, based on the closing price of such securities on that date.

We manage our worldwide cinema business under various different brands:

- in the US, under the *Reading, Angelika Film Center* and *City Cinemas* brands;
- in Australia, under the *Reading* brand; and
- in New Zealand, under the *Reading, Berkeley Cinemas* and *Rialto* brands.

At June 30, 2007, we owned and operated 35 cinemas with 231 screens, had interests in certain unconsolidated joint ventures and entities that own an additional 7 cinemas with 46 screens and managed 2 cinemas with 9 screens.

Our business plan going forward is to build-out our existing development properties and to seek out additional real estate development opportunities while continuing to use our presence in the cinema exhibition and live theatre business, to identify, develop and acquire cinema and live theatre properties.

A significant portion of our business is conducted in Australia and New Zealand, and as such, we are subject to a certain degree of currency risk. We do not engage in currency hedging activities. Rather, to the extent possible, we operate our Australian and New Zealand operations on a self-funding basis. Our policy in Australia and New Zealand

is to match revenues and expenses, whenever possible, in local currencies. As a result, the majority of our expenses in Australia and New Zealand have been procured in local currencies. Due to the

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Table of Contents

developing nature of our operations in Australia and New Zealand, our revenues are not yet significantly greater than our operating expenses. The resulting natural operating hedge has led to a negligible foreign currency effect on our net earnings. However, with the recent reduction in our New Zealand and Australia debt, foreign currency can have a significant effect on the value of assets and liabilities with fluctuations noted in other comprehensive income. On February 5, 2007, we issued $51.5 million in 20-year fully subordinated notes and paid off our bank indebtedness in New Zealand $34.4 million (NZ$50.0 million) and retired a portion of our bank indebtedness in Australia $5.8 million (AUS$7.4 million). By paying off our New Zealand debt and paying down on our Australia debt with the proceeds of our Trust Preferred Securities, we have added an increased element of currency risk to our Company. We believe that this currency risk is mitigated by the comparatively favorable interest rate and the long-term nature of the fully subordinated notes. As we continue to progress with our acquisition and development activities in Australia and New Zealand, we cannot assure you that the foreign currency effect on our earnings will be insignificant in the future.

We continue to acquire, to dispose of, or to reposition assets in accordance with our business plan. For a description of our acquisitions so far in 2007, see Note 17 – *Acquisitions and Assets Held for Sale* to our June 30, 2007 Consolidated Financial Statements.

Results of Operations

At June 30, 2007, we owned and operated 35 cinemas with 231 screens, had interests in certain unconsolidated joint ventures and entities that own an additional 7 cinemas with 46 screens and managed 2 cinemas with 9 screens. Regarding real estate, we owned and operated during the period four ETRC’s that we have developed in Australia and New Zealand; owned the fee interests in four developed commercial properties in Manhattan and Chicago, all of which are improved with live theatres, which together comprise seven stages and, in two cases, ancillary retail and commercial space; owned the fee interests underlying one of our Manhattan cinemas and hold for development an additional seven parcels (aggregating approximately 59 acres) located principally in urbanized areas of Australia and New Zealand. Two of these parcels, Burwood and Moonee Ponds, comprise approximately 54 acres, and are in areas designated by the provincial government of Victoria, Australia as “major or principal activity centres,” and we are currently in the planning phases of their development.

Operating expenses include costs associated with the day-to-day operations of the cinemas and live theatres and the management of rental properties. Our year-to-year results of operation were principally impacted by the following:

- the opening in the fourth quarter of 2005 and the occupancy of the majority of tenancies during first and second quarters of 2006 of our Newmarket Shopping Center, a 100,000 square foot retail center in a suburb of Brisbane, Australia;
- the acquisition of a cinema in Queenstown, New Zealand effective February 23, 2006;
- the purchase of the 50% share that we did not already own of the Palms 8-screen, leasehold cinema located in Christchurch, New Zealand effective April 1, 2006;
- the sale of our 50% share of the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand formerly part of the Berkeley Cinemas Group effective August 28, 2006; and
- the increase in the value of the Australian and New Zealand dollars vis-à-vis the US dollar from $0.7423 and $0.6105, respectively, as of June 30, 2006 to $0.8491 and $0.7730, respectively, as of June 30, 2007.

The tables below summarize the results of operations for each of our principal business segments for the three (“2007 Quarter”) and six (“2007 Six Months”) months ended June 30, 2007 and the three (“2006 Quarter”) and six (“2006 Six

Months") months ended June 30, 2006, respectively. Effective the fourth quarter of 2006, we

Table of Contents

changed the presentation of our segment reporting such that our intersegment revenues and expenses are reported separately from our segments' operating activity. The effect of this change is to include intercompany rent revenues and rent expenses into their respective cinema and real estate business segments. The revenues and expenses for the three and six months ending June 30, 2006 have been adjusted to conform to the current year presentation. We believe that this presentation more accurately portrays how our operating decision makers' view the operations, how they assess segment performance, and how they make decisions about allocating resources to the segments (dollars in thousands):

Three months ended June 30, 2007	**Cinema**	**Real Estate**	**Intersegment Eliminations**	**Total**
Revenue	$ 26,034	$ 5,564	$ (1,459)	$ 30,139
Operating expense	21,390	1,864	(1,459)	21,795
Depreciation & amortization	1,798	1,108	--	2,906
General & administrative expense	761	271	--	1,032
Segment operating income	$ 2,085	$ 2,321	$ --	$ 4,406

Three months ended June 30, 2006	**Cinema**	**Real Estate**	**Intersegment Eliminations**	**Total**
Revenue[3]	$ 23,954	$ 4,164	$ (1,340)	$ 26,778
Operating expense[3]	19,344	1,756	(1,340)	19,760
Depreciation & amortization	2,271	999	--	3,270
General & administrative expense	732	312	--	1,044
Segment operating income	$ 1,607	$ 1,097	$ --	$ 2,704

Reconciliation to consolidated net loss:	**2007 Quarter**	**2006 Quarter**
Total segment operating income	$ 4,406	$ 2,704
Non-segment:		
Depreciation and amortization expense	141	67
General and administrative expense	2,847	2,032
Operating income	1,418	605
Interest expense, net	(1,950)	(1,511)
Other income	465	1
Minority interest	(154)	(192)
Gain on sale of a discontinued operation	1,912	--
Income tax expense	(443)	(344)
Equity earnings of unconsolidated joint ventures and entities	386	1,207
Net income (loss)	$ 1,634	$ (234)

[3] For the three months ended June 30, 2006, the real estate revenues and cinema operating expenses have been adjusted from the amounts previously reported. See Note 1 – *Basis of Presentation*.

Table of Contents

Six months ended June 30, 2007	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 50,540	$ 10,405	$ (2,830)	$ 58,115
Operating expense	40,881	3,865	(2,830)	41,916
Depreciation & amortization	3,592	2,146	--	5,738
General & administrative expense	1,525	457	--	1,982
Segment operating income	$ 4,542	$ 3,937	$ --	$ 8,479

Six months ended June 30, 2006	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue[4]	$ 46,463	$ 8,164	$ (2,649)	$ 51,978
Operating expense[4]	37,793	3,468	(2,649)	38,612
Depreciation & amortization	4,355	2,019	--	6,374
General & administrative expense	1,899	412	--	2,311
Segment operating income	$ 2,416	$ 2,265	$ --	$ 4,681

Reconciliation to consolidated net loss:	2007 Six Months	2006 Six Months
Total segment operating income	$ 8,479	$ 4,681
Non-segment:		
Depreciation and amortization expense	278	203
General and administrative expense	5,573	4,130
Operating income	2,628	348
Interest expense, net	(3,701)	(3,295)
Other income (expense)	(456)	(1,154)
Minority interest	(495)	(272)
Gain on sale of a discontinued operation	1,912	--
Income tax expense	(942)	(681)
Equity earnings of unconsolidated joint ventures and entities	2,042	1,674
Net income (loss)	$ 988	$ (3,380)

Cinema

Included in the cinema segment above is revenue and expense from the operations of 35 cinema complexes with 231 screens during the 2007 and the 2006 Quarters. The following tables detail our cinema segment operating results for the three months ended June 30, 2007 and 2006, respectively (dollars in thousands):

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[4] For the six months ended June 30, 2006, the real estate revenues and cinema operating expenses have been adjusted from the amounts previously reported. See Note 1 – *Basis of Presentation*.

Table of Contents

Three Months Ended June 30, 2007	**United States**	**Australia**	**New Zealand**	**Total**
Admissions revenue	$ 3,911	$ 10,915	$ 4,113	$ 18,939
Concessions revenue	1,151	3,615	1,134	5,900
Advertising and other revenues	377	615	203	1,195
Total revenues	5,439	15,145	5,450	26,034
Cinema costs	4,178	11,567	4,278	20,023
Concession costs	242	835	290	1,367
Total operating expense	4,420	12,402	4,568	21,390
Depreciation and amortization	491	873	434	1,798
General & administrative expense	532	227	2	761
Segment operating income (loss)	$ (4)	$ 1,643	$ 446	$ 2,085

Three Months Ended June 30, 2006	**United States**	**Australia**	**New Zealand**	**Total**
Admissions revenue	$ 3,952	$ 9,822	$ 3,790	$ 17,564
Concessions revenue	1,186	2,980	1,095	5,261
Advertising and other revenues	471	475	183	