READING INTERNATIONAL INC
Form 10-K
March 28, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 No. 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)	(I.R.S. Employer Identification Number)
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

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

Title of each class	Name of each exchange on which registered
Class A Nonvoting Common Stock, $0.01 par value	American Stock Exchange
Class B Voting Common Stock, $0.01 par value	American Stock Exchange

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

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for shorter period than the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þNo ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K of any amendments 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.
Large accelerated filer ¨ Accelerated filer þ 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 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 March 17, 2007, there were 20,992,909 shares of Class A Non-voting Common Stock, par value $0.01 per share and 1,495,490 shares of Class B Voting Common Stock, par value $0.01 per share, outstanding. The aggregate market value of voting and nonvoting stock held by non-affiliates of the Registrant was $153,983,000 as of March 26, 2007.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2007
INDEX

Table of Contents

PART I

Item 1 – Our Business

General Description of Our Business

Reading International, Inc., a Nevada corporation ("RDI"), was incorporated in 1999 incident to our reincorporation in Nevada. However, we trace our corporate roots back to the Reading Railroad and its corporate predecessors, first incorporated in 1833. Our Class A Nonvoting Common Stock ("Class A Stock") and Class B Voting Common Stock ("Class B Stock") are listed for trading on the American Stock Exchange under the symbols RDI and RDI.B. Our principal executive offices are located at 500 Citadel Drive, Suite 300, Commerce, California 90040. Our general telephone number is (213) 235-2240. Our website can be found at www.readingrdi.com. In this Annual Report, we from time to time use terms such as the "Company," "Reading" and "we," "us," or "our" to refer collectively to RDI and o various consolidated subsidiaries and corporate predecessors.

We are an internationally diversified company principally focused on the ownership and development of land and brick, mortar entertainment and real property assets. 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.

Recognizing that we are part of a world economy, we endeavor to keep a balance between our US and overseas assets. Taking into account acquisitions made in February 2008 as described more fully below, we currently have approximately 35% of our assets (based on book value) in the United States, 44% in Australia and 21% in New Zealand.

While we do not believe the cinema exhibition business to be a growth business at this time, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in a recessionary or inflationary environment. 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. However, since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see our future asset growth coming more from our real estate development activities and from the acquisition of existing cinemas rather than from the development of new cinemas. 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, again, over time become the principal thrust of our business. We also, from time to time, invest in the shares of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses.

Consistent with this philosophy, on February 22, 2008 we acquired from two commonly owned companies, Pacific Theatres and Consolidated Amusement Theatres, substantially all of their cinema assets in Hawaii, San Diego County, and Northern California for $69.3 million. In total, we acquired fourteen mature leasehold cinemas and the management rights to one additional mature cinema, representing a total of 181 screens. In saying that these cinema are "mature" we mean that they have been in operation for some years, and are, in our view, proven performers in their markets. For the fiscal year ended December 28, 2007, we estimate that these theatres produced gross revenues of approximately $78.0 million. We refer to these cinemas from time to time in this report as Consolidated Cinemas. While this was a major acquisition for us, we believe it to have been a reasonably conservative investment, given the mature status of these assets and the fact that our Chairman and Chief Operating Officer are both familiar with these assets and the markets in which they operate due to their prior association with the sellers.

Our acquisition of the Consolidated Cinemas was financed, principally with a combination of commercial lenders institutional finance ($50.0 million) and seller finance ($21.0 million). Accordingly, our investment was approximately $2.2 million to cover for transaction related costs and expenses such as attorneys' fees, financing fees, and transfer fees. Reading International, our parent company, has provided a guarantee on the commercial lending up until the time when the leverage ratio reaches a 2.75 to 1.00. The sellers financing is recourse to companies having as their only assets the Consolidated Cinemas and two of our domestic cinemas, our Manville and Angelika Dallas cinemas.

While we have not yet completed a 2007 audit of the results of the operation of these cinema assets, we believe based upon information provided to us by the sellers that these cinemas generated approximately $78.0 million in gross revenue for the twelve months ended December 31, 2007 as compared to gross revenues of approximately $76.7 million for the twelve months ended December 31, 2006. This compares to approximately $103.5 million in revenue for our existing cinemas for the year ended December 31, 2007. While the ultimate purchase price is subject to various downward adjustments (including adjustments to reflect currently anticipated competition from announced cinema developments in the markets serviced by Consolidated Cinemas), we believe that the purchase price represents an approximately 5.5X EBITDA multiple, based upon the proforma EBITDA for these cinemas (calculated without reference to general and administrative costs incurred at levels above the cinema operating level) used in our evaluation of the purchase of these assets. We believe that these cinemas represented an approximately 70% market share of Hawaii and 12% market share of the San Diego County cinema markets for this period. For book purposes, we will carrying Consolidated Cinemas at an initial value of $69.3 million, but as previously noted, this price is subject to adjustment. While no assurances can be given, we currently anticipate a reduction in this amount of between $6.25 million and $22.7 million, depending principally upon competitive developments over the next several years.

We also acquired for 5.1 million (AUS$6.0 million) a 20% interest in Becker Group Limited ("BGL"), which is in the art film exhibition and distribution business in Australia and the television remote and special event broadcast business in Australia and New Zealand. In February, BGL announced that it had entered into an agreement to sell its cinema and film distribution business for approximately $18.4 million (AUS$21.0 million) in cash to Icon Film Distribution Pty Limited (a company associated with Mel Gibson). BGL is controlled by Prime Media Group Limited, which owns approximately 76% of the outstanding shares of that company.

We are currently in discussions with the owners of other cinema circuits as to the possible acquisition of one or more of those circuits or in some cases, for portions of the cinema assets being offered for sale. In New Zealand, SkyCity Cinemas has announced its interest in selling its New Zealand circuit and we have made a non-binding proposal to acquire a substantial portion of those assets. However, no assurances can be given as to the ultimate outcome of those discussions, and we are limited by our confidentiality arrangements from discussing the details of our proposals. We are also in discussion with the owner of a circuit in the United States, but again those discussions are subject to a confidentiality agreement.

On the real estate front, we acquired the long-term ground lease interest underlying our Tower Theatre in Sacramento, we acquired directly fee interests in New Zealand representing some 16,000 square feet of land and some 25,000 square feet of improvements, and through our affiliate, Landplan Property Partners, Ltd ("Landplan") acquired two developmental properties in New Zealand representing some 2.8 million square feet of land, and 8,700 square feet of current improvements, for a total purchase price of $20.6 million.

Financing

Historically, we have endeavored to match the currency in which we have financed our development with the jurisdiction within which these developments are located. However, believing that the US Dollar was likely to materially decrease in value versus the New Zealand and Australian Dollars, in February 2007 we privately placed $50.0 million of 20-year Trust Preferred Securities, with dividends fixed at 9.22% for the first five years, to serve as a long term financing foundation for our real estate assets and to pay down our New Zealand and Australia Dollar denominated debt.

There are no principal payments until maturity in 2027 when the notes are paid in full. Although structured as the issuance of trust preferred securities by a related trust, the financing is essentially the same as an issuance of fully subordinated debt: the payments are tax deductible to us and the default remedies are the same as debt. The net proceeds of this issuance were used principally to retire all of our then outstanding bank indebtedness in New Zealand of $34.4 million (NZ$50.0 million) and to pay down our bank indebtedness in Australia by $5.8 million (AUS$7.4 million).

Table of Contents

Summary

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 including both entertainment and other types of land, brick, and mortar assets. We are endeavoring to maintain a reasonable balance between our domestic and overseas assets and operations, and a reasonable balance between our cash generating cinema operations and our cash consuming real estate development activities. We believe that by blending the cash generating capabilities of a cinema company with the investment and development opportunities of a real estate development company, we are unique among public companies in our business plan.

At December 31, 2007, our assets include:

- interests in 44 cinemas comprising some 286 screens;
- fee ownership of approximately 1.1 million square feet of developed commercial real estate, and approximately 15.3 million square feet of land (including approximately 5.2 million square feet of land held for development), located principally in urbanized areas of Australia, New Zealand and the United States;
- cash, cash equivalents and investments in marketable securities aggregating $20.8 million;
- a 25% interest in the limited liability company that developed Place 57, the 36-story, 68-residential unit mixed use condominium project on 57th Street near 3rd Avenue in Manhattan, the principal remaining asset of which is approximately 3,700 square feet of retail space on the ground floor of that building onto 57th Street;
- an approximately 20% interest in BGL, described above; and
- an 18.4% interest in Malulani Investments Limited (“MIL”), a private Hawaiian corporation whose assets consist primarily of real estate, including approximately 22,000 acres of land (a portion of which is improved with the Guenoc Winery and vineyards), located in Napa and Lake Counties, in California.

At December 31, 2007, the book value of our assets was approximately $346.1 million; and as of that same date, we had a consolidated stockholders’ book equity of approximately $121.4 million. Calculated based on book value, nearly 68% of our assets, or approximately $235.3 million, relates to our real estate activities. Calculated based on book value, nearly 78% of our assets, or approximately $270.9 million, represents assets located in Australia and New Zealand. However, taking into account our acquisition of Consolidated Cinemas, this allocation is now approximately 57% and 65% respectively.

At December 31, 2007, the allocation between our cinema assets and our non-cinema assets was approximately 23% and 77%, respectively. However, taking into account our acquisition of Consolidated Cinemas, this allocation is now approximately 36% and 64%, respectively.

Table of Contents

We believe that, given the nature of our real estate oriented balance sheet, our development activities, and the appreciation enjoyed by real estate assets over the past several years, that our book value substantially understates the fair market value of our assets.

Summary of Our Cinema Exhibition Activities

We conduct our cinema operations on four basic and rather simple premises:

- first, notwithstanding the enormous advances that have been made in home entertainment technology, humans are essentially social beings, and will continue to want to go beyond the home for their entertainment, provided that the they are offered clean, comfortable and convenient facilities, with state of the art technology;

- second, cinemas can be used as anchors for larger retail developments, and our involvement in the cinema business can give us an advantage over other real estate developers or redevelopers who must identify and negotiate exclusively with third party anchor tenants;

- third, pure cinema operators can get themselves into financial difficulty as demands upon them to produce cinema based earnings growth tempt them into reinvesting their cash flow into increasingly marginal cinema sites. While we believe that there will continue to be attractive cinema acquisition opportunities in the future, and believe that we have taken advantage of one such opportunity through our purchase of Consolidated Cinemas, we do not feel pressure to build or acquire cinemas for the sake of simply adding on units, and intend to focus our cash flow on our real estate development and operating activities, to the extent that attractive cinema opportunities are not available to us; and

- fourth, we are never afraid to convert an entertainment property to another use, if that is a higher and better use of our property, or to sell individual assets, if we are presented with an attractive opportunity. Our former Sutton Theater, for example, provided the real estate base for our Place 57 development.

Table of Contents

Our current cinema assets are described in the following chart:

	Wholly Owned	Consolidated1	Unconsolidated2	Managed3	Totals
Australia	16 cinemas 120 screens	3 cinemas 16 screens	1 cinema4 16 screens	None	20 cinemas 152 screens
New Zealand	9 cinemas 48 screens	None	6 cinemas5 30 screens	None	15 cinemas 78 screens
United States	6 cinemas 41 screens	1 cinema6 6 screens	None	2 cinemas 9 screens	9 cinemas 56 screens
Totals without Consolidated Cinemas	31 cinemas 209 screens	4 cinemas 22 screens	7 cinemas 46 screens	2 cinemas 9 screens	44 cinemas 286 screens
Consolidated Cinemas	14 cinemas 173 screens	None	None	1 cinemas 8 screens	15 cinemas 181 screens
Totals with Consolidated Cinemas	45 cinemas 382 screens	4 cinemas 22 screens	7 cinemas 46 screens	3 cinemas 17 screens	59 cinemas 467 screens

---

1 Cinemas owned and operated through consolidated, but not wholly owned, majority owned subsidiaries.
2 Cinemas owned and operated through unconsolidated subsidiaries.
3 Cinemas in which we have no ownership interest, but which are operated by us under management agreements.
4 33.3% unincorporated joint venture interest.
5 50% unincorporated joint venture interests.
6 The Angelika Film Center and Café in Manhattan is owned by a limited liability company in which we own a 50% interest with rights to manage.

We focus on the ownership and operation of three categories of cinemas:

- first, modern stadium seating multiplex cinemas featuring conventional film product;
- second, specialty and art cinemas, such as our Angelika Film Centers in Manhattan and Dallas and the Rialto cinema chain in New Zealand; and
- third, in some markets, particularly small town markets that will not support the development of a modern stadium design multiplex cinema, conventional sloped floor cinemas.

With the exception of certain of our joint venture cinemas, we operate and book all of our cinemas on an “in-house” basis, through cinema executives located in Manhattan, Melbourne, Australia and Wellington, New Zealand.

Summary of Our Real Estate Activities

Our real estate activities have historically consisted principally of:

- the ownership of fee or long term leasehold interests in properties used in our cinema exhibition and live theater activities or which were acquired in anticipation of the development of cinemas or ETRCs;
- the acquisition of fee interests for the development of cinemas or ETRCs; and

- the redevelopment of existing cinema sites to their highest and best use.

Table of Contents

For example, Place 57, a 36-story 68-residential unit mixed-use condominium project on 57th Street near 3rd Avenue was the result of the redevelopment of one of our Manhattan cinema sites. Recently, however, we have begun to diversify into other types of real estate investments.

In 2006, we formed Landplan Property Partners, Ltd, to identify, acquire and develop or redevelop properties on an opportunistic basis. Typically, properties are acquired or held in individual special purpose entities. We refer to Landplan Property Partners, Ltd, collectively with these special purpose entities as "Landplan." As of December 31 2007, Landplan has acquired one property in Australia and two properties in New Zealand for an aggregate investment of $16.0 million.

In addition, we have acquired an approximately 18.4% common equity interest in Malulani Investments Limited, a closely held Hawaiian company which currently owns approximately 22,000 acres of agricultural land in Northern California. Included among Malulani's assets are the Guenoc Winery, consisting of approximately 400 acres of vineyard land and a winery configured to bottle up to 120,000 cases of wine annually and Langtry Estates and Vineyards. This land and commercial real estate holdings are encumbered by debt.

To date, we have developed, in Australia and New Zealand, three ETRCs comprising approximately 337,000 square feet of development and the shopping center component of a fourth proposed ETRC, comprising some 100,000 square of development. The 100,000 square feet of shopping center space in this fourth proposed ETRC is fully leased, and it is anticipated that the cinema component will be completed in 2009.

Our US holdings include the fee interest in three live theatres in Manhattan (the Union Square, Orpheum and Minetta Lane) a multi-stage live theatre in Chicago (the Royal George) and a 75% interest in the limited liability company that owns the fee interest in our Cinemas 1, 2 & 3 property in Manhattan.

In total, taking into account the acquisition of Consolidated Cinemas, on a consolidated basis, we own approximately 15.3 million square feet of land and approximately 2.3 million square feet of improvements, of which approximately 1.7 million square feet is leased by us as tenant under various cinema leases.

Our real estate activities, holdings, and development are described in more detail in the Item 2 – Properties.

Certain Segment and Geographical Distribution Information

Financial Information about our various segments is set out in Note 22 – Business Segments and Geographic Area Information.

The following table sets forth the book value of our property and equipment by geographical area as of December 31, 2007 (dollars in thousands):

	December 31,	
	2007	2006
Australia	$ 90,956	$ 86,317
New Zealand	44,030	38,772
United States	43,188	45,578
Property and equipment	$ 178,174	$ 170,667

The following table sets forth our revenues by geographical area (dollars in thousands):

	December 31, 2007	2006	2005
Australia	$ 63,657	$ 53,434	$ 47,181
New Zealand	24,371	21,230	20,179
United States	31,207	31,461	30,745
Total Revenues	$ 119,235	$ 106,125	$ 98,105

Table of Contents

We Are a Controlled Company under American Stock Exchange Rules and Regulations

We are a “Controlled Company” under Section 801(a) of the American Stock Exchange Company Guide. Accordingly, we are not subject to the American Stock Exchange requirements that at least half of our directors be independent or that we have an independent nominating committee.

As of December 31, 2007, we had outstanding 20,987,115 shares of our Class A Stock and 1,495,490 shares of our Class B Stock. As of this same date, Mr. James J. Cotter was our controlling stockholder, with fully diluted beneficial ownership of 1,123,888 shares of our Class B Stock, representing approximately 70.4% of such shares. In addition, Mr. Cotter, his affiliates, and members of his immediate family are the fully diluted beneficial owners of 5,610,833 shares of our Class A Stock. Collectively, their beneficial ownership represents approximately 30.0% of our aggregate outstanding Class A Stock and Class B Stock.

Mr. Cotter and two of his children, Margaret Cotter and James J. Cotter, Jr., currently serve as three of the eight members of our Company’s Board of Directors. Mr. James J. Cotter, Jr. is the Vice-Chairman of our Company. Ms. Ellen Cotter, also a child of Mr. Cotter, Sr., is the Chief Operating Officer for our Domestic Cinemas and will be responsible for running the recently acquired Consolidated Cinemas. A company wholly owned by Ms. Margaret Cotter manages our live theater operations. Sutton Hill Capital (a partnership in which Mr. Cotter (i) owns a 50% interest) owns a 25% interest in the limited liability company that owns our Cinemas 1, 2 & 3 property in Manhattan, (ii) owns the ground lease interest and is the sublandlord under our sublease of our Village East property, also in Manhattan, and (iii) holds notes issued by RDI in the amount of $14.0 million.

The Cotter Family has advised us that they consider their investment in our Company to be a long term investment, and that they do not currently contemplate any change of control transaction with respect to the Company or any material portion of its assets.

A discussion of related party transactions is set forth in Note 25 – Related Parties and Transactions to the 2007 Consolidated Financial Statements.

A More Detailed Description of Our Business

Our Pacific Rim Cinema Operations (Australia and New Zealand)

General

On a consolidated basis, we currently own or operate 19 cinemas consisting of 136 screens in Australia, and 15 cinemas with 78 screens in New Zealand. We also own, directly or indirectly, 50% unincorporated joint venture interests in six cinemas, consisting of 30 screens, in New Zealand and a 33% unincorporated joint venture interest in a 16-screen cinema in the Brisbane area of Australia.

We commenced activities in Australia in mid-1995, conducting business in Australia through our wholly owned subsidiary, Reading Entertainment Australia Pty Ltd (“REA” and, collectively with its consolidated subsidiaries, “Reading Australia”).

We commenced operations in New Zealand in 1997, conducting operations in New Zealand through our wholly owned affiliate, Reading New Zealand Limited (“RNZ” and collectively with its consolidated subsidiaries, “Reading New Zealand”).

Our Australian and New Zealand cinemas derive approximately 73% of their 2007 revenues from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children. Box office receipts are reported net of state and local sales or service taxes. Show times and features are placed in advertisements in local newspapers with the costs of such advertisements paid by the exhibitor. Film distributors may advertise certain feature films and pay the cost of such advertising. Film rental costs average approximately 42% of box office revenues in Australia and in New Zealand.

Table of Contents

Concession sales account for approximately 24% and 22% of our total 2007 revenues in Australia and New Zealand, respectively. Concession products primarily include popcorn, candy, and soda; although certain of Reading's Australia and New Zealand cinemas have licenses for the sale and consumption of alcoholic beverages. During 2007, we realized a gross margin on concession sales of approximately 22% and 26% in Australia and New Zealand, respectively.

Screen advertising and other revenues contributed approximately 4% and 5% of our total 2007 revenues in Australia and New Zealand, respectively. The screen advertising business in Australia and New Zealand has moved to prominently 35mm film advertisements by national advertisers. Local advertising is undertaken by individual cinema operators on a site-by-site basis and is largely undertaken via the improved technology offered by digital projection. Our cinemas, where it is applicable, undertake slide advertising as an ancillary function to the overall cinema business.

Joint Venture Interests

Two of our cinemas, consisting of 11 screens and located in country towns, are owned by Australia Country Cinemas Pty, Limited ("ACC"), a company owned 75% by Reading Australia and 25% by a company owned by an individual familiar with the market for cinemas in country towns. ACC has a limited right of first refusal to develop any cinema sites identified by Reading Australia that are located in country towns. Our interest in this joint venture is reported on a consolidated basis.

One of our cinemas, a 5-screen facility in Melbourne, is owned by a joint venture in which we have a 66.6% unincorporated joint venture interest with the original owner. Our interest in this joint venture is likewise reported on a consolidated basis.

Through Rialto Entertainment, we are a 50% joint venture partner with SkyCity Leisure Ltd ("Sky") in Rialto Cinemas, the largest art cinema circuit in New Zealand. The joint venture owns or manages five cinemas with 22 screens in the New Zealand cities of Auckland, Wellington, Dunedin, Hamilton, and Christchurch. All of the cinemas are in leased facilities. Our interest in this joint venture is accounted for using the equity method.

We also own a one-third interest in Rialto Distribution. Rialto Distribution, an unincorporated joint venture, is engaged in the business of distributing art film in New Zealand and Australia. The remaining 2/3rd interest is owned by the founders of the company, who have been in the art film distribution business since 1993. While prior to our acquisition of this interest in late 2005, we have not historically been involved in the distribution of film, we believe that this investment complements our cinema exhibition operations in Australia and New Zealand and could potentially complement our art film exhibition activities in the United States. Our interest in this joint venture is accounted for using the equity method.

One of our cinemas, consisting of eight screens, in Botany Downs, New Zealand is held in a 50/50 unincorporated joint venture with Everard Entertainment. We also have a 33% unincorporated joint venture interest in a 16-screen multiplex cinema located in a suburb of Brisbane, and operated under the Birch Carroll & Coyle name. Our interest in these joint ventures is accounted for using the equity method.

Management of Cinemas

Our employees manage Reading Australia's wholly owned and consolidated cinemas and Reading New Zealand's wholly owned cinemas. Our six New Zealand joint venture cinemas are operated by two joint ventures in which Reading New Zealand is, directly or indirectly, a 50% joint venture partner. While our employees are actively involved in the management of the Botany Downs joint venture, the management of the five cinemas operated under the Rialto name is, generally speaking, performed by Sky, while we are principally responsible for the booking of the Rialto Cinemas. The 16-screen Brisbane joint venture cinema is operated under the supervision of a management committee over which each of the joint venture partners holds certain veto rights and is managed by Birch Carroll & Coyle.

Table of Contents

Background Information Concerning Australia

Australia is a self-governing and fully independent member of the Commonwealth of Nations. The constitution resembles that of the United States in that it creates a federal form of government, under which the powers of the central government are specified and all residual powers are left to the states. The country is organized into five mainland states (New South Wales, Queensland, South Australia, Victoria and Western Australia), one island state (Tasmania) and two territories (Australian Capital Territory and the Northern Territory).

The ceremonial supreme executive is the British monarch, represented by the governor-general and in each of the six states by a governor. These officials are appointed by the British monarch, but appointments are always recommended by the Australian government. True executive power rests with the prime minister, the leader of the majority party in the House of Representatives. The legislature is bicameral, with a Senate and a House of Representatives, and the ministers are appointed by the prime minister from the membership of the House and the Senate. The organization of the state government is similar to that of the central government. Each state has an appointed governor, an elected premier, and a legislature.

Australia is the sixth largest country in the world in landmass with a population of approximately 20.4 million people. This population is concentrated in a few coastal urban areas, with approximately 4.1 million in the greater Sydney area, 3.9 million in the greater Melbourne area, 1.8 million in the Brisbane area, 1.5 million in Perth and 1.1 million in Adelaide. Australia is one of the richest countries in the world in terms of natural resources per capita and one of the most economically developed countries in the world, although vast areas of the interior, known as “the Outback,” remain all but uninhabited. The principal language is English, and the largest part of the population traces its origin to Britain and Europe, although an increasing portion of the population has emigrated from the Far East. Australian taste in film has historically been similar to that of American audiences.

Internal trade is dominated by the two most populous states, New South Wales (mainly Sydney) and Victoria (mainly Melbourne). Together these two states account for a majority of all wholesale trade and a significant percentage of retail sales. At the present time, Australia’s principal trading partners are Japan and the European Union.

Australia does not restrict the flow of currency into the country from the U.S. or out of Australia to the U.S. Also, subject to certain review procedures, U.S. companies are typically permitted to operate businesses and to own real estate. On July 1, 2000, Australia implemented a goods and services tax (“GST”) on all goods and services at a consistent rate of 10%. We do not believe that the GST has had a significant impact on our business.

Background Information Concerning New Zealand

New Zealand is also a self-governing member of the Commonwealth of Nations. It is comprised of two large islands, and numerous small islands, with a total land area of approximately 104,500 square miles. The country has a population of approximately 4.1 million people, most of who are of European descent and the principal language is English. Wellington, with a population of approximately 550,000, is the capital and Auckland, with a population of approximately 1.3 million, is the largest city. Most of the population lives in urban areas.

New Zealand is a prosperous country with a high standard of social services. The national economy is largely dependent upon the export of raw and processed foods, timber, and machinery. Principally a trading nation, New Zealand exports about 30% of its gross national product. In the past (particularly before the United Kingdom entered the Common Market in 1973), New Zealand’s marketing focused on a small number of countries, principally the United Kingdom. Currently, only approximately 5% of New Zealand’s trade is with the United Kingdom. Australia and the United States are New Zealand’s principal trading partners. New Zealand’s economy remains sensitive to fluctuations in demand for its principal exports.

Like Australia, New Zealand has a largely ceremonial governor-general, appointed by the Queen of England. However, the executive branch is run by a prime minister, typically the leader of the majority party in Parliament, and appointed ministers (typically chosen from the members of Parliament). The Parliament is elected by universal adult suffrage using a mixed member proportional system. Under this system, each voter casts two votes at the federal level, one for a local representative and one for a party. Fifty percent of the 120 seats in Parliament are determined by the direct election of local representatives, and the remaining fifty percent are elected based upon the number of votes garnered by the parties. The Prime Minister and his cabinet serve so long as they retain the confidence of the Parliament.

Table of Contents

With the exception of special excise taxes on tobacco, liquor, petroleum products and motor vehicles the only general sales tax is a GST imposed on all such services at the consistent rate of 12.5%. In effect, by a series of refunds, GST is only paid by the end-user of the goods or services in question. Resident companies pay income tax at a rate of 33%; however, dividend imputation credits generally prevent double taxation of company profits. There are no restrictions on repatriation of capital or profits, but some payments to overseas parties are subject to withholding tax. There is no capital gains tax, and there are tax treaties with many countries, including the United States.

The laws for monitoring and approving significant overseas investment into New Zealand reflect the country's generally receptive attitude towards such investment and the generally facilitating nature of the country's foreign investment policies. One hundred percent overseas ownership can be approved in nearly all industry sectors, including motion picture exhibition and distribution. A review process is also applicable to certain land transactions and the purchase of businesses or assets having a value of NZ$100,000 or more.

Licensing/Pricing

Films exhibited in Australia and New Zealand are licensed under agreements with major film distributors and several local distributors who distribute specialized films. Film exhibitors are provided with an opportunity to view films prior to negotiating with the film distributor the commercial terms applicable to its release. Films are licensed on a film-by-film, theater-by-theater basis. Reading Australia and Reading New Zealand license films from all film distributors as appropriate to each of our cinema location. Generally, film payment terms are based upon various formulas that provide for payments based upon a specified percentage of box office receipts.

Competition

The film exhibition market in both Australia and New Zealand is highly concentrated and, in certain cases in Australia, vertically integrated. The principal exhibitors in Australia include a joint venture of Greater Union and Village (GUV) in certain suburban multiplexes. The major exhibitors control approximately 68% of the total cinema box office: Village/Greater Union/Birch Carroll and Coyle 45% and Hoyts Cinemas ("Hoyts") 21%. Greater Union have 243 screens nationally; Village 218 screens; Birch Carroll & Coyle (a subsidiary of Greater Union) 230 screens and Hoyts 333 screens. By comparison, our cinemas represent approximately 6% of the total box office.

The major players in New Zealand are Sky Cinemas with 94 screens nationally, Reading with 59 screens (not including partnerships), and Hoyts with 61 screens. The major exhibitors in New Zealand control approximately 71% of the total box office: Sky Cinemas 31%, Reading 21% and Hoyts 19%, (Sky and Reading market share figures again do not include any partnership theaters). Sky has announced that it is interested in selling its cinema assets and is currently conducting a controlled auction of those assets. We have made a proposal to acquire a portion of those assets. We understand that Hoyts is also interested in acquiring all or some substantial portion of those assets. Due to antitrust limitations, we believe it unlikely that either Hoyts or we would be permitted by the New Zealand anti-trust authorities to acquire all of Sky's New Zealand cinema assets.

In 2003, we acquired a 33% unincorporated joint venture interest in an existing 16-screen cinema located in suburban Brisbane that is currently owned in principal part by Village and Birch Carroll & Coyle. This is our only joint venture arrangement with any of the Major Exhibitors in Australia. We are a 50/50 joint venture partner with Sky in the Rialto circuit in New Zealand.

Greater Union is the owner of Birch Carroll & Coyle. Generally speaking, all new multiplex cinema projects announced by Village are being jointly developed by a joint venture comprised of Greater Union and Village. These companies have substantial capital resources. Village had a publicly reported consolidated net worth of approximately $709.8 million (AUS$808.8 billion) at June 30, 2007. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately $445.4 million (AUS$507.6 million) at June 30, 2007. Hoyts does not separately publish financial reports. Hoyts is currently owned by Pacific Equity Partners.

Table of Contents

The industry is also somewhat vertically integrated in that Roadshow Film Distributors serves as a distributor of film in Australia and New Zealand for Warner Brothers and New Line Cinema. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow Film Distributors. Hoyts has also begun involvement in film production and distribution.

In our view, the principal competitive restraint on the development of our business in Australia and New Zealand is the limited availability of good sites for future development. We already have access to substantially all first run film on competitive terms at all of our cinemas. However, our competitors and certain major commercial real estate interests have historically utilized land use development laws and regulations in Australia to prevent or delay our construction of freestanding cinemas in new entertainment oriented complexes, particularly where those complexes are located outside of an established central business district or shopping center development. We also face ongoing competition for alternative sources of entertainment, including, in particular, increased compensation from in-the-home viewing alternatives. These competitive issues are discussed in greater detail below under the caption, Competition, and under the caption, Item 1A - Risk Factors.

Currency Risk

Generally speaking, we do not engage in currency hedging. Rather, to the extent practicable, we operate our Australian and New Zealand operations on a self-funding basis. Other than the capitalization of existing debt from time to time, no funds have been contributed from our U.S. operations to our Australia or New Zealand operations since 2001 until our February 2007 Trust Preferred Offering described below. The book value, stated in U.S. dollars, of our net assets in Australia and New Zealand, (assets less third party liabilities and without intercompany debt), at December 31, 2007 are as follows (dollars in thousands):

	Net Assets
Reading Australia	$ 81,318
Reading New Zealand	71,214
Net Assets	$ 152,532

In 2006, we determined that it would be beneficial to have a layer of long-term fully subordinated debt financing to help support our long-term real estate assets. On February 5, 2007 we issued $50.0 million in 20-year fully subordinated notes, interest fixed for five years at 9.22%, to a trust which we control, and which in turn issued $50.0 million in trust preferred securities in a private placement. There are no principal payments until maturity in 2027 when the notes are paid in full. The trust is essentially a pass through, and the transaction is accounted for on our books as the issuance of fully subordinated notes. The placement generated $48.4 million in net proceeds, which were used principally to retire all of our bank indebtedness in New Zealand $34.4 million (NZ$50.0 million) and to retire a portion of our bank indebtedness in Australia $5.8 million (AUS$7.4 million). This is a departure from our historic practice of borrowing principally in local currencies and adds 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. Since February 5, 2007 through December 31, 2007, the US dollar has dropped vis-à-vis both the Australian and the New Zealand dollar.

Virtually all of our operating costs in Australia and New Zealand are denominated in the respective currencies of these two countries. Our concessions are purchased locally, and our film rental is calculated as a percentage of box office receipts. We have also attempted to keep our general and administrative costs localized, although in recent periods, we have begun concentrating more of our financial reporting, control and analysis functions in our Los Angeles corporate headquarters.

Set forth below is a chart of the exchange ratios between these three currencies over the past ten years:

Table of Contents

Seasonality

Major films are generally released to coincide with the school holiday periods, particularly the summer holidays. Accordingly, our Australian and New Zealand operations typically record greater revenues and earnings during the first half of the calendar year.

Employees

Reading Australia has 23 full time executive and administrative employees and approximately 707 cinema and property employees. None of our Australia based employees is unionized. Reading New Zealand has 8 full time executive and administrative employees and approximately 261 cinema and property level employees. On January 26, 2007, we entered into a collective agreement with the employees of our Courtenay Central complex which has an 18-month term. This agreement defines the terms of engagement of our employees and is consistent with other industry agreements. Notwithstanding the unionization effort in New Zealand, we believe our relations with our employees to be generally good.

Our Domestic Cinemas

General

We currently operate 237 screens in 24 cinemas in the United States (including 3 managed cinemas with 17 screens). Our domestic cinema operations engage in the exhibition of mainstream general release film in our conventional cinemas, such as the Cinemas 1, 2 & 3, the Village East Theatre and the East 86th Street Cinema in Manhattan and the Manville 12 in Manville, New Jersey and the Consolidated Cinemas. We also engage in the exhibition of art and specialty film at our art cinemas such as the Angelika Film Centers in Manhattan, Dallas, Houston and Plano and the Tower Theatre in Sacramento, California.

Most of our domestic cinemas are leased, other than the Cinemas 1, 2 & 3 property (which is owned by a subsidiary in which we have a 75% interest) and three cinemas which are operated pursuant to management contracts. Our Angelika cinema in Manhattan is owned by a limited liability company owned 50% by us and 50% by a subsidiary of National Auto Credit, but it is under our management. Three of our cinemas are held pursuant to

Table of Contents

ground leases which in each case allow long-term renewal rights and provide us with flexibility for altering the use of the property: our Manville 12 in New Jersey, Kapolei 16 in Hawaii, and the Tower Theatre in Sacramento. A fourth theatre, the Village East in Manhattan, is held pursuant to a sublease of a long term ground lease, and we have an option under that sublease to acquire the ground lease estate held by our sublandlord.

In recent years, the domestic cinema exhibition industry has gone through major retrenchment and consolidation, creating considerable uncertainty as to the direction of the domestic film exhibition industry, and our role in that industry. Several major cinema exhibition companies have gone through bankruptcy over the past five years, or have been otherwise financially restructured. Regal Cinemas emerged from bankruptcy and combined with Edwards and United Artists (which also went through bankruptcy) to create a circuit that has now grown to approximately 6,388 screens, in approximately 527 cinemas. AMC now has approximately 5,138 screens in approximately 359 cinemas in the United States and Canada. Landmark Theaters, the largest art and specialty film exhibitor in the United States, has also emerged from bankruptcy and is now owned by a private company controlled by Mark Cuban (an individual with a reported personal net worth of $2.3 billion). These companies, having used bankruptcy to restructure their debt and to rid themselves of burdensome leases and in some cases to consolidate, are now much stronger competitors than they were just a few years ago.

A significant number of older conventional screens have, as a result of this consolidation process, been taken out of the market. We estimate that the total domestic screen count has decreased from 37,396 in 2000 to 36,165 in 2005. Industry analysts project further consolidation in the industry, as players such as Cablevision seek to divest their domestic cinema exhibition assets. Accordingly, while we believe that recent developments may in some ways have aided the overall health of the domestic cinema exhibition industry, there remains considerable uncertainty as to the impact of this consolidation trend on us and our domestic cinema exhibition business, as we are forced to compete with these stronger and reinvigorated competitors and the significant market share commanded by these competitors.

There is also considerable uncertainty as to the future of digital exhibition and in-the-home entertainment alternatives. In the case of digital exhibition, there is currently considerable discussion within the industry as to the benefits and detriments of moving from conventional film projection to digital projection technology. There are issues:

- as to when it will be available on an economically attractive basis;
- as to who will pay for the conversion from conventional to digital technology between exhibitors and distributors;
- as to what the impact will be on film licensing expense; and
- as to how to deal with security and potential pirating issues if film is distributed in a digital format.

Several major exhibitors have now announced plans to convert their cinemas to digital projection. At some point, this will compel us likewise to incur the costs of conversion, as the costs of digital production are much less than the cost of conventional film production, from the studio's point of view and as distributors will, at some point in time cease distributing film prints. We estimate that, at the present time, it would likely cost in the range of $23.7 million for us to convert our wholly owned cinemas to digital distribution on a worldwide basis.

In the case of in-the-home entertainment alternatives, the industry is faced with the significant leaps achieved in recent periods in both the quality and affordability of in-the-home entertainment systems and in the accessibility to entertainment programming through cable, satellite, and DVD distribution channels. These alternative distribution channels are putting pressure on cinema exhibitors to reduce the time period between theatrical and secondary release dates, and certain distributors are talking about possible simultaneous or near simultaneous releases in multiple channels of distribution. These are issues common to both our domestic and international cinema operations.

Our domestic cinemas derive approximately 40% of their revenues from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children. Box office receipts are reported net of state and local sales or service taxes. Show times and features are placed in advertisements in local newspapers and, in some cases, Reading contributes a small percentage of these costs. Film distributors may also advertise certain feature films and those costs are generally paid by distributors. Film rental expense represented approximately 39% of box office receipts for 2007.

Concession sales account for approximately 20% of total revenues. Concession products primarily include popcorn, candy and soda, but Reading's art cinemas typically offer a wider variety of concession offerings. Our Angelika cinemas in Manhattan, Dallas, Houston, and Plano include café facilities, and the operations in Dallas, Houston, and Plano are licensed to sell alcoholic beverages. Our domestic cinemas achieved a gross margin on concession sales of approximately 14% for 2007.

Screen advertising and other revenues contribute approximately 8% of total revenues for 2007. Other sources of revenue include revenues from theater rentals for meetings, conferences, special film exhibitions and vending machine receipts or rentals.

Licensing/Pricing

Film product is available from a variety of sources ranging from the major film distributors such as Columbia, Disney, Buena Vista, DreamWorks, Fox, MGM, Paramount, Warner Bros and Universal, to a variety of smaller independent film distributors such as Miramax. The major film distributors dominate the market for mainstream conventional films. Similarly, most art and specialty films come from the art and specialty divisions of these major distributors, such as Fox's Searchlight and Disney's Miramax. Generally speaking, film payment terms are based upon an agreed upon percentage of box office receipts.

Until recently, the surplus of screens currently available to distributors had eroded the bargaining power of the exhibitors and that bargaining power has been on the side of the distributors. However, with the emergence of the mega circuits, it appears that the balance of power may be somewhat shifting towards the exhibitors. Indeed, as discussed in greater detail below, we believe that in certain situations, our access to first-run film has been adversely affected by the market power of exhibitors such as Regal and AMC.

Competition

The principal factor in the success or failure of a particular cinema is access to popular film products. If a particular film is only offered at one cinema in a given market, then customers wishing to see that film will, of necessity, go to that cinema. If two or more cinemas in the same market offer the same film, then customers will typically take into account factors such as the relative convenience and quality of the various cinemas. In many markets, the number of prints in distribution is less than the number of exhibitors seeking that film for that market, and distributors typically take the position that they are free to provide or not provide their films to particular exhibitors, at their complete and absolute discretion.

Accordingly, competition for films can be intense, depending upon the number of cinemas in a particular market. Our ability to obtain top grossing first run feature films may be adversely impacted by our comparatively small size, and the limited number of screens we can supply to distributors. Moreover, as a result of the dramatic and recent consolidation of screens into the hands of a few very large and powerful exhibitors such as Regal and AMC, these mega exhibition companies are in a position to offer distributors access to many more screens in major markets than we can. Accordingly, distributors may decide to give preferences to these mega exhibitors when it comes to licensing top grossing films, rather than deal with independents such as ourselves. The situation is different in Australia and New Zealand where typically every major multiplex cinema has access to all of the film currently in distribution, regardless of the ownership of that multiplex cinema.

In addition, the competitive situation facing our Company is uncertain given the ongoing development of in-the-home entertainment alternatives such as DVD, cable and satellite distribution of films, and the increasing quality and declining cost of in-the-home entertainment components.

Seasonality

Traditionally, the exhibition of mainstream commercial films has been somewhat seasonal, with most of the revenues being generated over the summer and Christmas holiday seasons. However, with the increasing number of releases, this seasonality is becoming less of a factor. The exhibition of art and specialty films has historically been less seasonal than the exhibition of mainstream commercial films.

Table of Contents

Management

All of our domestic cinemas are managed by our officers and employees. Angelika Film Center, LLC (the owner of the Angelika Film Center & Café in the Soho district of New York), is owned by us on a 50/50 basis with a subsidiary of National Auto Credit, Inc ("NAC"). However, we manage that theater pursuant to a management contract. Furthermore, the operating agreement of Angelika Film Center, LLC provides that, in the event of deadlock our Chairman will cast the deciding vote.

Employees

At December 31, 2007, we employed approximately 354 individuals to operate our domestic cinemas and to attend to our real property operations. On January 31, 2003, we renegotiated our collective bargaining agreement with the projectionist union with respect to our Manhattan cinemas. We negotiated a termination of our contract with the union effective January 31, 2007. Our principal executive and administrative offices are located in Commerce, California. Approximately 7 executives and 23 other employees are located at our executive offices in Commerce and Manhattan. We believe our relations with our employees to be good.

With the acquisition of Consolidated Cinemas, we took on an additional 580 employees in Hawaii and California. We also assumed two union contracts, previously negotiated by the sellers of those assets. These contracts have terms through August 2008.

Our Real Estate Activities

General

While we report our real estate as a separate segment, it has historically operated as an integral portion of our overall business. Since our entry into the cinema exhibition business, our real estate activities have principally been in support of that business. Accordingly, in this Annual Report, consistent with our practice in prior periods, we have described our real estate activities as an integrated portion of our cinema operating and development activities.

However, in light of our view that future growth opportunities in the cinema industries are now quite limited in the countries in which we operate, and, as we have no current plan to enter any new foreign markets, we intend to focus more on our real estate activities as a separate business activity.

Our real estate activities, holdings, and development are described in more detail in the Item 2 – Properties.

Landplan Property Partners, Ltd

In 2006, we formed Landplan Property Partners, Ltd, to identify, acquire and develop or redevelop properties on an opportunistic basis. In connection with the formation of Landplan, we entered into an agreement with Mr. Doug Osborne pursuant to which (i) Mr. Osborne will serve as the chief executive officer of Landplan and (ii) Mr. Osborne's affiliate, Landplan Property Group, Ltd ("LPG"), will perform certain property management services for Landplan. The agreement provides for Mr. Osborne to hold an equity interest in the entities formed to hold these properties; such equity interest to be (i) subordinate to our right to an 11% compounded return on investment and (ii) subject to adjustment depending upon various factors including the term of the investment and the amount invested. Generally speaking, this equity interest will range from 27.5% to 15%.

Malulani Investments

In addition, we have acquired an approximately 18.4% common equity interest in Malulani Investments Limited (MIL), a closely held Hawaiian company which currently owns developed real estate principally in California, and Hawaii, and approximately 22,000 acres of agricultural land in Northern California. Included among Malulani's assets are the Guenoc Winery, consisting of approximately 400 acres of vineyard land and a winery configured to bottle up to 120,000 cases of wine annually and Langtry Estates and Vineyards. This land and commercial real estate holdings are encumbered by debt. To date, our requests to management for information about MIL, including consolidated financial information, have not been honored. We have brought litigation against MIL and certain of its directors in an effort to improve our access to information, including consolidated financial information. While we believe that we should prevail in our efforts in this regard, as in all litigation matters, no assurances can be given.

Table of Contents

Incident to that investment, we have entered into a shareholders' agreement with Magoon Acquisition & Development, LLC ("Magoon LLC"), which includes certain rights of first refusal and cost sharing provisions and which grants to James J. Cotter (our Chairman, Chief Executive Officer and controlling shareholder), a proxy to vote the shares held by Magoon LLC in MIL and in MIL's parent company, The Malulani Group, Limited ("TMG"). Magoon LLC owns approximately 12% of MIL and 30% of TMG. Accordingly, through Mr. Cotter, we currently vote 30% of the shares of MIL and TMG which represents a voting interest sufficient to elect one representative to the boards of directors of each of these two companies. Through the use of this voting power, we have elected Mr. Cotter to the Board of Directors of MIL. The shareholders agreement also gives us the right to cause Magoon LLC to join with us in the formation of a limited liability company which we would control, and which would provide to us, after return of capital on a last in, first out basis, a 20% preferred allocation of profits and distributions.

In January of this year, we contributed 100 shares of the Class A Common Stock (representing approximately 0.04% of our interest in MIL) to the RDI Employee Investment Fund, LLC (the "Employee Fund"). The Employee Fund currently has 49 members, in addition to Reading.

Table of Contents

Item 1A – Risk Factors

Investing in our securities involves risk. Set forth below is a summary of various risk factors which you should consider in connection with your investment in our company. This summary should be considered in the context of our overall Annual Report on Form 10K, as many of the topics addressed below are discussed in significantly greater detail in the context of specific discussions of our business plan, our operating results, and the various competitive forces that we face.

Business Risk Factors

We are currently engaged principally in the cinema exhibition and real estate businesses. Since we operate in two business segments (cinema exhibition and real estate), we have discussed separately the risks we believe to be material to our involvement in each of these segments. We have discussed separately certain risks relating to the international nature of our business activities, our use of leverage, and our status as a controlled corporation. Please note, that while we report the results of our live theatre operations as real estate operations – since we are principally in the business or renting space to producers rather than in licensing or producing plays ourselves – the cinema exhibition and live theatre businesses share certain risk factors and are, accordingly, discussed together below.

Cinema Exhibition and Live Theatre Business Risk Factors

We operate in a highly competitive environment, with many competitors who are significantly larger and may have significantly better access to funds than do we.

We are a comparatively small cinema operator and face competition from much larger cinema exhibitors. These larger circuits are able to offer distributors more screens in more markets – including markets where they may be the exclusive exhibitor – than can we. In some cases, faced with such competition, we may not be able to get access to all of the films we want, which may adversely affect our revenues and profitability.

These larger competitors may also enjoy (i) greater cash flow, which can be used to develop additional cinemas, including cinemas that may be competitive with our existing cinemas, (ii) better access to equity capital and debt, and (iii) better visibility to landlords and real estate developers, than do we.

In the case of our live theatres, we compete for shows not only with other “for profit” off-Broadway theaters, but also with not-for-profit operators and, increasingly, with Broadway theaters. We believe our live theaters are generally competitive with other off-Broadway venues. However, due to the increased cost of staging live theater productions, we are seeing an increasing tendency for plays which would historically have been staged in an off-Broadway theatre, moving directly to larger Broadway venues.

We face competition from other sources of entertainment and other entertainment delivery systems.

Both our cinema and live theatre operations face competition from developing “in-home” sources of entertainment. These include competition from DVDs, pay television, cable and satellite television, the internet and other sources of entertainment, and video games. The quality of in-house entertainment systems has increased while the cost of such systems has decreased in recent periods, and some consumers may prefer the security of an at-home entertainment experience to the more public experience offered by our cinemas and live theaters. The movie distributors have been responding to these developments by, in some cases, decreasing the period of time between cinema release and the date such product is made available to “in-home” forms of distribution.

The narrowing of this so-called “window” for cinema exhibition may be problematic since film licensing fees have historically been front end loaded. On the other hand, the significant quantity of films produced in recent periods has probably had more to do, at least to date, with the shortening of the time most movies play in the cinemas, than any shortening of the cinema exhibition window. In recent periods, there has been discussion about the possibility of eliminating the cinema window altogether for certain films, in favor of a simultaneous release in multiple channels of distribution, such as theaters, pay-per-view, and DVD. However, again to date, this move has been strenuously resisted by the cinema exhibition industry and we view the total elimination of the cinema exhibition window, while theoretically possible, to be unlikely.

Table of Contents

We also face competition from various other forms of beyond-the-home entertainment, including sporting events, concerts, restaurants, casinos, video game arcades, and nightclubs. Our cinemas also face competition from live theatres and visa versa.

Our cinemas operations depend upon access to film that is attractive to our patrons and our live theatre operations depend upon the continued attractiveness of our theaters to producers.

Our ability to generate revenues and profits is largely dependent on factors outside of our control; specifically the continued ability of motion picture and live theater producers to produce films and plays that are attractive to audiences, and the willingness of these producers to license their films to our cinemas and to rent our theatres for the presentation of their plays. To the extent that popular movies and plays are produced, our cinema and live theatre activities are ultimately dependent upon our ability, in the face of competition from other cinema and live theater operators, to book these movies and plays into our facilities.

Adverse economic conditions could materially affect our business by reducing discretionary income.

Cinema and live theater attendance is a luxury, not a necessity. Accordingly, a decline in the economy resulting in a decrease in discretionary income, or a perception of such a decline, may result in decreased discretionary spending, which could adversely affect our cinema and live-theatre businesses.

Our screen advertising revenues may decline.

Over the past several years, cinema exhibitors have been looking increasingly to screen advertising as a way to boost income. No assurances can be given that this source of income will be continuing or that the use of such advertising will not ultimately prove to be counter productive by giving consumers a disincentive to choose going to the movies over at-home entertainment alternatives.

We face uncertainty as to the timing and direction of technological innovations in the cinema exhibition business and as to our access to those technologies.

It is generally assumed that eventually, and perhaps in the relatively near future, cinema exhibition will change over from film projection to digital projection technology. Such technology offers various cost benefits to both distributors and exhibitors. While the cost of such a conversion could be substantial, it is presently difficult to forecast the costs of such conversion, as it is not presently clear how these costs would be allocated as between exhibitors and distributors. Also, we anticipate that, as with most technologies, the cost of the equipment will reduce significantly over time. As technologies are always evolving, it is, of course, also possible that other new technologies may evolve that will adversely affect the competitiveness of current cinema exhibition technology.

Real Estate Development and Ownership Business Risks.

We operate in a highly competitive environment, in which we must compete against companies with much greater financial and human resources than we have.

We have limited financial and human resources, compared to our principal real estate competitors. In recent periods, we have relied heavily on outside professionals in connection with our real estate development activities. Many of our competitors have significantly greater resources than do we and may be able to achieve greater economies of scale than can we.

Risks Related to the Real Estate Industry Generally

Our financial performance will be affected by risks associated with the real estate industry generally.

Events and conditions generally applicable to developers, owners and operators of real property will affect our performance as well. These include (i) changes in the national, regional and local economic climate; (ii) local conditions such as an oversupply of, or a reduction in demand for commercial space and/or entertainment oriented properties; (iii) reduced attractiveness of our properties to tenants; (iv) competition from other properties; (v) inability to collect rent from tenants; (vi) increased operating costs, including real estate taxes, insurance premiums and utilities; (vii) costs of complying with changes in government regulations; and (viii) the relative illiquidity of real estate

Table of Contents

investments. In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in declining rents or increased lease defaults.

We may incur costs complying with the Americans with Disabilities Act and similar laws.

Under the Americans with Disabilities Act and similar statutory regimes in Australia and New Zealand or under applicable state law, all places of public accommodation (including cinemas and theaters) are required to meet certain governmental requirements related to access and use by persons with disabilities. A determination that we are not in compliance with those governmental requirements with respect to any of our properties could result in the imposition of fines or an award of damages to private litigants. The cost of addressing these issues could be substantial. Fortunately, the great majority of our facilities were built after the adoption of the Americans with Disabilities Act.

Illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties.

Real estate investments are relatively illiquid and, therefore, tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. Many of our properties are either (i) “special purpose” properties that could not be readily converted to general residential, retail or office use, or (ii) undeveloped land. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment and competitive factors may prevent the pass-though of such costs to tenants.

Real estate development involves a variety of risks.

Real estate development includes a variety of risks, including the following:

- The identification and acquisition of suitable development properties. Competition for suitable development properties is intense. Our ability to identify and acquire development properties may be limited by our size and resources. Also, as we and our affiliates are considered to be “foreign owned” for purposes of certain Australia and New Zealand statutes, we have been in the past, and may in the future be, subject to regulations that are not applicable to other persons doing business in those countries.

- The procurement of necessary land use entitlements for the project. This process can take many years, particularly if opposed by competing interests. Competitors and community groups (sometimes funded by such competitors) may object based on various factors including, for example, impacts on density, parking, traffic, noise levels and the historic or architectural nature of the building being replaced. If they are unsuccessful at the local governmental level, they may seek recourse to the courts or other tribunals. This can delay projects and increase costs.

- The construction of the project on time and on budget. Construction risks include the availability and cost of finance; the availability and costs of material and labor, the costs of dealing with unknown site conditions (including addressing pollution or environmental wastes deposited upon the property by prior owners), inclement weather conditions, and the ever present potential for labor related disruptions.

- The leasing or sell-out of the project. Ultimately, there are the risks involved in the leasing of a rental property or the sale of condominium or built-for-sale property. Leasing or sale can be influenced by economic factors that are neither known nor knowable at the commencement of the development process and by local, national, and even international economic conditions, both real and perceived.

- The refinancing of completed properties. Properties are often developed using relatively short-term loans. Upon completion of the project, it may be necessary to find replacement financing for these loans. This process involves risk as to the availability of such permanent or other take-out financing, the interest rates, and the payment terms applicable to such financing, which may be adversely influenced by local, national, or international factors. To date, we have been successful in negotiating development loans with roll over or other provisions mitigating our need to refinance immediately upon completion of construction.

Table of Contents

The ownership of properties involves risk.

The ownership of investment properties involves risks, such as: (i) ongoing leasing and re-leasing risks, (ii) ongoing financing and re-financing risks, (iii) market risks as to the multiples offered by buyers of investment properties, (iv) risks related to the ongoing compliance with changing governmental regulation clause (iv) (including, without limitation, environmental laws and requirements to remediate environmental contamination that may exist on a property, even though not deposited on the property by us) (v) relative illiquidity compared to some other types of assets, and (vi) susceptibility of assets to uninsurable risks, such as biological, chemical or nuclear terrorism. Furthermore, as our properties are typically developed around an entertainment use, the attractiveness of these properties to tenants, sources of finance and real estate investors will be influenced by market perceptions of the benefits and detriments of such entertainment type properties.

International Business Risks

Our international operations are subject to a variety of risks, including the following:

- Risk of currency fluctuations. While we report our earnings and assets in US dollars, substantial portions of our revenues and of our obligations are denominated in either Australian or New Zealand dollars. The value of these currencies can vary significantly compared to the US dollar and compared to each other. We typically have not hedged against these currency fluctuations, but rather have relied upon the natural hedges that exist as a result of the fact that our film costs are typically fixed as a percentage of box office, and our local operating costs and obligations are likewise typically denominated in local currencies.

- Risk of adverse government regulation. At the present time, we believe that relations between the United States, Australia, and New Zealand are good. However, no assurances can be given that this relationship will continue and that Australia and New Zealand will not in the future seek to regulate more highly the business done by US companies in their countries.

Risks Associated with Certain Discontinued Operations

Certain of our subsidiaries were previously in industrial businesses. As a consequence, properties that are currently owned or may have in the past been owned by these subsidiaries may prove to have environmental issues. While we have, where we have knowledge of such environmental issues and are in a position to make an assessment as to our exposure, established what we believe to be appropriate reserves, we are exposed to the risk that currently unknown problems may be discovered. These subsidiaries are also exposed to potential claims related to exposure of former employees to coal dust, asbestos, and other materials now considered to be, or which in the future may be found to be, carcinogenic or otherwise injurious to health.

Operating Results, Financial Structure and Certain Tax Matters

We have negative working capital.

In recent years, as we have invested our cash in new acquisitions and the development of our existing properties, we have moved from a positive to a negative working capital situation. This negative working capital, which we consider to be akin to an interest free loan, is typical in the cinema exhibition industry, since revenues are received in advance of our obligation to pay film licensing fees, rent and other costs. At the present time, we have credit facilities in place which, if drawn upon, could be used to eliminate this negative working capital position.

Table of Contents

We have substantial short to medium term debt.

Generally speaking, we have financed our operations through relatively short-term debt. No assurances can be given that we will be able to refinance this debt, or if we can, that the terms will be reasonable. However, as a counterbalance to this debt, we have significant unencumbered real property assets, which could be sold to pay debt or encumbered to assist in the refinancing of existing debt, if necessary. In February 2007, we issued $50.0 million in 20-year Trust Preferred Securities, and utilized the net proceeds principally to retire short-term bank debt in New Zealand and Australia. However, the interest rate on our Trust Preferred Securities is only fixed for five years, and since we have used US Dollar denominated obligations to retire debt denominated in New Zealand and Australian Dollars, this transaction and use of net proceeds has increased our exposure to currency risk.

With the acquisition of Consolidated Cinemas we have taken on substantial additional debt. This transaction was, in essence, 100% financed, resulting in an increase in our debt for book purposes from $177.2 million at December 31, 2007 to $248.2 million as of February 22, 2008.

We have substantial lease liabilities.

Most of our cinemas operate in leased facilities. These leases typically have cost of living or other rent adjustment features and require that we operate the properties as cinemas. A down turn in our cinema exhibition business might, depending on its severity, adversely affect the ability of our cinema operating subsidiaries to meet these rental obligations. Even if our cinema exhibition business remains relatively constant, cinema level cash flow will likely be adversely affected unless we can increase our revenues sufficiently to offset increases in our rental liabilities.

The Internal Revenue Service has given us notice of a claimed liability of $20.9 million in back taxes, plus interest of $17.9 million.

While we believe that we have good defenses to this liability, the claimed exposure is substantial compared to our net worth, and significantly in excess of our current or anticipated near term liquidity. This contingent liability is discussed in greater detail under Item 3 – Legal Proceedings: Tax Audit. If we were to lose on this matter, we would also be confronted with a potential additional $5.4 million in taxes to the California Franchise Tax Board, plus interest of approximately $4.6 million.

Our stock is thinly traded.

Our stock is thinly traded, with an average daily volume in 2007 of only approximately 4,900 shares. This can result in significant volatility, as demand by buyers and sellers can easily get out of balance.

Ownership Structure, Corporate Governance and Change of Control Risks

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

Mr. James J. Cotter beneficially owns 70.4% of our outstanding Class B Voting Common Stock. Our Class A Non-Voting Common Stock is essentially non-voting, while our Class B Voting Common Stock represents all of the voting power of our Company. As a result, as of December 31, 2007, Mr. Cotter controlled 70.4% of the voting power of all of our outstanding common stock. For as long as Mr. Cotter continues to own shares of common stock representing more than 50% of the voting power of our common stock, he will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. Mr. Cotter will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Mr. Cotter but not to other stockholders. In addition, Mr. Cotter and his affiliates have controlling interests in companies in related and unrelated industries. In the future, we may participate in transactions with these companies (see Note 25 – Related Parties and Transactions).

Since we are a Controlled Company, our Directors have determined to take advantage of certain exemptions provide by the American Stock Exchange from the corporate governance rules adopted by that Exchange.

Table of Contents

Generally speaking, the American Stock Exchange requires listed companies to meet certain minimum corporate governance provisions. However, a Controlled Corporation, such as we, may elect not to be governed by certain of these provisions. Our board of directors has elected to exempt our Company from requirements that (i) at least a majority of our directors be independent, (ii) nominees to our board of directors be nominated by a committee comprised entirely of independent directors or by a majority of our Company's independent directors, and (iii) the compensation of our chief executive officer be determined or recommended to our board of directors by a compensation committee comprised entirely of independent directors or by a majority of our Company's independent directors. Notwithstanding the determination by our board of directors to opt-out of these American Stock Exchange requirements, a majority of our board of directors is nevertheless currently comprised of independent directors, and our compensation committee is nevertheless currently comprised entirely of independent directors.

Table of Contents

Item 1B - Unresolved Staff Comments

Not applicable.

Table of Contents

Item 2 – Properties

Executive and Administrative Offices

We lease approximately 8,000 square feet of office space in Commerce, California to serve as our executive headquarters. During 2005, we purchased a 9,000 square foot office building in Melbourne, Australia, to serve as the headquarters for our Australia and New Zealand operations. We occupy approximately 2,000 square feet of our Village East leasehold property for administrative purposes.

Entertainment Properties

Leasehold Interests

As of December 31, 2007, we lease approximately 1.6 million square feet of completed cinema space in the United States, Australia, and New Zealand as follows:

	Aggregate Square Footage	Approximate Range of Remaining Lease Terms (including renewals)
United States	339,000	5 – 42 years
Australia	869,000	29 – 40 years
New Zealand	402,000	5 – 10 years

On February 22, 2008, we acquired Consolidated Cinemas, comprising approximately 727,000 square feet of cinema improvements. This has increased our worldwide aggregate square footage of property under lease to approximately 2.3 million square feet and our aggregate square footage of property under lease in the United States of 1.1 million square feet.

Fee Interests

In Australia, we owned as of December 31, 2008 approximately 3.2 million square feet of land at eight locations plus one strata title estate consisting of 22,000 square feet. Most of this land is located in the greater metropolitan areas of Brisbane, Melbourne, Perth, and Sydney, including the 50.6-acre Burwood site in suburban Melbourne.

In New Zealand, we own a 190,000 square foot site, which includes an existing 245,000 square foot, nine level parking structure in the heart of Wellington, the capital of New Zealand. All but 38,000 square feet of the Wellington site has been developed as an ETRC which incorporates the existing parking garage. The remaining land is currently leased and is slated for development as phase two of our Wellington ETRC. We own the fee interests underlying three additional cinemas in New Zealand, which properties include approximately 12,000 square feet of ancillary retail space. In 2007, we acquired through our Landplan subsidiary an approximately 64-acre parcel of land in the transportation corridor between the Auckland airport and the Auckland central business district. That land is currently zoned and used exclusively for agricultural purposes, and we are working to rezone the property for commercial/industrial use. Also through Landplan, we acquired a 1.0-acre property on Lake Taupo, a popular recreational destination. At the time we acquired our Lake Taupo property, it was improved as a motel. We are currently in the process of redeveloping that property into condominiums.

Since the close of 2007, we have acquired or entered into agreements to acquire approximately 50,000 square foot of property in Taringa, Australia, comprising four contiguous properties, which we intend to develop. The aggregate purchase price of these properties is $11.3 million (AUS$12.9 million), of which $1.7 million (AUS$2.0 million) relates to the three properties that have been acquired and $9.6 million (AUS$10.9 million) relates to the one property that is still under contract which is subject to certain rezoning conditions.

In the United States, we owned as of December 31, 2007, on a consolidated basis, approximately 121,000 square feet of improved real estate comprised of four live theater buildings which include approximately 58,000 square feet of leasable space, the fee interest in our Cinemas 1, 2 & 3 in Manhattan (held through a limited liability company in which we have a 75% managing member interest), and a residential condominium unit in Los Angeles, used as executive office and residential space by our Chairman and Chief Executive Officer.

Table of Contents

Live Theaters (Liberty Theaters)

Included among our real estate holdings are four "Off Broadway" style live theaters, operated through our Liberty Theaters subsidiary. We lease theater auditoriums to the producers of "Off Broadway" theatrical productions and provide various box office and concession services. The terms of our leases are, naturally, principally dependent upon the commercial success of our tenants. STOMP has been playing at our Orpheum Theatre for many years. While we attempt to choose productions that we believe will be successful, we have no control over the production itself. At the current time, we have three single auditorium theaters in Manhattan:

- the Minetta Lane (399 seats);
- the Orpheum (364 seats); and
- the Union Square (499 seats).

We also own a four auditorium theater complex, the Royal George in Chicago (main stage 452 seats, cabaret 199 seats, great room 100 seats and gallery 60 seats). We own the fee interest in each of these theaters. Two of the properties, the Union Square and the Royal George, have ancillary retail and office space.

We are basically in the business of leasing theatre space, and accordingly we do not typically invest in plays. However, we may from time to time participate as a minority investor in order to facilitate the production of a play at one of our facilities, and do from time to time rent space on a basis that allows us to share in a productions revenues or profits. Revenues, expenses, and profits are reported as apart of the real estate segment of our business.

Joint Venture Interests

We also hold real estate through several unincorporated joint ventures, two 75% owned subsidiaries, and one majority-owned subsidiary, as described below:

- in Australia, we own a 66% unincorporated joint venture interest in a leased 5-screen multiplex cinema in Melbourne, a 75% interest in a subsidiary company that leases two cinemas with eleven screens in two Australian country towns, and a 33% unincorporated joint venture interest in a 16-screen leasehold cinema in a suburb of Brisbane.

- in New Zealand, we own a 50% unincorporated joint venture interest in an eight-screen mainstream cinema in a suburb of Auckland and we own a 50% unincorporated joint venture interest in five cinemas with 22 screens in the New Zealand cities of Auckland, Christchurch, Wellington, Dunedin, and Hamilton.

- in the United States, we own a 50% membership interest in Angelika Film Center, LLC, which holds the lease to the approximately 17,000 square foot Angelika Film Center & Café in the Soho district of Manhattan. We also hold the management rights with respect to this asset. We also own a 75% managing member interest in the limited liability company that owns our Cinemas 1, 2 & 3 property.

Real Estate Development

We are engaged through Reading Australia and Reading New Zealand in real estate development. We have to date developed three Entertainment-Themed Retail Center Developments (so-called ETRCs) each of which consist of a multiplex cinema, complementary restaurant and retail facilities, and convenient parking on land that we own or control. These centers are located in Perth and Auburn (a suburb of Sydney) in Australia and Wellington in New Zealand. We have completed the retail portions of a fourth ETRC (located in a suburb of Brisbane in Australia) and have completed the entitlement process for the construction of the cinema component, which we are in the process of evaluating.

In addition, we are pursuing the development of four additional sites in Australia and three sites in New Zealand. The largest of these are our projects at Burwood and Moonee Ponds, both located in the area of Melbourne, Victoria, and our projects at Wellington and Manukau (a suburb of Auckland) in New Zealand.

Table of Contents

Australia

Auburn, New South Wales

We own 109,000 square foot ETRC in Auburn anchored by a 10 screen, 57,000 square foot cinema commonly known as “Red Yard.” Adjacent to this property, we own approximately 93,000 square feet of the site that is currently unimproved, and is intended to provide expansion space for phase II of our Red Yard project. The centre also includes an 871 space subterranean parking garage. The Auburn City Council, in coordination with other local governments, is currently reviewing the land use parameters for the areas adjacent to Parramatta Road in which our property is located. Parramatta Road, which runs adjacent to Homebush Bay, the site of the 2000 Olympic Games, is one of the busiest arterial roadways in the greater Sydney area, and is considered by many to be the “gateway” to Sydney. Consequently, there is significant community interest in rezoning the uses along this road. As a major landowner in this area, we intend to be actively involved in this process and are hopeful that this rezoning process will materially enhance the value of our remaining unimproved parcel. We have deferred further work on phase II until we get a better idea of the opportunities that may be opened by this rezoning process. This unimproved parcel is currently carried on our books at $2.4 million (AUS$2.7 million). We are currently considering whether to sell this property, and have to date received a number of offers which we are actively considering.

Burwood, Victoria

The biggest real estate project in our pipeline is the development of our 50.6-acre Burwood Project, a suburban area within the Melbourne metropolitan area. In December 1995, we acquired the site initially as a potential ETRC location. In late 2003, that site was designated as a “major activity centre” by the Victorian State Government and in February 2006 was rezoned to permit a broad range of entertainment, retail, commercial and residential uses. On February 20, 2006, the Victoria State Government approved a rezoning of that parcel from an industrial classification to a mixed-use classification allowing a broad range of entertainment, retail, commercial and residential uses. We are continuing to work to remediate environmental issues at the site and to refine that zoning, so as to be able to achieve commercial levels of density on the site.

We contemplate developing the project in a series of phases, with final completion sometime in 2015. While the land use issues are now resolved, individual development plans will need to be prepared and approved for each of the phases, dealing with issues such as project design and traffic management. Ultimately, we estimate that the total project will require development funding of approximately $500.0 million. We currently carry this property on our books at $42.0 million (AUS$47.8 million).

- the site is the largest undeveloped parcel of land in the Burwood Heights “major activity centre” and the largest undeveloped parcel of land in any “major activity centre” in Victoria. Approximately 430,000 people live within five miles of the site, which is well served by both public transit and surface streets. We estimate that approximately 70,000 people pass by the site each day.

- we anticipate that the project will be built in phases, over a significant period of years, and will not likely be completed before sometime in 2015. The initial phase, however, will likely be an ETRC, as this is the area of development and construction with which we are most familiar.

- we do not currently have any funding in place for the development, and are paying for current master planning activities out of cash flow and working capital. The permitted uses outlined in the rezoning for the site are being defined through a Development Plan Overlay review by local government. We currently estimate that complete build-out of the site will require funding in the range of $500.0 million (AUS$570.0 million).

- our original cost basis in the site is approximately $4.2 million (AUS$5.3 million). The property was originally acquired in 1996, but was revalued upward in connection with our Consolidation in 2001, which was treated as a purchase for accounting purposes. This revaluation was made prior to the designation of the site as a “major activity center” in 2004. The current book value of this property under construction is $42.0 million (AUS$47.8 million).

- We are currently working to refine our entitlements for the site, with the intention of increasing densities to commercially reasonable levels.

- as the property was used by its prior owner as a brickworks, it has been necessary to remove or encapsulate the contaminated soil that resulted from those operations from the site before it can be used for mixed-use

Table of Contents

retail, entertainment, commercial and residential purposes. During 2007, we conducted further testing on the site and developed a plan to address these environmental concerns. Substantially all of the contaminated soil slated for removal has now been removed. As of December 31, 2007, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $7.9 million (AUS$9.0 million) and accordingly are not, in our view, material to the overall projected development costs for the project.

Indooroopilly, Brisbane

In September 2006, we acquired a land area of 11,000 square feet, and a two-story 3,000 square foot building. We paid US$1.8 million (AUS$2.3 million) for the land. The site is zoned for commercial purposes. We have obtained approval to develop the property to be a 28,000 square foot grade A commercial office building comprising six floors of office space and two basement levels of parking with 33 parking spaces. We expect to spend US$8 million (AUS$9.4 million) in development costs. We plan to complete the project in December 2008.

Moonee Ponds, Victoria

We are also in the planning stages of the development for our 3.3-acre Moonee Ponds site. This property is within the Moonee Ponds designated “Principal Activity Area,” allowing high-density development. Accordingly, our plans for that property will be necessarily influenced by the manner in which adjacent properties are developed within the “Principal Activity Area.” We are currently in the planning phase for a multi-use development. This site is located within the Moonee Ponds “Principal Activity Area” as designated by the Victorian State Government. The site represents an accumulation of three parcels, the last of which was acquired in 2006. We acquired 2.9 acres of the property in April 1997, for a purchase price of $4.9 million (AUS$6.4 million). The remaining 0.4 acres was acquired in September 2006 for a purchase price of $2.5 million (AUS$3.3 million). We intend to work towards the finalization of a plan for the development of this site during 2008.

Newmarket, Queensland

On November 28, 2005, we opened some of the retail elements of our Newmarket ETRC, a 100,000 square foot retail facility situated on an approximately 177,000 square foot parcel in Newmarket, a suburban of Brisbane, the remainder of the retail areas being rented out during the first half of 2006. Plans for a 6-screen cinema as part of the project have been approved by applicable governmental authorities, and it is anticipated that construction of this entertainment component will commence later this year.

New Zealand

Lake Taupo, New Zealand

In 2007, through Landplan Property Partners, we acquired a 1.0-acre property on Lake Taupo, a popular recreational destination, for approximately $4.9 million (NZ$6.9 million).. At the time we acquired our Lake Taupo property, it was improved as a motel. We are currently in the process of redeveloping that property into condominiums.

Manukau, New Zealand

This is an approximately 64-acre site located in the transit corridor between Auckland Airport and the Auckland central business district. We acquired the property in July 2007 for $9.3 million (NZ$12.1 million). The property is currently zoned for agricultural uses only and used for grazing. We intend to develop a master land use plan for the property and to work to effect a zoning change permitting a more intense use for the land. We believe that the property can be rezoned and developed for a mixture of commercial/industrial uses.

Wellington, New Zealand

We are currently the owner operator of an approximately 160,000 square foot ETRC in Wellington, New Zealand, known as Courtenay Central. The existing ETRC consists of a 10 screen cinema and approximately 38,000 square feet of retail space. The property also includes a separate nine level parking structure, with approximately

Table of Contents

1,086 parking spaces. During 2006, approximately 3.5 million people went through the center. We are currently reviewing our options for the second phase of our Wellington ETRC. While we were successful in obtaining regulatory approval during 2006 for an approximately 162,000 square foot expansion of our existing centre, the timing of the development of that space will ultimately depend upon the retail market in Wellington, which has not been strong in recent periods. Accordingly, our plans for that site are currently in a holding pattern, while we wait for demand for retail space to improve and consider other complementary entertainment center uses for the property. The 38,000 square foot pad intended to support this second phase is currently carried on our books at $2.9 million (NZ$3.7 million), and is being currently rented on a month-to-month basis as a car sales yard. The retail market has significantly softened in Wellington and this has delayed our ability to secure suitable anchor tenants for the development. Accordingly, phase II is currently in a holding pattern as we wait for the retail market to improve and consider alternative uses for the property.

Real Estate Holdings

Our current real estate holdings are described in detail in Item 2, Properties, below. At December 31, 2007, we owned fee interests in approximately 920,000 square feet of income producing properties (including certain properties principally occupied by our cinemas). In the case of properties leased to our cinema operations, these number include an internal allocation of "rent" for such facilities.

Property1	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Auburn 100 Parramatta Road Auburn, NSW, Australia	57,000 / 57,000 Plus an 871-space subterranean parking structure	71%	$31,380,000
Belmont Knutsford Ave and Fulham St Belmont, WA, Australia	19,000 / 49,000	80%	$13,263,000
Cinemas 1, 2 & 32 1003 Third Avenue Manhattan, NY, USA	0 / 24,000	N/A	$23,674,000
Courtenay Central 100 Courtenay Place Wellington, New Zealand	38,000 / 68,000 Plus a 245,000 square foot parking structure	76%	$24,343,000
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	7,000 / 20,000	85%	$2,996,000
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22,000	N/A	$2,088,000
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9,000	N/A	$8,228,000

Napier Cinema 154 Station Street Napier, New Zealand	5,000 / 18,000	100%	$3,102,000
Newmarket3 Newmarket, QLD, Australia	93,000 / 0	99%	$37,874,000
Orpheum Theatre 126 2nd Street Manhattan, NY, USA	0 / 5,000	N/A	$3,256,000
Royal George 1633 N. Halsted Street Chicago, IL, USA	37,000 / 23,000 Plus 21,000 square feet of parking	91%	$3,306,000
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19,000	N/A	$2,827,000
Union Square Theatre 100 E. 17th Street Manhattan, NY, USA	21,000 / 17,000	100%	$8,971,000

1 A number of our properties include entertainment components rented to one or more of our subsidiaries. The rental area and percentage leased numbers are net of such entertainment components as is the book value. Book value and rental information are as of December 31, 2007.

2 This property is owned by a limited liability company in which we hold a 75% managing interest. The remaining 25% is owned by Sutton Hill Investments, LLC, a company owned in equal parts by our Chairman and Chief Executive Officer, Mr. James J. Cotter, and Michael Forman, a major shareholder in our Company.

3 The rental components of this project have been opened for business. The cinema component is, however, still in the design phase and not anticipated to open until some time in 2009.

Table of Contents

In addition, in certain cases we have long-term leases which we view more akin to real estate investments than cinema leases As of December 31, 2007, we had approximately 179,000 square foot of space subject to such long-term leases.

Property1	Square Footage (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Manville	0 / 63,000	N/A	$1,642,000
Tower	0 / 16,000	N/A	$ 151,000
Village East	5,000 / 37,000	100%	$2,589,000
Waurn Ponds	6,000 / 52,000	100%	$6,177,000

1 A number of our properties include entertainment components rented to one or more of our subsidiaries. The rental area and percentage leased numbers are net of such entertainment components. Book value, however, includes the entire investment in the leased property, including any cinema fit-out. Rental and book value information is as of December 31, 2006.

Other Property Interests and Investments

Domestic

Minority Investments in Real Estate Companies

Place 57, Manhattan

We own a 25% membership interest in the limited liability company that has developed the site of our former Sutton Cinema on 57th Street just east of 3rd Avenue in Manhattan, as a 143,000 square foot residential condominium tower, with the ground floor retail unit and the resident manager's apartment. The project is essentially sold out, as all of the residential units have been conveyed and only the ground floor commercial unit is still available for sale. We are currently looking for a tenant for the commercial space, which faces on to 57th Street. At December 31, 2007, all debt on the project had been repaid, and we had received distributions totaling $9.8 million from this project, on an investment of $3.0 million made in 2004.

Malulani Investments, Limited

We own an 18.4% equity interest in Malulani Investments, Limited ("MIL") a closely held private company organized under the laws of the State of Hawaii. The assets of MIL consist principally of commercial properties in Hawaii and California. MIL's assets include the Guenoc Winery and approximately 22,000 acres of contiguous property located in Northern California. Approximately 400 acres of the property in California consists of vineyards, while the remainder is used for agricultural purposes. The property is currently subdivided into approximately 60 separate legal parcels. This land and commercial real estate holdings are encumbered by debt. To date, our requests to management for information about MIL, including consolidated financial information, have not been honored. We have brought litigation against MIL and certain of its directors in an effort to improve our access to information, including consolidated financial information. While we believe that we should prevail in our efforts in this regard, as in all litigation matters, no assurances can be given.

Table of Contents

In connection with this investment we have entered into a shareholders agreement with Magoon Acquisition and Development, LLC, a limited liability company organized under the laws of the state of California ("Magoon LLC"). Magoon LLC owns an approximately 12% equity interest in MIL and a 30% interest in The Malulani Group, Limited, a closely held private Hawaiian corporation ("TMG"), and the owner of 70% equity interest in MIL. That shareholders agreement grants to us voting control over the MIL and TMG shares held by Magoon, LLC, and provides for various rights of first refusal and cost sharing. In addition, the shareholders agreement grants to us the right to require Magoon LLC to contribute its MIL and TMG shares into a new limited liability company, which would also own our MIL shares, of which we would be the sole managing member. As the sole managing member, we would be entitled to receive 20% of any distributions as a management fee, after return of capital to the members. MIL and TMG both have cumulative voting, and together with Magoon LLC, we have elected James J. Cotter to serve as a member of the Board of Directors of MIL.

Non-operating Properties

We own the fee interest in 25 parcels comprising 195 acres in Pennsylvania and Delaware. These acres consist primarily of vacant land. We believe the value of these properties to be immaterial to our asset base, and while they are available for sale, we are not actively involved in the marketing of such properties. With the exception of certain properties located in Philadelphia (including the raised railroad bed leading to the old Reading Railroad Station), the properties are principally located in rural areas of Pennsylvania and Delaware.

Additionally, we own a condominium in the Los Angeles, California area which is used for offsite corporate meetings and by our Chief Executive Officer when he is in town.

Australia

Melbourne Office Building

On September 29, 2005, we purchased an office building in Melbourne, Australia for $2.0 million (AUS$2.6 million) to serve as the headquarters for our Australia and New Zealand operations. We fully financed this property by drawing on our Australian Credit Facility.

Table of Contents

Item 3 – Legal Proceedings

Tax Audit/Litigation

The Internal Revenue Service (the “IRS”) completed its audits of the tax return of Reading Entertainment Inc. (RDGE) for its tax years ended December 31, 1996 through December 31, 1999 and the tax return of Craig Corporation (CRG) for its tax year ended June 30, 1997. With respect to both of these companies, the principal focus of these audits was the treatment of the contribution by RDGE to our wholly owned subsidiary, Reading Australia, and thereafter the subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the “Stater Stock”) received by RDGE from CRG as a part of a private placement of securities by RDGE which closed in October 1996. A second issue involving equipment-leasing transactions entered into by RDGE (discussed below) is also involved.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of RDGE and CRG for the years in question (the “Examination Reports”). The Examination Report for each of RDGE and CRG proposed that the gains on the disposition by RDGE of Stater Stock, reported as taxable on the RDGE return, should be allocated to CRG. As reported, the gain resulted in no additional tax to RDGE inasmuch as the gain was entirely offset by a net operating loss carry forward of RDGE. This proposed change would result in an additional tax liability for CRG of approximately $20.9 million plus interest of approximately $17.9 million as of December 31, 2007. In addition, this proposal would result in California tax liability of approximately $5.4 million plus interest of approximately $4.6 million as of December 31, 2007. Accordingly, this proposed change represented, as of December 31, 2007, an exposure of approximately $48.8 million.

Moreover, California has “amnesty” provisions imposing additional liability on taxpayers who are determined to have materially underreported their taxable income. While these provisions have been criticized by a number of corporate taxpayers to the extent that they apply to tax liabilities that are being contested in good faith, no assurances can be given that these new provisions will be applied in a manner that would mitigate the impact on such taxpayers. Accordingly, these provisions may cause an additional $4.0 million exposure to CRG, for a total exposure of approximately $52.8 million. We have accrued $4.5 million as a probable loss in relation to this exposure and believe that the possible total settlement amount will be between $4.0 million and $52.8 million.

In early February 2005, we had a mediation conference with the IRS concerning this proposed change. The mediation was conducted by two mediators, one of whom was selected by the taxpayer from the private sector and one of whom was an employee of the IRS. In connection with this mediation, we and the IRS each prepared written submissions to the mediators setting forth our respective cases. In its written submission, the IRS noted that it had offered to settle its claims against us at 30% of the proposed change, and reiterated this offer at the mediation. This offer constituted, in effect, an offer to settle for a payment of $5.0 million federal tax, plus interest, for an aggregate settlement amount of approximately $8.0 million. Based on advice of counsel given after reviewing the materials submitted by the IRS to the mediation panel, and the oral presentation made by the IRS to the mediation panel and the comments of the mediators (including the IRS mediator), we determined not to accept this offer.

Notices of deficiency (“N/D”) dated June 29, 2006 were received with respect to each of RDGE and CRG determining proposed deficiencies of $20.9 million for CRG and a total of $349,000 for RDGE for the tax years 1997, 1998 and 1999.

We intend to litigate aggressively these matters in the U.S. Tax Court and an appeal was filed with the court on September 26, 2006. While there are always risks in litigation, we believe that a settlement at the level currently offered by the IRS would substantially understate the strength of our position and the likelihood that we would prevail in a trial of these matters. We are currently in the discovery process, and do not anticipate a trial of this issue before

2010.

Since these tax liabilities relate to time periods prior to the Consolidation of CDL, RDGE, and CRG into Reading International, Inc. and since RDGE and CRG continue to exist as wholly owned subsidiaries of RII, it is expected that any adverse determination would be limited in recourse to the assets of RDGE or CRG, as the case may be, and not to the general assets of RII. At the present time, the assets of these subsidiaries are comprised principally of RII securities. Accordingly, we do not anticipate, even if there were to be an adverse judgment in favor of the IRS that the satisfaction of that judgment would interfere with the internal operation or result in any levy upon or loss of any of our material operating assets. The satisfaction of any such adverse judgment would, however, result in a material dilution to existing stockholder interests.

The N/D issued to RDGE does not cover its tax year 1996 which will be held in abeyance pending the resolution of the CRG case. An adjustment to 1996 taxable income for RDGE would result in a refund of alternative minimum tax paid that year. The N/D issued to RDGE eliminated the gains booked by RDGE in 1996 as a consequence of its acquisition certain computer equipment and sale of the anticipated income stream from the lease of such equipment to third parties and disallowed depreciation deductions that we took with respect to that equipment in 1997, 1998 and 1999. Such disallowance has the effect of decreasing net operating losses but did not result in any additional regular federal income tax for such years. However, the depreciation disallowance would increase RDGE state tax liability for those years by approximately $170,000 plus interest. The only tax liability reflected in the RDGE N/D is alternative minimum tax in the total amount of approximately $349,000 plus interest. On September 26, 2006, we filed an appeal on this N/D with the U.S. Tax Court.

Environmental and Asbestos Claims

Certain of our subsidiaries were historically involved in railroad operations, coal mining and manufacturing. Also, certain of these subsidiaries appear in the chain of title of properties which may suffer from pollution. Accordingly, certain of these subsidiaries have, from time to time, been named in and may in the future be named in various actions brought under applicable environmental laws. Also, we are in the real estate development business and may encounter from time to time unanticipated environmental conditions at properties that we have acquired for development. These environmental conditions can increase the cost of such projects, and adversely affect the value and potential for profit of such projects. We do not currently believe that our exposure under applicable environmental laws is material in amount.

From time to time, we have claims brought against us relating to the exposure of former employees of our railroad operations to asbestos and coal dust. These are generally covered by an insurance settlement reached in September 1990 with our insurance carriers. However, this insurance settlement does not cover litigation by people who were not our employees and who may claim second hand exposure to asbestos, coal dust and/or other chemicals or elements now recognized as potentially causing cancer in humans.

We are in the process of remediating certain environmental issues with respect to our 50-acre Burwood site in Melbourne. That property was at one time used as a brickwork, and we have discovered petroleum and asbestos at the site. During 2007, we developed a plan for the remediation of these materials, in some cases through removal and in other cases through encapsulation. The total site preparation costs associated with the removal of this contaminated soil is estimated to be $7.9 million (AUS$9.0 million). As of December 31, 2007, we had incurred a total of $7.1 million (AUS$8.1 million) of these costs. We do not believe that this has added materially to the overall development cost of the site, as much of the work is being done in connection with excavation and other development activity already contemplated for the property.

Whitehorse Center Litigation

On October 30, 2000, we commenced litigation in the Supreme Court of Victoria at Melbourne, Commercial and Equity Division, against our joint venture partner and the controlling stockholders of our joint venture partner in the Whitehorse Shopping Center. That action is entitled Reading Entertainment Australia Pty, Ltd vs. Burstone Victoria Pty, Ltd and May Way Khor and David Frederick Burr, and was brought to collect on a promissory note (the “K/B Promissory Note”) evidencing a loan that we made to Ms. Khor and Mr. Burr and that was guaranteed by Burstone

Victoria Pty, Ltd ("Burstone" and collectively with Ms. Khor and Mr. Burr, the "Burstone Parties"). This loan balance has been previously written off and is no longer recorded on our books. The Burstone Parties asserted in defense certain set-offs and counterclaims, alleging, in essence, that we had breached our alleged obligations to proceed with the development of the Whitehorse Shopping Center, causing the Burstone Parties damages. The matter is currently on appeal. However, if the trial court is ultimately sustained the result will be a payment from the Burstone Parties to us of $1.1 million (AUS$1.2 million), as of December 31, 2007. That amount continues to accrue interest at the rate of approximately 10%.

Table of Contents

Mackie Litigation

On November 7, 2005, we were sued in the Supreme Court of Victoria at Melbourne by a former construction contractor with respect to the discontinued development of an ETRC at Frankston, Victoria. The action is entitled Mackie Group Pty Ltd v. Reading Properties Pty Ltd, and in it the former contractor seeks payment of a claimed fee in the amount of $788,000 (AUS$1.0 million). We do not believe that any such fee is owed, and are contesting the claim. Discovery has now been completed by both parties. The next step in the litigation is likely to be mediation.

In a hearing conducted on November 22 and 29, 2006, Reading successfully defended an application for summary judgment brought by Mackie and was awarded costs for part of the preparation of its defense to the application. A bill of costs has been prepared by a cost consultant in the sum of $20,000 (AUS$25,000) (including disbursements). On 27 April 2007, we received payment from Khor & Burr for those costs in the sum of $17,000 (AUS$19,000).

A mediation was held in this matter on 12 July 2007, at which time the matter failed to settle. Reading has subsequently made an offer of compromise to Mackie Group in the sum of $150,000 plus party/party costs, which has not been accepted. The matter has not yet been fixed for trial, however orders have now been made for the preparation of material for trial, and we expect that the matter will be set down for trial before the end of the year.

Malulani Investments Litigation

In December 2006, we commenced a lawsuit against certain officers and directors of Malulani Investments Limited ("MIL") alleging various direct and derivative claims for breach of fiduciary duty and waste and seeking, among other things, access to various company books and records. As certain of these claims were brought derivatively, MIL was also named as a defendant in that litigation. That case is called Magoon Acquisition & Development, LLC; a California limited liability company, Reading International, Inc.; a Nevada corporation, and James J. Cotter vs. Malulani Investments, Limited, a Hawaii Corporation, Easton T. Mason; John R. Dwyer, Jr.; Philip Gray; Kenwei Chong (Civil No. 06-1-2156-12 (GWBC) and is currently pending before Judge Chang in the circuit Court of the First circuit State of Hawaii, in Honolulu.

On July 26, 2007, the Court granted TMG's motion to intervene in the Hawaii action. On March 24, 2008, MIL filed a counter claim against us, alleging that we are green mailers, that our purpose in bringing the lawsuit was to harass and harm MIL, and that we should be liable to MIL for the damage resulting from our harassment, including the bringing of our lawsuit (the "MIL Counterclaim").

We do not believe that we have any meaningful exposure with respect to the MIL Counterclaim, and intend to continue to prosecute our claims against the Defendant Directors. We have filed a counterclaim against TMG, alleging various breached of fiduciary duty on its part, as the controlling shareholder of MIL, and are currently seeking permission to amend our initial complaint to add additional allegations principally growing out of the ongoing conduct by the Defendant Directors since the filing of our initial complaint. The action is currently in its discovery phase, with trail currently set for November of this year.

Table of Contents

Other Claims – Credit Card Claims

During 2006, the bank, which administers our credit card activities, asserted a claim of potential loss suffered in relation to the use by third parties of counterfeit credit cards and related credit card company fines. At the end of 2006, we expected the associated claims from the bank and credit card companies for these losses and fines to total approximately $1.2 million. For this reason, we expensed $1.2 million during the year ending December 31, 2006. During 2007, the majority of the credit card claims and penalties were assessed and paid resulting in realized losses of $429,000 and $160,000 for the years ending December 31, 2007 and 2006, respectively, and returned restricted cash of $551,000 during 2007. The restricted cash balance at December 31, 2007 was $59,000 relating to the remaining unresolved credit card claims.

Table of Contents

Item 4 – Submission of Matters to a Vote of Security Holders

At our 2007, Annual Meeting of Stockholders held on May 10, 2007, the stockholders voted on the following proposals:

- by the following vote, our eight directors were reelected to serve on the Board of Directors until the 2008 Annual Meeting of Stockholders:

Election of Directors	For	Withheld
James J. Cotter	1,117,201	28
Eric Barr	1,117,201	28
James J. Cotter, Jr.	1,117,201	28
Margaret Cotter	1,117,201	28
William D. Gould	1,117,201	28
Edward L. Kane	1,117,201	28
Gerard P. Laheney	1,117,201	28
Alfred Villaseñor	1,117,201	28

Table of Contents

PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Market Information

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 incorporated in 1999 and, following t consummation of a consolidation transaction on December 31, 2001 (the "Consolidation"), is now the owner of the consolidated businesses and assets of Reading Entertainment, Inc. ("RDGE"), Craig Corporation ("CRG"), and Citadel Holding Corporation ("CDL"). Until the consolidation of CDL, RDGE, and CRG on December 31, 2001, our common stock was listed and quoted on the American Stock Exchange ("AMEX") under the symbols CDL.A and CDL.B. Following the consolidation, we changed our name to RDI. Effective January 2, 2002, our common stock traded on the American Stock Exchange under the symbols RDI.A and RDI.B. In March 2004, we changed our nonvoting stock symbol from RDI.A to RDI.

The following table sets forth the high and low closing prices of the RDI and RDI.B common stock for each of the quarters in 2007 and 2006 as reported by AMEX:

		Class A Nonvoting Common Stock		Class B Voting Common Stock	
		High	Low	High	Low
2007:	Fourth Quarter	$ 10.22	$ 9.60	$ 10.50	$ 10.00
	Third Quarter	$ 10.64	$ 9.53	$ 10.75	$ 9.40
	Second Quarter	$ 9.34	$ 8.35	$ 9.57	$ 8.30
	First Quarter	$ 8.70	$ 8.18	$ 8.50	$ 8.00
2006:	Fourth Quarter	$ 8.53	$ 7.77	$ 8.35	$ 7.65
	Third Quarter	$ 8.18	$ 7.75	$ 8.00	$ 7.35
	Second Quarter	$ 8.42	$ 7.89	$ 8.35	$ 7.50
	First Quarter	$ 8.62	$ 7.50	$ 8.60	$ 7.30

Holders of Record

The number of holders of record of our Class A and Class B Stock in 2007 was approximately 3,500 and 300, respectively. On March 26, 2007, the closing price per share of our Class A Stock was $9.42, and the closing price per share of our Class B Stock was $10.20.

Dividends on Common Stock

We have never declared a cash dividend on our common stock and we have no current plans to declare a dividend; however, we review this matter on an ongoing basis.

(b) Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

None.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Table of Contents

Item 6 – Selected Financial Data

The table below sets forth certain historical financial data regarding our Company. This information is derived in part from, and should be read in conjunction with our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for the year ended December 31, 2007 (the "2007 Annual Report"), and the related notes to the consolidated financial statements (dollars in thousands, except per share amounts).

	At or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
Revenue	$ 119,235	$ 106,125	$ 98,105	$ 84,089	$ 73,911
Gain (loss) from discontinued operations	$ 1,912	$ --	$ 12,231	$ (469)	$ (288)
Operating income (loss)	$ 5,149	$ 2,415	$ (6,372)	$ (6,322)	$ (5,839)
Net income (loss)	$ (2,103)	$ 3,856	$ 989	$ (8,463)	$ (5,928)
Basic earnings (loss) per share – continuing operations	$ (0.18)	$ 0.17	$ (0.51)	$ (0.37)	$ (0.26)
Basic earnings (loss) per share – discontinued operations	$ 0.09	$ --	$ 0.55	$ (0.02)	$ (0.01)
Basic earnings (loss) per share	$ (0.09)	$ 0.17	$ 0.04	$ (0.39)	$ (0.27)
Diluted earnings (loss) per share – continuing operations	$ (0.18)	$ 0.17	$ (0.51)	$ (0.37)	$ (0.26)
Diluted earnings (loss) per share – discontinued operations	$ 0.09	$ --	$ 0.55	$ (0.02)	$ (0.01)
Diluted earnings (loss) per share	$ (0.09)	$ 0.17	$ 0.04	$ (0.39)	$ (0.27)
Other Information:					
Shares outstanding	22,482,605	22,476,355	22,485,948	21,998,239	21,899,290
Weighted average shares outstanding	22,478,145	22,425,941	22,249,967	21,948,065	21,860,222
Weighted average dilutive shares outstanding	22,478,145	22,674,818	22,249,967	21,948,065	21,860,222
Total assets	$ 346,071	$ 289,231	$ 253,057	$ 230,227	$ 222,866
Total debt	$ 177,195	$ 130,212	$ 109,320	$ 72,879	$ 60,765
Working capital (deficit)	$ 6,345	$ (6,997)	$ (14,282)	$ (6,915)	$ (154)
Stockholders' equity	$ 121,362	$ 107,659	$ 99,404	$ 102,010	$ 108,491
EBIT	$ 8,098	$ 12,734	$ 6,671	$ (4,339)	$ (2,650)
Depreciation and amortization	$ 11,921	$ 13,212	$ 12,384	$ 11,823	$ 10,952
Add: Adjustments for discontinued operations	$ --	$ --	$ 567	$ 1,915	$ 1,907
EBITDA	$ 20,019	$ 25,946	$ 19,622	$ 9,399	$ 10,209
Debt to EBITDA	8.85	5.02	5.57	7.75	5.95
Capital expenditure (including acquisitions)	$ 42,414	$ 16,389	$ 53,954	$ 33,180	$ 5,809
Number of employees at 12/31	1,383	1,451	1,523	1,677	1,453

EBIT presented above represents net income (loss) adjusted for interest expense (calculated net of interest income) and income tax expense. EBIT is presented for informational purposes to show the significance of depreciation and amortization in the calculation of EBITDA. We use EBIT in our evaluation of our operating results since we believe that it is useful as a measure of financial performance, particularly for us as a multinational company. We believe it is a useful measure of financial performance principally for the following reasons:

- since we operate in multiple tax jurisdictions, we find EBIT removes the impact of the varying tax rates and tax regimes in the jurisdictions in which we operate.

- in addition, we find EBIT useful as a financial measure that removes the impact from our effective tax rate of factors not directly related to our business operations, such as, whether we have acquired operating assets by purchasing those assets directly, or indirectly by purchasing the stock of a company that might hold such operating assets.

  - the use of EBIT as a financial measure also (i) removes the impact of tax timing differences which may vary from time to time and from jurisdiction to jurisdiction, (ii) allows us to compare our performance to that achieved by other companies, and (iii) is useful as a financial measure that removes the impact of our historically significant net loss carryforwards.

- the elimination of net interest expense helps us to compare our operating performance to those companies that may have more or less debt than we do.

EBITDA presented above is net income (loss) adjusted for interest expense (again, calculated net of interest income), income tax expense, and in addition depreciation and amortization expense. We use EBITDA in our evaluation of our performance since we believe that EBITDA provides a useful measure of financial performance and value. We believe this principally for the following reasons:

- we believe that EBITDA is an industry comparative measure of financial performance. It is, in our experience, a measure commonly used by analysts and financial commentators who report on the cinema exhibition and real estate industries and a measure used by financial institutions in underwriting the creditworthiness of companies in these industries. Accordingly, our management monitors this calculation as a method of judging our performance against our peers and market expectations and our creditworthiness.

- also, analysts, financial commentators, and persons active in the cinema exhibition and real estate industries typically value enterprises engaged in these businesses at various multiples of EBITDA. Accordingly, we find EBITDA valuable as an indicator of the underlying value of our businesses.

We expect that investors may use EBITDA to judge our ability to generate cash, as a basis of comparison to other companies engaged in the cinema exhibition and real estate businesses and as a basis to value our company against such other companies.

Neither EBIT nor EBITDA is a measurement of financial performance under accounting principles generally accepted in the United States of America and should not be considered in isolation or construed as a substitute for net income or other operations data or cash flow data prepared in accordance with accounting principles generally accepted in the United States for purposes of analyzing our profitability. The exclusion of various components such as interest, taxes, depreciation and amortization necessarily limit the usefulness of these measures when assessing our financial performance, as not all funds depicted by EBITDA are available for management’s discretionary use. For example, a substantial portion of such funds are subject to contractual restrictions and functional requirements to service debt, to fund necessary capital expenditures and to meet other commitments from time to time as described in more detail in this Annual Report on Form 10-K.

EBIT and EBITDA also fail to take into account the cost of interest and taxes. Interest is clearly a real cost that for us is paid periodically as accrued. Taxes may or may not be a current cash item but are nevertheless real costs which, in most situations, must eventually be paid. A company that realizes taxable earnings in high tax jurisdictions may be ultimately less valuable than a company that realizes the same amount of taxable earnings in a low tax jurisdiction. EBITDA fails to take into account the cost of depreciation and amortization and the fact that assets will eventually wear out and have to be replaced.

-38-

Table of Contents

EBITDA, as calculated by us, may not be comparable to similarly titled measures reported by other companies. A reconciliation of net income (loss) to EBIT and EBITDA is presented below (dollars in thousands):

		2007	2006	2005	2004	2003
Net income (loss)		$ (2,103)	$ 3,856	$ 989	$ (8,463)	$ (5,928)
Add:	Interest expense, net	8,163	6,608	4,473	3,078	2,567
Add:	Income tax expense	2,038	2,270	1,209	1,046	711
EBIT		$ 8,098	$ 12,734	$ 6,671	$ (4,339)	$ (2,650)
Add:Depreciation and amortization		11,921	13,212	12,384	11,823	10,952
Adjustments for discontinued operations:						
Add:	Interest expense, net	--	--	310	839	856
Add: amortization	Depreciation and	--	--	257	1,076	1,051
EBITDA		$ 20,019	$ 25,946	$ 19,622	$ 9,399	$ 10,209

Table of Contents

Item 7 – Management's Discussions and Analysis of Financial Condition and Results of Operations

The following review should be read in conjunction with the consolidated financial statements and related notes included in our 2007 Annual Report. Historical results and percentage relationships do not necessarily indicate operating results for any future periods.

Overview

Today, 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 manage our worldwide cinema businesses under various different brands:

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

While we do not believe the cinema exhibition business to be a growth business at this time, we do believe it 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 to continue to work to expand our art cinema operations), we believe it likely that, going forward, we will be reinvesting a greater percentage of our free cash flow in our general real estate development. Over time, we anticipate that our cinema operations will become an increasing source of cash flow to support our real estate oriented activities 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 that will add to shareholder value by building the value of our portfolio of tangible assets.

Business Climate

Cinema Exhibition - General

There is continuing uncertainty in the film industry as to the future of digital exhibition and in-the-home entertainment alternatives. In the case of digital exhibition, there is currently considerable discussion within the industry as to the benefits and detriments of moving from conventional film projection to digital projection technology. There are issues as to when it will be available on an economically attractive basis, as to who will pay for the conversion from conventional to digital technology between exhibitors and distributors, as to what the impact will be on film licensing expense, and as to how to deal with security and potential pirating issues if film is distributed in a digital format. In the case of in-the-home entertainment alternatives, the industry is faced with the significant leaps achieved in recent periods in both the quality and affordability of in-the-home entertainment systems and in the accessibility to entertainment programming through cable, satellite, and DVD distribution channels. These are issues common to both our domestic and international cinema operations.

Table of Contents

Cinema Exhibition – Australia / New Zealand

The film exhibition industry in Australia and New Zealand is highly concentrated and somewhat vertically integrated in that one of the Major Exhibitors, Roadshow Film Distributors, also serves as a distributor of film in Australia and New Zealand for Warner Bros. and New Line. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow. Typically, the Major Exhibitors own the newer multiplex and mega-plex cinemas, while the independent exhibitors typically have older and smaller cinemas. Accordingly, we believe it likely that the Major Exhibitors may control upwards of 65% of the total cinema box office in Australia and New Zealand. Also, the Major Exhibitors have in recent periods built a number of new multiplexes as joint venture partners or under-shared facility arrangements, and have historically not engaged in head-to-head competition, except in the downtown areas of Sydney and Melbourne.

Cinema Exhibition – North America

In North America, distributors may find it more commercially appealing to deal with major exhibitors, rather than to deal with independents like us, which tends to suppress supply screens in a very limited number of markets. This competitive disadvantage has increased significantly in recent periods with the development of mega circuits like Regal and AMC, who are able to offer distributors access to screens on a truly nationwide basis, or on the other hand, to deny access if their desires with respect to film supply are not satisfied.

These consolidations have adversely affected our ability to get film in certain domestic markets where we compete against major exhibitors. With the restructuring and consolidation undertaken in the industry, and the emergence of increasingly attractive in-home entertainment alternatives, strategic cinema acquisitions by our North American operation can be a way to combat such a competitive disadvantage.

Real Estate – Australia and New Zealand

Commercial and retail property values have remained high in Australia and New Zealand due to sound economic growth and, until recently, controlled interest rates. New Zealand has enjoyed consistent growth in rentals and values with some recent signs that this has plateaued in the short term. Project commencements have declined with indications that construction prices will tighten this year. There are continuing signs that large Australian-based funds are actively seeking out opportunities in New Zealand.

The Australian commercial sector of the real estate market has remained buoyant in Australia during 2007. The large institutional funds are still seeking out prime assets with premium prices being paid for good retail and commercial investments and development opportunities. Leasing interest in growth areas such as Brisbane is driving positive returns. Many large residential unit developments in Sydney and Melbourne have however resulted in some oversupply and this sector has softening values.

Real Estate – North America

In the U.S., our real estate interests are predominantly centered on our live theatre rental operations, with the exception of one property relating to a cinema asset that we operate. In addition, our geographic focus of real estate holdings is narrowed to New York and Illinois, and there specifically Manhattan and Chicago.

The four properties that we own relative to our live theatre operations are therefore affected by i) our ability to secure the right live production and ii) the potential for redevelopment of any one site. Any ancillary rental stream, which would be affected by the general state of the US property market, is minor compared to that. Likewise, the rental stream of the one cinema that we own depends solely on our cinema operation, and its value to us depends on this and its redevelopment potential.

The market for redevelopment sites in Manhattan and Chicago has begun to stabilize from the rapid rise in appreciation values over the past few years.

Table of Contents

Business Segments

As indicated above, our two primary business segments are cinema exhibition and the holding and development of real estate. These segments are summarized as follows:

Cinema Exhibition

One of our primary businesses consists of the ownership and operation of cinemas. At December 31, 2007 we:

- directly operated 35 cinemas with 231 screens;
- had interests in certain unconsolidated joint ventures in which we have varying interests, which own an additional 7 cinemas with 46 screens;
- managed 2 cinemas with 9 screens;
- had entered into an agreement for lease with respect to a new 8-screen cinema currently under development in a regional shopping center located in a fast growing suburban area in Australia. It is anticipated that this cinema will open in March 2008; and

Consistent with our philosophy to look for opportunities in the cinema exhibition industry, on February 22, 2008 we acquired from two related companies, Pacific Theatres and Consolidated Amusement Theatres, substantially all of their cinema assets in Hawaii of nine complexes (98 screens), San Diego County of four complexes (51 screens), and Northern California of two complexes (32 screens). In total, we acquired fourteen mature leasehold cinemas and the management rights to one additional mature cinema with 8 screens. In saying that these cinema are "mature" we mean that they have been in operation for some years, and are, in our view, proven performers in their markets. We refer to these cinemas from time to time in this report as Consolidated Cinemas.

Our cinema revenue consists of admissions, concessions, and advertising. The cinema operating expense consists of the costs directly attributable to the operation of the cinemas including employee-related, occupancy, and operating costs and film rent expense. Cinema revenue and expense fluctuates with the availability of quality first-run films and the numbers of weeks the first–run films stay in the market.

Rental Real Estate Holdings

For fiscal 2007, our rental generating real estate holdings consisted of the following properties:

- our Belmont, Western Australia ETRC, our Auburn, New South Wales ETRC and our Wellington, New Zealand ETRC;
- our Newmarket shopping center in Newmarket, Queensland, a suburb of Brisbane. The center is ultimately intended to be an ETRC, and we recently obtained final government approvals for the construction of an approximately 33,000 square foot cinema as a part of the complex;
- three single auditorium live theaters in Manhattan (Minetta Lane, Orpheum, and Union Square) and a four auditorium live theater complex in Chicago (The Royal George) and, in the case of the Union Square and the Royal George their accompanying ancillary retail and commercial tenants;
- a New Zealand property rented to an unrelated third party, to be held for current income and long-term appreciation;

- our Lake Taupo property in New Zealand that is currently improved with a motel which we are in the process of renovating its units to be condominiums. A portion of this property includes unimproved land that we do not intend to develop; and

- the ancillary retail and commercial tenants at some of our non-ETRC cinema properties.

Table of Contents

In addition, we have approximately 5.3 million square feet of unimproved real estate held for development in Australia and New Zealand, discussed in greater detail below, and certain unimproved land in the United States that was used in our historic activities. We also own an 8,783 square foot commercial building in Melbourne, which serves as our administrative headquarters for Australia and New Zealand.

In 2007, we acquired the following real property interests:

- Manukau Land. 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 $9.3 million (NZ$12.1 million). We intend to rezone 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 occur in the near term.

- New Zealand Commercial Property. 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.

- 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.

- Lake Taupo Property. On February 14, 2007, we acquired, through a Landplan Property Partners property trust, a 1.0 acre parcel of commercial real estate for approximately $4.9 million (NZ$6.9 million). The property was improved with a motel, but we are currently renovating the property's units to be condominiums. A portion of this property includes unimproved land that we do not intend to develop. This land was determined to have a fair value of $1.8 million (NZ$2.6 million) at the time of purchase and is included on our balance sheet as land held for sale. The remaining property and its cost basis of $3.1 million (NZ$4.3 million) was included in property under development. The operating activities of the motel are not material.

- 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 for $493,000.

In 2006, we acquired the following real property interests:

- Indooroopilly Land. On September 18, 2006, we purchased a 0.3 acre property for $1.8 million (AUS$2.3 million) as part of our Landplan Property Partners initiative. We have obtained approval to develop the property to be a 28,000 square foot grade A commercial office building comprising six floors of office space and two basement levels of parking with 33 parking spaces. We expect to spend US$8.2 million (AUS$9.4 million) in development costs. We plan to complete the project in December 2008.

- Moonee Ponds Land. On September 1, 2006, we purchased two parcels of land aggregating 0.4 acres adjacent to our Moonee Ponds property for $2.5 million (AUS$3.3 million). This acquisition increases our holdings at Moonee Ponds to 3.3 acres and gives us frontage facing the principal transit station servicing the area. We are currently working to finalize plans for the development of this property into a mixed-use entertainment based retail and commercial complex.

-

Malulani Investments. On June 28, 2006, we acquired for $1.8 million, an 18.4% equity interest in Malulani Investments, Limited (“MIL”), a closely held Hawaiian company which currently owns approximately 763,000 square feet of developed commercial real estate principally in California, Hawaii, and Texas, and approximately 22,000 acres of agricultural land in Northern California. Included among MIL’s assets is the Guenoc Winery, consisting of approximately 400 acres of vineyard land and a winery equipped to bottle up to 120,000 cases of wine annually. This land and commercial real estate holdings are encumbered by debt.

Property Held For or Under Development

For fiscal 2007, our investments in property held for or under development consisted of:

- an approximately 50.6 acre property located in the Burwood area of Melbourne, Australia, recently rezoned from an essentially industrial zone to a priority zone allowing a variety of retail, entertainment, commercial and residential uses and currently in the planning stages of development;

- an approximately 3.3 acre property located in the Moonee Ponds area of Melbourne, Australia. We are currently working to finalize plans for the development of this property into a mixed use entertainment based retail and commercial complex;

- an approximately 0.9 acre property located adjacent to the Courtenay Central ETRC in Wellington, New Zealand. We have received all necessary governmental approvals to develop the site for retail, commercial and entertainment purposes as Phase II of our existing ETRC. We anticipate the construction of an approximately 162,000 square foot retail project which, when completed, will be integrated into the common areas of our existing ETRC;

- a 25% interest, representing an investment of $3.0 million, in the company redeveloping the site of our old Sutton Cinema site in Manhattan, New York. The property has been redeveloped as an approximately 100,000 square foot residential condominium project with ground floor retail and marketed under the name “Place 57.” In 2006, the joint venture was able to close on the sales of 59 condominiums resulting in gross sales of $117.7 million and equity earnings from unconsolidated joint venture to us of $8.3 million. During 2007, this joint venture sold the remaining eight residential condominiums resulting in gross sales of $25.7 million and equity earnings from unconsolidated joint venture to us of $1.3 million. Only the commercial unit is still available for sale;

- a 0.3 acre property with a two-story 3,464 square foot building Indooroopilly, Brisbane, Australia. We have obtained approval to develop the property to be a 28,000 square foot grade A commercial office building comprising six floors of office space and two basement levels of parking with 33 parking spaces. We expect to spend US$8 million (AUS$9.4 million) in development costs. We plan to complete the project in December 2008;

- the Manukau land parcel was purchased on July 27, 2007 through a Landplan Property Partners property trust a 64.0 acre parcel of undeveloped agricultural real estate for approximately $9.3 million (NZ$12.1 million). We intend to rezone 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 occur in the near term; and

- a 1.0-acre parcel of commercial real estate located in Lake Taupo, New Zealand. The property was improved with a motel, but we are currently renovating the property’s units to be condominiums.

Property Held For Sale

At December 31, 2007, the adjacent unimproved land to our recently purchased Lake Taupo property acquired in 2007 was held for sale.

Recent Business Developments

We look to take advantage of those opportunities that may present themselves to expand strategically our existing cinema circuits. However, we do not intend to acquire cinema assets simply for the sake of growing. Rather, we intend to be disciplined in our approach to acquiring and developing cinema assets.

We have, in the past, and may, in the future, dispose of, or put to alternative use some or all of our interests in various operating assets, in order to maximize the values of such assets. Generally speaking, since the Consolidation, we have disposed of our non-cinema and non-real estate related assets so as to focus on our principal two businesses.

During the past 24 months, we have engaged in the following transactions which we believe are consistent with our business plan:

- Consolidated Cinemas. On October 8, 2007, we entered into agreements to acquire leasehold interests in 15 cinemas then owned by Pacific Theatres Exhibition Corp. and its' affiliates. The cinemas, which are located in the United States, contain 181 screens with annual revenue of approximately $78.0 million. The aggregate purchase price of the cinemas and related assets is $69.3 million. This acquisition closed on February 22, 2008.

- Manukau Land. 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 $9.3 million (NZ$12.1 million). We intend to rezone 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 occur in the near term.

- New Zealand Commercial Property. 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. The 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.

- Lake Taupo Property. On February 14, 2007, we acquired, through a Landplan Property Partners property trust, a 1.0 acre parcel of commercial real estate for approximately $4.9 million (NZ$6.9 million). The property was improved with a motel, but we are currently renovating the property's units to be condominiums. A portion of this property includes unimproved land that we do not intend to develop. This land was determined to have a fair value of $1.8 million (NZ$2.6 million) at the time of purchase and is included on our balance sheet as land held for sale. The remaining property and its cost basis of $3.1 million (NZ$4.3 million) was included in property under development. The operating activities of the motel are not material.

- 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.

- Place 57, Manhattan. We own a 25% membership interest in the limited liability company that has been developing the site of our former Sutton Cinema on 57th Street just east of 3rd Avenue in Manhattan, as a 143,000 square foot residential condominium tower, with the ground floor retail unit and the resident manager's apartment. All of the residential units have now been sold and only the commercial unit is still available for sale. As of December 31, 2007, we had received distributions totaling $9.8 million from the earnings of this project and we have received $1.9 million of return of capital investment.

- Indooroopilly Land. On September 18, 2006, we purchased a 0.3 acre property for $1.8 million (AUS$2.3 million) as part of our newly established Landplan Property Partners initiative. We have obtained approval to develop the property to be a 28,000 square foot grade A commercial office building comprising six floors of office space and two basement levels of parking with 33 parking spaces. We expect to spend US$8.2 million (AUS$9.4 million) in development costs. We plan to complete the project in December 2008.

-

Moonee Ponds Land. On September 1, 2006, we purchased two parcels of land aggregating 0.4 acres adjacent to our Moonee Ponds property for $2.5 million (AUS$3.3 million). This acquisition increased our holdings at Moonee Ponds to 3.3 acres and gave us frontage facing the principal transit station servicing the area. We are now in the process of developing the entire site and anticipate completion of this project in 2008.

- Berkeley Cinemas. On August 28, 2006, we sold to our joint venture partner our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand, the Berkeley Cinema Group, for $4.6 million (NZ$7.2 million) in cash and the assumption of $1.6 million (NZ$2.5 million) in debt. The sale resulted in a gain on sale of unconsolidated joint venture in 2006 of $3.4 million (NZ$5.4 million). See Note 11 – Investments in and Advances to Unconsolidated Joint Ventures and Entities for the Berkeley Cinema Group Condensed Balance Sheet and Statement of Operations.

Additionally, effective April 1, 2006, we purchased from our Joint Venture partner the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand for cash of $2.6 million (NZ$4.1 million) and the proportionate share of assumed debt which amounted to $987,000 (NZ$1.6 million). This 8-screen, leasehold cinema had previously been included in our Berkeley Cinemas Joint Venture investment and was not previously consolidated for accounting purposes. Subsequent to April 1, 2006, we have consolidated this entity into our financial statements.

As a result of these transactions, the only cinema owned by this joint venture is the Botany Downs cinema, located in suburban Auckland.

- Malulani Investments, Ltd. On June 26, 2006, we acquired for $1.8 million, an 18.4% interest in a private real estate company with holdings principally in California, Texas and Hawaii including, the Guenoc Winery located on approximately 22,000 acres of land located in Northern California. This land and commercial real estate holdings are encumbered by debt.

- Queenstown Cinema. Effective February 23, 2006, we purchased a 3-screen leasehold cinema in Queenstown, New Zealand for $939,000 (NZ$1.4 million). We funded this acquisition through internal sources.

- Newmarket Property: At the end of 2005 and during the first few months of 2006, we opened the retail elements of our Newmarket ETRC, a 100,373 square foot retail facility situated on an approximately 177,497 square foot parcel in Newmarket, a suburb of Brisbane. The total construction costs for the site were $26.7 million (AUS$34.2 million) including $1.4 million (AUS$1.9 million) of capitalized interest. This project was funded through our $78.8 million (AUS$100.0 million) Australian Corporate Credit Facility with the Bank of Western Australia, Ltd.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of the company's financial condition and results of operations and the most demanding in their calls on judgment. We believe our most critical accounting policies relate to:

- impairment of long-lived assets, including goodwill and intangible assets;
- tax valuation allowance and obligations; and
- legal and environmental obligations.

We review long-lived assets, including goodwill and intangibles, for impairment as part of our annual budgeting process, in the fourth quarter, and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. We review internal management reports on a monthly basis as well as monitor current and potential future competition in film markets for indications of potential impairment. We evaluate our long-lived assets using historical and projected data of cash flow as our primary indicator of potential impairment and we take into consideration, the seasonality of our business. If the sum of the estimated future cash flows, undiscounted, were to be less than the carrying amount of the asset, then an impairment would be recognized for the amount by which the carrying value of the asset exceeds its estimated fair value based on a discounted cash flow calculation. Goodwill and intangible assets are evaluated on a reporting unit basis. The impairment evaluation is based on the present value of estimated future cash flows of the segment plus the expected terminal value. There are significant assumptions and estimates used in determining the future cash flows and terminal value. Accordingly, actual results could vary materially from such estimates. We recorded an impairment loss for one of our cinema locations for the year ended December 31, 2007.

Table of Contents

We record our estimated future tax benefits and liabilities arising from the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards. We estimate the recoverability of any tax assets recorded on the balance sheet and provide any necessary allowances as required. As of December 31, 2007, we had recorded approximately $57.9 million of deferred tax assets related to the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards and tax credit carry forwards. These deferred tax assets were fully offset by a valuation allowance in the same amount, resulting in a net deferred tax asset of zero. The recoverability of deferred tax assets is dependent upon our ability to generate future taxable income. There is no assurance that sufficient future taxable income will be generated to benefit from our tax loss carry forwards and tax credit carry forwards.

Due to our historical involvement in the railroad industry under RDGE, we have a number of former employees of RDGE claiming monetary compensation for hearing loss, black lung and other asbestos related illness suffered as a result of their past employment with RDGE. With respect to the personal injury claims, our insurance carrier generally pays approximately 98% of the claims and we do not believe that we have a significant exposure. However, we can give no assurance that such reimbursement will continue. In addition, we have an environmental contamination dispute with the City of Philadelphia that has been on going for some time and an EPA claim in relation to one of our formerly owned railroad sites. We intend to defend vigorously our positions, as we believe a complete disclosure about the property was made at the time we sold the property: however, no assurances can be given that we will prevail.

From time to time, we are involved with claims and lawsuits arising in the ordinary course of our business which may include contractual obligations; insurance claims; IRS claims; employment matters; and anti-trust issues, among other matters.

Results of Operations

We currently operate two operating segments: Cinema and Real Estate. Our cinema segment includes the operations of our consolidated cinemas. Our real estate segment includes the operating results of our commercial real estate holdings, cinema real estate, live theater real estate and ETRCs. Effective the fourth quarter of 2006, we have 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 2005 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 our principal business segments for the years ended December 31, 2007, 2006 and 2005 (dollars in thousands).

Year Ended December 31, 2007	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 103,467	$ 21,887	$ (6,119)	$ 119,235
Operating expense	83,875	8,324	(6,119)	86,080
Depreciation & amortization	6,942	4,418	--	11,360
General & administrative expense	3,195	831	--	4,026
Segment operating income	$ 9,455	$ 8,314	$ --	$ 17,769

	Cinema	Real Estate	Total

Year Ended December 31, 2006			Intersegment Eliminations	
Revenue	$ 94,048	$ 17,285	$ (5,208)	$ 106,125
Operating expense	75,350	7,365	(5,208)	77,507
Depreciation & amortization	8,648	4,080	--	12,728
General & administrative expense	3,658	782	--	4,440
Segment operating income	$ 6,392	$ 5,058	$ --	$ 11,450

Year Ended December 31, 2005	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 86,760	$ 16,523	$ (5,178)	$ 98,105
Operating expense	72,665	7,359	(5,178)	74,846
Depreciation & amortization	8,323	3,674	--	11,997
General & administrative expense	6,802	328	--	7,130
Segment operating income (loss)	$ (1,030)	$		