READING INTERNATIONAL INC
Form 10-K
March 16, 2009

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, 2008

or

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

For the transition period from _______ to ______

Commission File No. 1-8625
READING INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	95-3885184 (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	NYSE Alternext US
Class B Voting Common Stock, $0.01 par value	NYSE Alternext US

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 16, 2009, there were 20,987,115 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 $127,928,176 as of June 30, 2008.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2008
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. Our Class A Nonvoting Common Stock ("Class A Stock") and Class B Voting Common Stock ("Class B Stock") are listed for trading on the NYSE Alternext US 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 and our website is www.readingrdi.com. It is our practice to make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with or furnished it to the Securities and Exchange Commission. In this Annual Report, we from time to time use terms such as the "Company," "Reading" and "we," "us," or "ou to refer collectively to RDI and our various consolidated subsidiaries and corporate predecessors.

We are an internationally diversified company principally focused on the development, ownership and operation of entertainment and real property assets in the United States, Australia, and New Zealand. Currently, we operate in two business segments:

(1) Cinema Exhibition, through our 58 multiplex theatres, and

(2) Real Estate, including real estate development and the rental of retail, commercial and live theatre assets.

We believe that these two business segments can complement one another, as the comparatively consistent cash flows generated by our cinema operations can be used to fund the front-end cash demands of our real estate development business.

At December 31, 2008, the book value of our assets was approximately $370.1 million; and as of that same date, we had a consolidated stockholders' book equity of approximately $65.8 million. Calculated based on book value, approximately $135.9 million of our assets relate to our cinema activities and approximately $209.3 million of our assets relate to our real estate activities. At December 31, 2008, the allocation between our cinema assets and our non-cinema assets was approximately 37% and 63%, respectively.

For additional segment financial information, please see Note 22 – Business Segments and Geographic Area Information to our 2008 Consolidated Financial Statements.

Recognizing that we are part of a world economy, we have concentrated our assets in three countries: the United States, Australia and New Zealand. We currently have approximately 38% of our assets (based on net book value) in the United States, 44% in Australia and 18% in New Zealand compared to 22%, 53% and 25% at the end of

Table of Contents

2007. For 2008, our gross revenues in these jurisdictions were $99.8 million, $67.8 million, and $23.7 million, respectively, compared to $31.2 million, $57.8 million and $24.4 million for 2007. The principal reason for these changes was the acquisition of the Consolidated circuit in Hawaii and the California multiplex cinemas and the declining value of the Australian and New Zealand dollars as compared to the US dollar, as discussed earlier.

For additional financial information concerning the geographic distribution of our business, please see Note 22 – Business Segments and Geographic Area Information to our 2008 Consolidated Financial Statements.

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. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

Consistent with this philosophy, on February 22, 2008 we acquired fifteen leasehold cinemas representing a total of 181 screens for $70.2 million. These cinemas are located in Hawaii and California and, since the acquisition date through to December 31, 2008 produced gross revenues of $66.9 million. This acquisition was financed, principally with a combination of institutional and seller financing totaling $71.0 million. The purchase price is subject to downward adjustment depending upon future circumstances, up to a maximum possible downward adjustment of $21.0 million.

On September 16, 2008, we entered into a sale option agreement to sell our Auburn real estate property and cinema for $28.5 million (AUS$36.0 million). The sale option agreement calls for an initial option payment of $948,000 (AUS$1.2 million), received on the agreement date, and four option installment payments of $316,000 (AUS$400,000), $316,000 (AUS$400,000), $316,000 (AUS$400,000), and $948,000 (AUS$1.2 million) payable over the subsequent 9 months. As of December 31, 2008, we have received $1.3 million (AUS$1.6 million) in payments associated with this option agreement. The option comes to term on November 1, 2009 at which time the balance of $25.6 million (AUS$32.4 million) is due and payable. At any time during the 13-month option, the buyer may decline to move further in the sale process resulting in a forfeiture of all previous option payments.

During 2008, we have acquired or entered into agreements to acquire four contiguous properties in Brisbane, Australia, of approximately 50,000 square feet, which we intend to develop. The aggregate purchase price of these properties is $10.1 million (AUS$13.7 million), of which $2.5 million (AUS$2.8 million) relates to the three properties that have been acquired and $7.6 million (AUS$10.9 million) relates to the one property that is under contract to be

Table of Contents

acquired. Our obligation to close on the fourth property is subject to certain conditions (which we may waive) including a rezoning of certain of the four properties.

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, in February 2007 we broke with this policy and 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. 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.

However, during the first quarter of 2009, we took advantage of current market illiquidity for securities such as our Trust Preferred Securities to repurchase $22.9 million in face value of those securities for $11.5 million. In addition, in December 2008 we secured a waiver of all financial covenants with respect to our Trust Preferred Securities for a period of nine years, in consideration of the payment of $1.6 million, consisting of an initial payment of $1.1 million and a contractual obligation to pay $270,000 in December 2011 and $270,000 in December 2014. In the event that the remaining payments are not made, the only remedy is the termination of the waiver. Because of this transaction, we once again have substantially matched the currency in which we have financed our developments with the jurisdictions in which these developments are located.

In summary, 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 asset allocation between our domestic and overseas assets and operations, and 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, 2008, our principal assets included:

- interests in 56 cinemas comprising some 459 screens;
- fee interests in four live theatres (the Union Square, the Orpheum and Minetta Lane in Manhattan and the Royal George in Chicago);
- fee ownership of approximately 1.2 million square feet of developed commercial real estate, and approximately 15.3 million square feet of land (including approximately 5.3 million square feet of land held for development), located principally in urbanized areas of Australia, New Zealand and the United States; and
- cash, cash equivalents and investments in marketable securities aggregating $34.0 million.

Our Cinema Exhibition Activities and Business

General

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

Table of Contents

purchase of Consolidated Cinemas, we do not feel pressure to build or acquire cinemas for the sake of simply adding on units. We 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 there is a higher and better use of our property, or to sell individual assets, if we are presented with an attractive opportunity.

Our current cinema assets are as set forth in the following chart:

	Wholly Owned	Consolidated1	Unconsolidated2	Managed3	Totals
Australia	18 cinemas	3 cinemas	1 cinema4	None	22 cinemas
	135 screens	16 screens	16 screens		167 screens
New Zealand	9 cinemas	None	3 cinemas5	None	12 cinemas
	48 screens		16 screens		64 screens
United States	21 cinemas	1 cinema6	None	2 cinemas	24 cinemas
	222 screens	6 screens		9 screens	237 screens
Totals	48 cinemas	4 cinemas	4 cinemas	2 cinemas	58 cinemas
	405 screens	22 screens	32 screens	9 screens	468 screens

1 Cinemas owned and operated through consolidated, but not wholly 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.

We also offer premium class seating and amenities in certain of our cinemas and are in the process of converting certain of our exiting cinemas to provide this premium offering.

Although we operate cinemas in three jurisdictions, the general nature of our operations and operating strategies do not vary materially from jurisdiction to jurisdiction. In each jurisdiction, our gross receipts derive essentially for box office receipts, concession sales, and screen advertising. Our ancillary revenues derive principally from theatre rentals (for example, for film festivals and special events), ancillary programming (such as concerts and sporting events) and internet advertising and ticket sales.

Our cinemas derive approximately 70.4% of their 2008 revenues from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children.

Show times and features are placed in advertisements in local newspapers and on our various websites. In the United States, film distributors may also advertise certain feature films in various print, radio and television

Table of Contents

media, as well as on the internet and those costs are generally paid by distributors. In Australia and New Zealand, the exhibitor typically pays the costs of local newspaper film advertisements, while the distributors are responsible for the cost of any national advertising campaign.

Concession sales account for approximately 25.1% of our total 2008 revenues. Although certain cinemas have licenses for the sale and consumption of alcoholic beverages, concession products primarily include popcorn, candy, and soda.

Screen advertising and other revenues contribute approximately 4.5% of our total 2008 revenues. With the exception of certain rights that we have retained to sell to local advertisers, generally speaking, we are not in the screen advertising business and have contracted with a national screen advertising company to provide such advertising for us.

In New Zealand, 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 2/3 interest is owned by the founders of the company, who have been in the art film distribution business since 1993.

Management of Cinemas

With two exceptions, we manage all of our cinemas ourselves with executives located in Los Angeles, Manhattan, Melbourne, Australia, and Wellington, New Zealand. Approximately 1,918 individuals were employed (on a full time or part time basis) in our cinema operations in 2008. Our three New Zealand Rialto cinemas are owned by a joint venture in which Reading New Zealand is a 50% joint venture partner. While we are principally responsible for the booking of the cinemas, our joint venture partner, SKY City Cinemas, manages the day-to-day operations of these cinemas. In addition, we have a 1/3 interest in a 16-screen Brisbane cinema. Greater Union manages that cinema.

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. In Australia and New Zealand, some of those major distributors distribute through local unaffiliated distributors. 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 Miramax. Generally speaking, film payment terms are based upon an agreed upon percentage of box office receipts which will vary from film to film as films are licensed in Australia, New Zealand and the United States on a film-by-film, theatre by theatre basis.

While in certain markets film may be allocated by the distributor among competitive cinemas, typically in the markets in which we operate, we have access to all conventional film products. In the art and specialty markets, due to the limited number of prints available, we from time to time are unable to license all of the films that we might desire to play. In summary, while in some markets we are subject to film allocation, on the whole, access to film product has not in recent periods been a major impediment to our operations.

Competition

In each of the United States, Australia, and New Zealand, film patrons typically select the cinema that they are going to go to first by selecting the film they want to see, and then by selecting the cinema in which they would prefer to see it. Accordingly, 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.

Table of Contents

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, because of the dramatic 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.

Once a patron has selected the film, the choice of cinema is typically impacted by the quality of the cinema experience offered weighed against convenience and cost. For example, most cinema patrons seem to prefer a modern stadium design multiplex, to an older sloped floor cinema, and to prefer a cinema that either offers convenient access to free parking (or public transport) over a cinema that does not. However, if the film they desire to see is only available at a limited number of locations, they will typically chose the film over the quality of the cinema and/or the convenience of the cinema. Generally speaking, our cinemas are modern multiplex cinemas with good and convenient parking. As discussed further below, the availability of 3D or digital technology can also be a factor in the preference of one cinema over another.

The film exhibition markets in the United States, Australia, and New Zealand are to a certain extent dominated by a limited number of major exhibition companies. The principal exhibiters in the United States are Regal (with 6,801 screens in 552 cinemas), AMC (with 4,628 screens in 309 cinemas), Cinemark (with 3,742 screens in 293 cinemas), and Carmike (with 2,276 screens in 250 cinemas). At the present time, we are the 13th largest exhibitor with 1% of the box office in the United States with 222 screens in 21 cinemas.

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 has 243 screens nationally; Village 218 screens; Birch Carroll & Coyle (a subsidiary of Greater Union) 230 screens and Hoyts 333 screens. By comparison, our 151 screens 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).

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 $746.8 million (AUS$781.0 million) at June 30, 2008. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately $540.3 million (AUS$565.0 million) at June 30, 2008. Hoyts is privately held and does not publish financial reports. Hoyts is currently owned by Pacific Equity Partners.

In Australia, 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 is also involved in film production and distribution.

Digital and 3D

There is currently considerable uncertainty as to the future of digital and 3D exhibition and in-the-home entertainment alternatives and the impact of these technologies on cinema exhibition. The industry continues to address issues relating to the benefits and detriments of moving from conventional film projection to digital projection technology as well as 3D technology, including:

- when it will be available on an economically attractive basis;

- who will pay for the conversion from conventional to digital and 3D technology between exhibitors and distributors;
- what the impact will be on film licensing expense; and
- 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, along with 3D for some of their screens at their various cinemas. 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. At the present time, we estimate that it would likely cost in the range of $47.0 million for us to convert our wholly owned cinemas to digital distribution on a worldwide basis. We have begun the process of converting some of our theatres in the locations where we feel it is best suited and most helpful against the competition.

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.

Competitive issues are discussed in greater detail below under the caption, Competition, and under the caption, Item 1A - Risk Factors.

Seasonality

Major films are generally released to coincide with holidays. With the exception of Christmas and New Years, this fact provides some balancing of our revenues because there is no material overlap between holidays in the United States and those in Australia and New Zealand. Distributors will delay, in certain cases, releases in Australia and New Zealand to take advantage of Australia and New Zealand holidays that are not celebrated in the United States.

Employees

We have 68 full time executive and administrative employees and approximately 1,918 cinema employees. Our cinema employees in Hawaii and Wellington, New Zealand are unionized, while our cinema employees in California, New York, New Jersey, and Texas are not. Our one union contract with respect to our Hawaii cinemas expires on March 31, 2009. Our union contracts with respect to New Zealand expire on January 31, 2009 and October 1, 2009. None of our Australia based employees is unionized. Overall, we are of the view that the existence of these contracts does not materially increase our costs of labor or our ability to compete. We believe our relations with our employees to be generally good.

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 activities or which were acquired for the development of cinemas or cinema based real estate development projects;

- the acquisition of fee interests for general real estate development;
- the leasing to shows of our live theatres; and
- the redevelopment of existing cinema sites to their highest and best use.

While we report our real estate as a separate segment, it has historically operated as an integral portion of our overall business and has principally been in support of that business. Accordingly, our senior executives oversee and participate in both the cinema and real estate aspects of our business. We also employ a number of full time real estate

Table of Contents

professionals to assist us in our non-cinema real estate development activities and non-cinema property management activities.

Our real estate activities, holdings and developments are described in greater detail in Item 2 – Properties, and that discussion is not repeated here.

Table of Contents

Item 1A – Risk Factors

Investing in our securities involves risk. Set forth below is a summary of various risk factors that 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 that 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.

Competition from less expensive in-home entertainment alternatives may be intensified as a result of the current economic recession.

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

Table of Contents

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 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.

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

Table of Contents

development loans with roll over or other provisions mitigating our need to refinance immediately upon completion of construction.

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 (including, without limitation, environmental laws and requirements to remediate environmental contamination that may exist on a property (such as, by way of example, asbestos), 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. However, we do have debt at our parent company level that is serviced by our overseas cash flow and our ability to service this debt could be adversely impacted by declines in the relative value of the Australian and New Zealand Dollar compared to the US Dollar. Set forth below is a chart of the exchange ratios between these three currencies over the past twenty years:

- 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

Table of Contents

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

From time to time, we may have negative working capital.

In recent years, as we have invested our cash in new acquisitions and the development of our existing properties, and from time to time we have had negative working capital. 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.

We have substantial short to medium term debt.

Generally speaking, we have historically 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. In the first quarter of 2009, we repurchased $22.9 million of our Trust Preferred Securities at a 50% discount.

In connection with the financing of 15 additional cinemas in 2008, 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. As of December 31, 2008, this total debt had been reduced to $239.2 million.

At the present time, the corporate borrowers both domestically and internationally are facing a severe shortage of liquidity. No assurances can be given that we will be able to refinance our debt as it becomes due.

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 $19.6 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

Table of Contents

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 $5.8 million.

Our stock is thinly traded.

Our stock is thinly traded, with an average daily volume in 2008 of only approximately 4,600 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 68.5% 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, 2008, Mr. Cotter controlled 68.5% 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 NYSE Alternext US from the corporate governance rules adopted by that Exchange.

Generally speaking, the NYSE Alternext US 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 NYSE Alternext US 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

None.

Table of Contents

Item 2 – Properties

Executive and Administrative Offices

We lease approximately 8,582 square feet of office space in Commerce, California to serve as our executive headquarters. We own a 9,000 square foot office building in Melbourne, Australia, which serves as the headquarters for our Australia and New Zealand operations. We occupy approximately 2,000 square feet at our Village East leasehold property for administrative purposes. We also own a residential condominium unit in Los Angeles, used as executive office and residential space by our Chairman and Chief Executive Officer.

Entertainment Properties

Entertainment Use Leasehold Interests

As of December 31, 2008, we lease approximately 2.16 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	1,002,625	2010 – 2049
Australia	817,820	2016 – 2049
New Zealand	340,000	2023 – 2034

On February 22, 2008, we acquired 15 pre-existing cinemas from a third party, comprising approximately 727,000 square feet of cinema improvements in the United States. This space is reflected in the above table.

Entertainment Use Fee Interests

In Australia, we own 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 that we are holding for development and which is anticipated to include a cinema component. Of these fee interests, approximately 809,000 square feet is currently improved with cinemas.

In New Zealand, we own as of December 31, 2008 a 152,000 square foot site, which includes an existing 335,000 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 that 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 the United States, we own as of December 31, 2008, on a consolidated basis, approximately 126,000 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).

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

Table of Contents

- 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 primarily in the business of leasing theatre space. However, we may from time to time participate as an investor in a play, which can help facilitate the production of the 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 Cinema 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 three cinemas with 22 screens in the New Zealand cities of Auckland, Christchurch, and Dunedin.

- 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.

Income Producing Real Estate Holdings

We own, as of December 31, 2008 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 numbers include an internal allocation of “rent” for such facilities.

Table of Contents

Property7	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	81%	$23,561,000
Belmont Knutsford Ave and Fulham St Belmont, WA, Australia	19,000 / 49,000	76%	$10,558,000
Cinemas 1, 2 & 38 1003 Third Avenue Manhattan, NY, USA	0 / 24,000	N/A	$23,812,000
Courtenay Central 100 Courtenay Place Wellington, New Zealand	38,000 / 68,000 Plus a 245,000 square foot parking structure	76%	$18,455,000
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	7,000 / 20,000	85%	$ 1,916,000
Lake Taupo Motel 138-140 Lake Terrace Road Taupo, New Zealand	22,000 / 0	Short-term rentals	$ 2,397,000
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22,000	N/A	$ 1,661,000
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9,000	N/A	$ 8,299,000
Napier Cinema 154 Station Street Napier, New Zealand	5,000 / 18,000	100%	$ 2,148,000
Newmarket Newmarket, QLD, Australia	93,000 / 0	100%	$30,164,000
Orpheum Theatre 126 2nd Street Manhattan, NY, USA	0 / 5,000	N/A	$ 3,282,000
Royal George 1633 N. Halsted Street Chicago, IL, USA	37,000 / 23,000 Plus 21,000 square feet of parking	91%	$ 3,403,000
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19,000	N/A	$ 2,088,000
Union Square Theatre	21,000 / 17,000	100%	$ 9,217,000

100 E. 17th Street
Manhattan, NY, USA

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7 A number of our real estate holdings include entertainment components rented to one or more of our subsidiaries. The rental area to such subsidiaries is noted under the entertainment square footage. Rental square footage refers to the amount of area available to be rented to third parties and the percentage leased is the amount of rental square footage currently leased to third parties. The gross book value refers to the gross carrying cost of the land and buildings of the property. Book value and rental information are as of December 31, 2008.
8 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.

Table of Contents

Long-Term Leasehold Real Estate Holdings

In addition, in certain cases we have long-term leases that we view more akin to real estate investments than cinema leases. As of December 31, 2008, we had approximately 179,000 square foot of space subject to such long-term leases.

Property[9]	Square Footage (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Manville	0 / 46,000	N/A	$1,873,000
Tower	0 / 16,000	N/A	$ 260,000
Village East	5,000 / 37,000	100%	$3,086,000
Waurn Ponds	6,000 / 52,000	100%	$4,915,000

9 A number of our long-term leasehold real estate properties include entertainment components rented to one or more of our subsidiaries. The rental area to such subsidiaries is noted under the entertainment square footage. Rental square footage refers to the amount of area available to be rented to third parties, and the percentage leased is the amount of rental square footage currently leased to third parties. Book value includes the entire investment in the leased property, including any cinema fit-out. Rental and book value information is as of December 31, 2008.

Table of Contents

Real Estate Development Properties

We are engaged in several real estate development projects:

Property10	Square Footage/ Acreage	Gross Book Value (in U.S. Dollars)	Status
Auburn, Sydney, Australia Land adjacent to our existing development	2.1 acres	$ 1,415,000	Currently held for sale with the rest of the ETRC and cinema under a 13 month option contract that ends in October 2009
Burwood, Victoria, Australia	50.6 acres	$ 38,026,000	Development Overlay Plan approved in December 2008 for 394,000 sq ft retail, 211,000 sq ft service/ noncore retail, 215,000 sq ft Commercial office, 700 dwellings. Next steps are determining staging and Town planning applications. Land filling works on hold.
Courtenay Central, Wellington, New Zealand Land adjacent to our existing development	0.9 acre	$ 2,504,000	Have regulatory approval for expansion; on hold pending demand for retail space to improve.
Indooroopilly, Brisbane, Australia	11,162 sq ft	$ 7,810,000	28,000 square foot grade A commercial office building under construction. Anticipated completion date: March 23, 2009.
Moonee Ponds, Victoria, Australia	3.3 acres	$ 9,664,000	In planning stages of determining best use depending on factors including development of adjacent properties. Zoned for high-density as a “Principal Activity Area.”
Taringa, Queensland, Australia	Own 1.2 acres, and under contract for a further 1.5 acres	$ 3,056,000	Working on plans to develop 225,000 to 350,000 square feet of a commercial, retail, and residential development conditional upon obtaining a rezoning approval.
Newmarket, Queensland, Australia Land adjacent to our existing development	13,390 sq. ft.	$ 1,886,000	Analyzing if plans for cinema should be replaced with plans for additional retail space.
Lake Taupo, Taupo, New Zealand Land adjacent to our existing development	0.5 acre	$ 582,000	A 20,000 square foot residential development site that is currently subject to development review.
Manakau, Auckland, New Zealand	64.0 acres	$ 7,234,000	Zoned for agriculture, currently used for horticulture commercial purposes. We have formed a consortium with adjacent landowners and have completed a master plan to rezone our land and the neighbors’ lands into a distribution and manufacturing industrial park.

10 A number of our real estate holdings include additional land held for development. In addition, we have acquired certain parcels for future development. The gross book value includes, as applicable, the land, building, development costs, and capitalized interest.

Table of Contents

Other Property Interests and Investments

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 sold out. At December 31, 2008, all debt on the project had been repaid, and we had received distributions totaling $11.7 million from this project, on an investment of $3.0 million made in 2004. The remaining commercial unit was sold in February 2009 for approximately $4.0 million.

Malulani Investments, Limited

In 2006, we acquired 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. Incident to the settlement of certain litigation, we have agreed to sell this interest to MIL's controlling shareholder, See Item 3, Legal Proceedings.

Landplan Property Partners, Ltd

In 2006, we formed Landplan Property Partners, Ltd ("Reading Landplan") to identify, acquire and develop or redevelop properties on an opportunistic basis in Australia and New Zealand. These properties are held in separate special purpose entities, which are collectively referred to "Reading Landplan". The Chief Executive Officer of Reading Landplan has, as a part of his compensation arrangement, what is now a 15% incentive interest in each of the various special purpose entities. That incentive interest is (i) subordinated to our right to receive an 11% compounded return on investment and (ii) calculated on a aggregate or pooled basis taking into account the performance of all of the properties held by these special purpose entities.

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 that is used for offsite corporate meetings and by our Chief Executive Officer when he is in town. These properties are unencumbered with any debt and lien free.

Table of Contents

Item 3 – Legal Proceedings

Tax Audit/Litigation

The Internal Revenue Service (the "IRS") has 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. These companies are each now wholly owned subsidiaries of RDI, but for the time periods under audit, were not consolidated with RDI for tax purposes. 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"). The Stater Stock was 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 an equipment-leasing transaction entered into by RDGE (discussed below) has been conceded by RDGE resulting in a net tax refund.

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 $19.6 million as of December 31, 2008. In addition, this proposal would result in California tax liability of approximately $5.4 million plus interest of approximately $5.8 million as of December 31, 2008. Accordingly, this proposed change represented, as of December 31, 2008, an exposure of approximately $51.7 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 $55.7 million. We have accrued $5.5 million in accordance with the cumulative probability approach prescribed in FIN 48 in relation to this exposure and believe that the possible total settlement amount will be between $5.5 million and $55.7 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 the Stater matter 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 the trial is scheduled for September 2009.

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 RDI, 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 RDI. At the present time, the assets of these subsidiaries are comprised

Table of Contents

principally of RDI 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. However, the satisfaction of any such adverse judgment would result in a material dilution to existing stockholder interests.

The N/D issued to RDGE was conceded by RDGE in August 2008. The net result is expected to be approximately $70,000 in refunds of federal and state income taxes.

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 that 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 brickworks 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. As of December 31, 2008, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $8.1 million (AUS$9.6 million) and as of that date we had incurred a total of $6.2 million (AUS$7.4 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”). 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. On May 10, 2005, a mixed judgment was entered by the trial court. Appeal rights have been exhausted and the net result of that judgment has been the payment to us by the defendants during the 2008 first quarter of $830,000 (AUS$901,000) and $314,000 (AUS$333,000) during the 2008 second quarter. These payments are each included in other income.

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.

Table of Contents

In a hearing conducted on November 22 and 29, 2006, we successfully defended an application for summary judgment brought by Mackie and were awarded costs for part of the preparation of our 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 April 27, 2007, we received payment for those costs in the sum of $17,000 (AUS$19,000).

Attempts to mediate the dispute have not been successful. 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. We believe that we have adequate support for our position and that a reserve for these claims is not required as the likelihood of an unfavorable outcome is not probable and reasonably capable of being estimated.

Malulani Investments Litigation

In December 2006, we and Magoon Acquisition and Development, LLC, another minority shareholder in Malulani Investments, Limited ("MIL") commenced a lawsuit against certain officers and directors of 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 was brought in the Circuit Court of the First Circuit Hawaii, in Honolulu, and 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).

On July 26, 2007, the Court granted the motion of The Malulani Group, Limited, the controlling shareholder of MIL ("TMG"), to intervene in the Hawaii action. On March 24, 2008, MIL filed a counter claim against us, alleging 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").

On March 11, 2009, we and Magoon LLC agreed to terms of settlement (the "Settlement Terms") with respect to this lawsuit. Under the Settlement Terms, we and Magoon LLC will receive $2.5 million in cash, a $6.75 million three-year 6.25% secured promissory note (issued by TMG), and a ten year "tail interest" in MIL and TMG which allows us, in effect, to participate in certain distributions made or received by MIL, TMG and/or, in certain cases, the shareholders of TMG. However, the tail interest continues only for a period of ten years and no assurances can be given that we will in fact receive any distributions with respect to this Tail Interest.

Pursuant to the Settlement Terms, we will transfer all of our interests in MIL to TMG and Magoon LLC will transfer all of its interest in MIL and TMG to TMG, and there will be a mutual release of claims. Mr. Cotter, our Chairman, Chief Executive Officer and principal shareholder and a director of MIL, is simultaneously settling his related claims for mutual general releases and resigning from the Board of Directors of MIL.

Under the terms of our agreement with Magoon LLC, we are, generally speaking, entitled to receive, on a priority basis, 100% of any proceeds from any disposition of the shares in MIL and TMG held by us or Magoon LLC until we (Reading) have recouped the cost of our investment in MIL and all of our litigation costs. Accordingly, we will receive virtually all of the cash proceeds of the settlement, plus virtually all distribution with respect to the promissory note, until such time as we have recouped both the cost of our investment in MIL and all of our litigation costs. Thereafter, Magoon LLC will receive distributions under the promissory note and the Tail Interest (if any) until it has recouped its investment in MIL and TMG. Thereafter, any distributions under the Tail Interest, if any, will be shared between us and Magoon LLC in accordance with the sharing formula set forth in the Amended and Restated Shareholder Agreement between ourselves and Magoon LLC. Given the secured nature of the promissory note, we are reasonably comfortable that we will recoup the full amount of our investment in MIL and all of our litigation costs from the proceeds of this settlement. (See Note 27 – Subsequent Events).

Table of Contents

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

At our 2008, Annual Meeting of Stockholders held on May 15, 2008, 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 2009 Annual Meeting of Stockholders:

Election of Directors	For	Withheld
James J. Cotter	1,420,553	66,048
Eric Barr	1,486,551	50
James J. Cotter, Jr.	1,420,491	66,110
Margaret Cotter	1,420,711	65,890
William D. Gould	1,420,753	65,848
Edward L. Kane	1,486,529	72
Gerard P. Laheney	1,486,551	50
Alfred Villaseñor	1,486,529	72

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”). Following the consolidation, we changed our name to Reading International, Inc. and were listed on the American Stock Exchange (AMEX). Effective January 2, 2002, our common stock traded on the AMEX under the symbols RDI.A and RDI.B. In March 2004, we changed our nonvoting stock symbol from RDI.A to RDI. Due to the 2008 purchase of the AMEX by the NYSE Alternext US, we are now listed on that exchange.

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 2008 and 2007 as reported by NYSE Alternext US:

		Class A Nonvoting Common Stock		Class B Voting Common Stock	
		High	Low	High	Low
2008:	Fourth Quarter	$ 6.90	$ 3.70	$ 8.00	$ 3.90
	Third Quarter	$ 8.00	$ 6.55	$ 9.25	$ 7.90
	Second Quarter	$ 9.70	$ 7.75	$ 10.50	$ 9.25
	First Quarter	$ 10.00	$ 9.34	$ 10.50	$ 10.00
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

Holders of Record

The number of holders of record of our Class A and Class B Stock in 2008 was approximately 3,500 and 300, respectively. On March 11, 2009, the closing price per share of our Class A Stock was $2.95, and the closing price per share of our Class B Stock was $4.06.

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, 2008 (the "2008 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,				
	2008	2007	2006	2005	2004
Revenue	$ 191,286	$ 113,404	$ 100,850	$ 92,142	$ 77,231
Gain (loss) from discontinued operations	$ 562	$ 1,893	$ (249)	$ 12,325	$ (464)
Operating income (loss)	$ (4,576)	$ 5,166	$ 2,653	$ (6,520)	$ (6,735)
Net income (loss)	$ (18,535)	$ (2,103)	$ 3,856	$ 989	$ (8,463)
Basic earnings (loss) per share – continuing operations	$ (0.84)	$ (0.18)	$ 0.18	$ (0.51)	$ (0.37)
Basic earnings (loss) per share – discontinued operations	$ 0.02	$ 0.09	$ (0.01)	$ 0.55	$ (0.02)
Basic earnings (loss) per share	$ (0.82)	$ (0.09)	$ 0.17	$ 0.04	$ (0.39)
Diluted earnings (loss) per share – continuing operations	$ (0.84)	$ (0.18)	$ 0.18	$ (0.51)	$ (0.37)
Diluted earnings (loss) per share – discontinued operations	$ 0.02	$ 0.09	$ (0.01)	$ 0.55	$ (0.02)
Diluted earnings (loss) per share	$ (0.82)	$ (0.09)	$ 0.17	$ 0.04	$ (0.39)
Other Information:					
Shares outstanding	22,482,605	22,482,605	22,476,355	22,485,948	21,998,239
Weighted average shares outstanding	22,477,471	22,478,145	22,425,941	22,249,967	21,948,065
Weighted average dilutive shares outstanding	22,477,471	22,478,145	22,674,818	22,249,967	21,948,065
Total assets	$ 370,076	$ 346,071	$ 289,231	$ 253,057	$ 230,227
Total debt	$ 239,162	$ 177,195	$ 130,212	$ 109,320	$ 72,879
Working capital (deficit)	$ 12,516	$ 6,345	$ (6,997)	$ (14,282)	$ (6,915)
Stockholders' equity	$ 65,836	$ 121,362	$ 107,659	$ 99,404	$ 102,010
EBIT	$ (696)	$ 8,096	$ 12,723	$ 6,614	$ (4,339)
Depreciation and amortization	$ 17,868	$ 10,737	$ 11,912	$ 11,166	$ 10,776
Add: Adjustments for discontinued operations	$ 690	$ 1,186	$ 1,311	$ 1,842	$ 2,962
EBITDA	$ 17,862	$ 20,019	$ 25,946	$ 19,622	$ 9,399
Debt to EBITDA	13.39	8.85	5.02	5.57	7.75
Capital expenditure (including acquisitions)	$ 75,167	$ 42,414	$ 16,389	$ 53,954	$ 33,180
Number of employees at 12/31	1,986	1,383	1,451	1,523	1,677

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.

Table of Contents

- 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 that, 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.

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):

	2008	2007	2006	2005	2004
Net income (loss)	$ (18,535)	$ (2,103)	$ 3,856	$ 989	$ (8,463)
Add: Interest expense, net	15,740	8,161	6,597	4,416	3,078
Add: Income tax expense	2,099	2,038	2,270	1,209	1,046
EBIT	$ (696)	$ 8,096	$ 12,723	$ 6,614	$ (4,339)
Add: Depreciation and amortization	17,868	10,737	11,912	11,166	10,776
Adjustments for discontinued operations:					
Add: Interest expense, net	--	2	11	367	839
Add: Depreciation and amortization	690	1,184	1,300	1,475	2,123
EBITDA	$ 17,862	$ 20,019	$ 25,946	$ 19,622	$ 9,399

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 2008 Annual Report. Historical results and percentage relationships do not necessarily indicate operating results for any future periods.

Overview

We are an internationally diversified company principally focused on the development, ownership and operation of entertainment and real property assets in the United States, Australia, and New Zealand. Currently, we operate in two business segments:

- Cinema Exhibition, through our 58 multiplex theatres,
- and Real Estate, including real estate development and the rental of retail, commercial and live theatre assets.

We believe that these two business segments can complement one another, as the comparatively consistent cash flows generated by our cinema operations can be used to fund the front-end cash demands of our real estate development business.

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 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 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. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

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. We have begun the process of converting some of our theatres in the locations where we feel it is best suited and most helpful against the competition. 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 megaplex cinemas, while the independent exhibitors typically have older and smaller cinemas. Accordingly, we believe it likely that the Major Exhibitors may control upwards of 70% 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.

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

Although there has been a noted decrease in real estate market activity, commercial and retail property values have remained somewhat stable in Australia and mildly impacted the market in New Zealand. Both countries have relatively stable economies with varying degrees of economic growth that are mostly influenced by global trends. During the latter half of 2008 and into early 2009 interest rates have materially decreased to 40-year lows in Australia and New Zealand. Up until recently, New Zealand has had consistent growth in rentals and values although project commencements have slowed with indications that construction prices will tighten this year.

The Australian commercial sector of the real estate market has slowed in Australia during 2008. 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 prime areas such as Brisbane is driving demand. Sydney and Melbourne residential vacancy rates remain low (approximately 1%) meaning rental properties remain in short supply, which is influencing in a positive way demand and the development activity in that sector.

Real Estate – North America

Commercial real estate prices fell 15% in 2008 and commercial values are down more than 16% from levels in 2007. These values are an average of the broad U.S. real estate market, and we believe that the value of the real estate we own would be less impacted than the national average. The commercial real estate market has followed the larger economy into a downturn that is likely to last through 2009. We believe that our real estate is well located in large urban environments and will be the first to see signs of recovery when the U.S. economy starts to recover.

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, 2008 we:

- directly operated 52 cinemas with 427 screens;
- had interests in certain unconsolidated joint ventures in which we have varying interests, which own an additional 4 cinemas with 32 screens; and
- managed 2 cinemas with 9 screens.

As part of the above cinemas that we directly operated during 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) for $70.2 million. 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 Entertainment cinemas. In addition, during 2008, we opened our Rouse Hill and Dandenong leasehold cinemas in Australia that collectively have 15 screens.

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.

Real Estate

For fiscal 2008, 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;
- 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 that we have recently renovated 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.

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.

On September 16, 2008, we entered into a sale option agreement to sell our Auburn real estate property and cinema for $28.5 million (AUS$36.0 million). The sale option agreement calls for an initial option payment of $948,000 (AUS$1.2 million), received on the agreement date, and four option installment payments of $316,000

Table of Contents

(AUS$400,000), $316,000 (AUS$400,000), $316,000 (AUS$400,000), and $948,000 (AUS$1.2 million) payable over the subsequent 9 months. As of December 31, 2008, we have received $1.3 million (AUS$1.6 million) in payments associated with this option agreement. The option comes to term on November 1, 2009 at which time the balance of $25.6 million (AUS$32.4 million) is due and payable. At any time during the 13-month option, the buyer may decline to move further in the sale process resulting in a forfeiture of all previous option payments.

In 2008, we acquired the following real property interests:

- Taringa Land. During the first quarter of 2008, we acquired or entered into agreements to acquire four contiguous properties of approximately 50,000 square feet, for which we are in the planning stages for a mixed-use development project. The aggregate purchase price of these properties is $10.1 million (AUS$13.7 million), of which $2.5 million (AUS$2.8 million) relates to the three properties that have been acquired and $7.6 million (AUS$10.9 million) relates to the one property that is under contract to be acquired. Our obligation to close on the fourth property is subject to certain conditions (which we may waive) including a rezoning condition. We have made a $237,000 (AUS$300,000) deposit on this property.

In 2007, we acquired the following real property interests:

- Manukau Land. On July 27, 2007, we purchased through a Landplan Property Partners Ltd. (“Reading Landplan”) 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 Reading Landplan 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, which we renovated 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.

Property Held For or Under Development

For fiscal 2008, 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;

- we acquired or entered into agreements to acquire four contiguous properties in the Taringa area of Brisbane, Australia of approximately 50,000 square feet, for which we are in the planning stages for a mixed-use development project;

- 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;

Table of Contents

- 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. As of December 31, 2008, we had received distributions totaling $9.5 million from the earnings of this project and we have received $2.1 million of return of capital investment. The remaining commercial unit was sold in February 2009 for approximately $4.0 million;

- a 0.3 acre property with a two-story 3,464 square foot building Indooroopilly, Brisbane, Australia. We are currently developing this 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 anticipate this project to be completed by March 2009;

- the Manukau land parcel was purchased on July 27, 2007 through a Reading Landplan 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 in which we recently renovated the property’s units to be condominiums.

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, at the end of the third 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. Based on calculations of current value, we recorded impairment losses of $6.1 million relating to certain of our property and cinema locations for the year ended December 31, 2008.

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

Table of Contents

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, 2008, we had recorded approximately $60.6 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.

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 that 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.

From time to time, we are involved with claims and lawsuits arising in the ordinary course of our business that 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 ETRC's.

The tables below summarize the results of operations for our principal business segments for the years ended December 31, 2008, 2007, and 2006 (dollars in thousands).

Year Ended December 31, 2008	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 177,256	$ 20,705	$ (6,675)	$ 191,286
Operating expense	148,436	8,754	(6,675)	150,515
Depreciation & amortization	13,651	3,561	--	17,212
Impairment expense	2,078	3,967	--	6,045
General & administrative expense	3,834	1,116	--	4,950
Segment operating income	$ 9,257	$ 3,307	$ --	$ 12,564

Year Ended December 31, 2007	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 99,703	$ 18,702	$ (5,001)	$ 113,404
Operating expense	79,052	7,365	(5,001)	81,416

Depreciation & amortization		6,595		3,581		--		10,176
General & administrative expense		3,195		824		--		4,019
Segment operating income	$	10,861	$	6,932	$	--	$	17,793

Table of Contents

Year Ended December 31, 2006	Cinema	Real Estate	Intersegment Eliminations	Total
Revenue	$ 90,504	$ 14,578	$ (4,232)	$ 100,850
Operating expense	70,968	6,558	(4,232)	73,294
Depreciation & amortization	8,125	3,304	--	11,429
General & administrative expense	3,658	782	--	4,440
Segment operating income	$ 7,753	$ 3,934	$ --	$ 11,687

Reconciliation to net income:	2008	2007	2006
Total segment operating income	$ 12,564	$ 17,793	$ 11,687
Non-segment:			
Depreciation and amortization expense	656	561	483
General and administrative expense	16,484	12,066	8,551
Operating income (loss)	(4,576)	5,166	2,653
Interest expense, net	(15,740)	(8,161)	(6,597)
Other income (expense)	991	(505)	(1,998)
Minority interest	(620)	(1,003)	(672)
Gain on disposal of discontinued operations	--	1,912	--
Income (loss) from discontinued operations	562	(19)	(249)
Income tax expense	(2,099)	(2,038)	(2,270)
Equity earnings of unconsolidated joint ventures and entities	497	2,545	9,547
Gain on sale of unconsolidated joint venture	2,450	--	3,442
Net income (loss)	$ (18,535)	$ (2,103)	$ 3,856

Cinema Segment

The following tables and discussion which follows detail our operating results for our 2008, 2007 and 2006 cinema segment, adjusted to reflect the held for sale status of our Auburn cinema (dollars in thousands):

Year Ended December 31, 2008	United States	Australia	New Zealand	Total
Admissions revenue	$ 64,881	$ 45,717	$ 14,141	$ 124,739
Concessions revenue	25,097	15,240	4,166	44,503
Advertising and other revenues	4,760	2,384	870	8,014
Total revenues	94,738	63,341	19,177	177,256
Cinema costs	77,455	46,806	15,242	139,503
Concession costs	4,476	3,409	1,048	8,933
Total operating expense	81,931	50,215	16,290	148,436
Depreciation and amortization	9,174	2,780	1,697	13,651
Impairment expense	--	--	2,078	2,078
General & administrative expense	2,735	1,094	5	3,834
Segment operating income (loss)	$ 898	$ 9,252	$ (893)	$ 9,257

Table of Contents

Year Ended December 31, 2007	United States	Australia	New Zealand	Total
Admissions revenue	$ 18,647	$ 39,076	$ 14,683	$ 72,406
Concessions revenue	5,314	12,589	4,302	22,205
Advertising and other revenues	2,043	2,147	902	5,092
Total revenues	26,004	53,812	19,887	99,703
Cinema costs	18,385	39,856	15,868	74,109
Concession costs	1,029	2,798	1,116	4,943
Total operating expense	19,414	42,654	16,984	79,052
Depreciation and amortization	2,003	2,865	1,727	6,595
General & administrative expense	2,140	1,036	19	3,195
Segment operating income	$ 2,447	$ 7,257	$ 1,157	$ 10,861

Year Ended December 31, 2006	United States	Australia	New Zealand	Total
Admissions revenue	$ 18,891	$ 34,008	$ 13,109	$ 66,008
Concessions revenue	5,472	10,398	4,001	19,871
Advertising and other revenues	1,710	2,000	915	4,625
Total revenues	26,073	46,406	18,025	90,504
Cinema costs	18,176	34,568	13,763	66,507
Concession costs	1,047	2,377	1,037	4,461
Total operating expense	19,223	36,945	14,800	70,968
Depreciation and amortization	1,890	4,922	1,313	8,125
General & administrative expense	2,614	1,027	17	3,658
Segment operating income	$ 2,346	$ 3,512	$ 1,895	$ 7,753

Cinema Results for 2008 Compared to 2007

- cinema revenue increased in 2008 by $77.6 million or 77.8% compared to 2007. The geographic activity of our revenues can be summarized as follows:

  - United States - Revenues in the United States increased by $68.7 million or 264.3% primarily from our newly acquired Consolidated Entertainment cinemas.

  - Australia - Revenues in Australia increased by $9.5 million or 17.7%. This increase in revenues was attributable to an increase in admissions revenues of $6.6 million related to an increase in box office admissions of 392,000 coupled with a $0.28 increase in average ticket price, concessions revenues of $2.7 million, and advertising and other revenues of $237,000. This increase in revenues was primarily related to more appealing film product in late 2008 compared to the film offerings in 2007 coupled with an increase in the average admissions price of 3.2%.

  - New Zealand - Revenues in New Zealand decreased by $710,000 or 3.6%. This decrease in revenues was attributable to a drop in admissions revenues of $542,000, a decrease in concessions revenues of $136,000, and a decrease in advertising and other revenues of $32,000. These decreases in revenues were primarily related to a drop in admits by 152,000 since 2007.

- operating expense increased in 2008 by $69.4 million or 87.8% compared to 2007. The year on year comparison of operating expenses increased in relation to revenues from 79% to 84%. This increase in cinema costs was driven by the US and primarily related to higher film rent expense associated with our newly acquired Consolidated Entertainment cinemas whose film product is primarily wide release films resulting in higher film rent cost compared to our predominately pre-acquisition art cinemas in the United States, which generally have lower film rent costs.

  o United States - Operating expenses in the United States increased by $62.5 million or 322.0% due to the aforementioned newly acquired Consolidated Entertainment cinemas.

  o Australia - Operating expenses in Australia increased by $7.6 million or 17.7%. This increase was in line with the above-mentioned increase in cinema revenues.

Table of Contents

- o New Zealand - Operating expenses in New Zealand decreased by $694,000 or 4.1%. This decrease was in line with the above-mentioned decrease in cinema revenues.

- depreciation expense increased in 2008 by $7.1 million or 107.0% compared to 2007. This increase is primarily from our newly acquired Consolidated Entertainment cinemas.

- general and administrative expense increased in 2008 by $639,000 or 20.0% compared to 2007. The change was primarily related to the purchase and operations of our newly acquired Consolidated Entertainment cinemas and legal matters associated with our cinema assets.

- we recorded a one-time $2.1 million impairment charge related to certain New Zealand cinema assets during 2008. This impairment expense did not occur previously in 2007.

- the Australia annual average exchange rates have increased by 1.6% and the New Zealand annual average exchange rates have decreased by 3.0% since 2007, which have had an impact on the individual components of the income statement. However, the overall effect of the foreign currency change on operating income was minimal.

- cinema segment operating income decreased in 2008 by $1.6 million compared to 2007 primarily from our lower operating income in the United States and New Zealand due to the aforementioned higher depreciation, general and administrative expense in the U.S., and the one time impairment charge in New Zealand. These decreases in operating income were offset in part by improved cinema operations in Australia.

Cinema Results for 2007 Compared to 2006

- cinema revenue increased in 2007 by $9.2 million or 10.2% compared to 2006. The geographic activity of our revenues can be summarized as follows:

- o United States - Revenues in the United States decreased by $69,000 or 0.3%. This decrease in revenues was attributable to a decrease in admissions revenues of $244,000 and concessions revenues of $158,000 offset by in increase in advertising and other revenues of $333,000. The decrease in admissions and concessions revenues resulted from lower year-end holiday admissions compared to 2006. The increase in other revenues related to more screen rentals during 2007 than in 2006.

- o Australia - Revenues in Australia increased by $7.4 million or 16.0%. This increase in revenues was attributable to an increase in admissions revenues of $5.1 million related to an increase in box office admissions of 118,000 coupled with a $0.52 increase in average ticket price, concessions revenues of $2.2 million, and advertising and other revenues of $147,000. This increase in revenues was primarily related to more appealing film product in late 2007 compared to the film offerings in 2006 coupled with an increase in the average admissions price of 5.3%.

- o New Zealand - Revenues in New Zealand increased by $1.9 million or 10.3%. This increase in revenues was attributable to an increase in admissions revenues of $1.6 million primarily related to a $0.42 increase in average ticket price, an increase in concessions revenues of $301,000, and a decrease in advertising and other revenues of $13,000. This increase in revenues was primarily related to improved film product in 2007 compared to 2006.

- operating expense increased in 2007 by $8.1 million or 11.4% compared to 2006. The year on year comparison of operating expenses held somewhat steady in relation to revenues at 79% in 2007 compared to 80% in 2006.

  - o United States - Operating expenses in the United States increased by $191,000 or 1.0%.

- o Australia - Operating expenses in Australia increased by $5.7 million or 15.5%. This increase was in line with the above-mentioned increase in cinema revenues.

- o New Zealand - Operating expenses in New Zealand increased by $2.2 million or 14.8%. This increase was somewhat in line with the increase in revenues noted above.

- • depreciation expense decreased in 2007 by $1.5 million or 18.8% compared to 2006. This decrease is primarily related to several Australia cinema assets reaching the end of their depreciable lives as of December 31, 2006.

Table of Contents

- general and administrative expense decreased in 2007 by $463,000 or 12.7% compared to 2006. The change was primarily related to a decrease in legal costs associated with our anti-trust claims against Regal and certain distributors.

- the Australia and New Zealand annual average exchange rates changed by 11.4% and 13.5%, respectively, from 2007 to 2006, which had an impact on the individual components of the income statement. However, the overall effect of the foreign currency change on operating income was minimal.

- cinema segment operating income increased in 2007 by $3.1 million compared to 2006 primarily resulting from our improved cinema operations in each region, our increased admissions from better film product, and a reduction in general and administrative expense primarily associated with legal expenses.

Real Estate Segment

As discussed above, our other major business segment is the development and management of real estate. These holdings include our rental live theaters, certain fee owned properties used in our cinema business, and unimproved real estate held for development. The tables and discussion which follow detail our operating results for our 2008, 2007, and 2006 real estate segment adjusted to reflect the held for sale status of our Auburn property (dollars in thousands):

Year Ended December 31, 2008	United States	Australia	New Zealand	Total
Live theater rental and ancillary income	$ 3,583	$ --	$ --	$ 3,583
Property rental income	3,332	6,701	7,089	17,122
Total revenues	6,915	6,701	7,089	20,705
Live theater costs	1,892	--	--	1,892
Property rental cost	2,913	2,225	1,724	6,862
Total operating expense	4,805	2,225	1,724	8,754
Depreciation and amortization	351	1,550	1,660	3,561
Impairment expense	--	3,090	877	3,967
General & administrative expense	14	1,014	88	1,116
Segment operating income (loss)	$ 1,745	$ (1,178)	$ 2,740	$ 3,307

Year Ended December 31, 2007	United States	Australia	New Zealand	Total
Live theater rental and ancillary income	$ 4,043	$ --	$ --	$ 4,043
Property rental income	1,534	6,151	6,974	14,659
Total revenues	5,577	6,151	6,974	18,702
Live theater costs	2,105	--	--	2,105
Property rental cost	1,210	2,117	1,933	5,260
Total operating expense	3,315	2,117	1,933	7,365
Depreciation and amortization	376	1,518	1,687	3,581
General & administrative expense	15	658	151	824
Segment operating income	$ 1,871	$ 1,858	$ 3,203	$ 6,932

Table of Contents

Year Ended December 31, 2006	United States	Australia	New Zealand	Total
Live theater rental and ancillary income	$ 3,667	$ --	$ --	$ 3,667
Property rental income	1,720	3,626	5,565	10,911
Total revenues	5,387	3,626	5,565	14,578
Live theater costs	2,193	--	--	2,193
Property rental cost	1,164	1,851	1,350	4,365
Total operating expense	3,357	1,851	1,350	6,558
Depreciation and amortization	427	1,353	1,524	3,304
General & administrative expense	--	782	--	782
Segment operating income (loss)	$ 1,603	$ (360)	$ 2,691	$ 3,934

Real Estate Results for 2008 Compared to 2007

- revenue increased by $2.0 million or 10.7% when compared 2007. The increase was primarily related to real estate associated with our newly acquired Consolidated Entertainment cinemas, higher rental revenues from the majority of our Australia tenancies, and our newly acquired properties in New Zealand. These increases were offset in part due to decreases in live theater rental revenue compared to the same period in 2007.

- operating expense increased by $1.4 million or 18.9% when compared to 2007. This increase in expense was primarily related to our newly acquired Consolidated Entertainment cinemas that have ancillary real estate, coupled with increasing utility and other operating costs primarily in our U.S. properties.

- depreciation expense decreased by $20,000 or 0.6% when compared to 2007.

- we recorded a one-time $4.0 million impairment charge related to certain Australia and New Zealand real estate assets during 2008. This impairment expense did not occur previously in 2007.

- general and administrative expense increased by $292,000 when compared to 2007 primarily due to increased property activities related to our acquisitions in Australia.

- the Australia annual average exchange rates have increased by 1.6% and the New Zealand annual average exchange rates have decreased by 3.0% since 2007, which have had an impact on the individual components of the income statement. However, the overall effect of the foreign currency change on operating income was minimal.

- as a result of the above, real estate segment income decreased during 2008 by $3.6 million compared to 2007.

Real Estate Results for 2007 Compared to 2006

- revenue increased by $4.1 million or 28.3% when compared 2006. The increase was primarily related to an enhanced rental stream from our Australia Newmarket shopping center, opened in 2006, and our New Zealand properties. This increase in rents was offset in part by decreased rents from our domestic live theatres due to fewer shows in 2007 compared to 2006.

- operating expense increased by $807,000 or 12.3% when compared to 2006. This increase in expense was primarily due to higher operating costs related to our recently opened Australia Newmarket shopping center.

- depreciation expense increased by $277,000 or 8.4% when compared to 2006. The majority of this increase was attributed to the Newmarket shopping center assets in Australia that were put into service during the first quarter 2006.

- general and administrative expense increased by $42,000 when compared to 2006 primarily due to increased property activities related to our acquisitions in New Zealand.

- the Australia and New Zealand annual average exchange rates have changed by 11.4% and 13.5%, respectively, since 2006, which had an impact on the individual components of the income statement. However, the overall effect of the foreign currency change on operating income was minimal.

- real estate segment operating income increased by $3.0 million when compared to 2006 mostly related to an increase in revenues in Australia from our Newmarket shopping centre offset by a decrease in domestic live theater income.

Non-Segment Activity

2008 Compared to 2007

Non-segment expense/income includes expense and/or income that is not directly attributable to our other operating segments.

During 2008, the increase of $4.4 million in corporate General and Administrative expense was primarily made up of:

- $1.4 million in increased corporate compensation expense primarily related to executive restricted stock and option grants, a new in-house legal counsel, and pension and bonus compensation for our chief operating officer;
- $891,000 of professional fees; and
- $2.1 million of legal fees associated principally with our tax litigation and Malulani Investments Limited cases.

Also during 2008:

- our net interest expense increased by $7.6 million primarily related to a higher outstanding loan balances in 2008 compared to 2007 primarily relating to our current year Consolidated Cinemas acquisition;
- our other income increased by $1.5 million primarily due to our Burstone litigation settlement receipts totaling $1.2 million; insurance proceeds of $910,000 related to damage caused by Hurricane George in 1998 to one of our previously owned cinemas in Puerto Rico; recovered credit card losses of $385,000; and a $950,000 mark-to-market expense in 2007 not repeated in 2008. This income was offset by 2008 write-off and impairment expenses of $303,000;
- our minority interest expense decreased by $383,000 compared to 2007 primarily due to reduced projected value of the Reading Landplan projects;
- equity earnings from unconsolidated joint ventures and entities decreased by $2.1 million primarily due to lower earnings from our investment in 205-209 East 57th Street Associates, LLC, that has completed the majority of the development of a residential condominium complex in midtown Manhattan, called Place 57. During 2007 and 2006, all of the residential condominiums were sold and only the retail condominium was still available for sale. During 2007, the limited liability company closed on the sale of the remaining eight residential condominiums resulting in gross sales of $26.0 million and equity earnings from unconsolidated joint ventures and entities to us of $1.6 million. The remaining retail space was sold in February 2009 for approximately $4.0 million; and
- in addition to the aforementioned equity earnings, during 2008, we recorded a gain on sale of an unconsolidated entity of $2.5 million (NZ$3.2 million), from the sale of our interest in the cinema at Botany Downs in Auckland, New Zealand.

2007 Compared to 2006

Non-segment expense/income includes expense and/or income that is not directly attributable to our other operating segments.

During 2007, the increase of $3.5 million in corporate General and Administrative expense was primarily made up of:

Table of Contents

- $320,000 in increased corporate compensation expense related to the granting of 70,000 fully vested options to our directors coupled with an $85,000 increase in director fees;

- $437,000 in increased corporate compensation expense related to the granting of 844,255 options that are vesting over a 24 month period;

- $413,000 of compensation for our Chief Operating Officer appointed in February 2007;

- $840,000 of legal and professional fees associated principally with our real estate acquisition and investment activities; and

- $342,000 related to our newly adopted Supplemental Executive Retirement Plan.

During 2007:

- our net interest expense increased by $1.6 million primarily related to a higher outstanding loan balances in 2007 compared to 2006;

- our other expense decreased by $1.5 million primarily due to lower mark-to-market charges relating to an option liability held by Sutton Hill Capital LLC to acquire a 25% non-managing membership interest in our Cinemas 1, 2 & 3 property which option they exercised in July 2007;

- our minority interest expense increased by $331,000 compared to 2006 due to an improvement in cinema admission sales particularly in our Australia, joint venture cinemas and an increased activity in Reading Landplan;

- the recording of a deferred gain on the sale of a discontinued operation upon the fulfillment of our commitment of $1.9 million associated with a previously sold property;

- income tax expense decreased by $232,000 primarily related less tax expense incurred for our equity earnings from our investment in 205-209 East 57th Street Associates, LLC;

- equity earnings from unconsolidated joint ventures and entities decreased by $7.0 million primarily due to lower earnings from our investment in 205-209 East 57th Street Associates, LLC, that has completed most of the development of a residential condominium complex in midtown Manhattan, called Place 57. The joint venture closed on the sale of 59 condominiums during 2006, resulting in gross sales of $117.7 million and equity earnings from unconsolidated joint ventures and entities to us of $8.3 million compared to eight condominiums during the year ended December 31, 2007 resulting in gross sales of $25.4 million and net equity earnings from this unconsolidated joint venture of $1.3 million. All of the residential condominiums have been sold and the remaining retail condominium was sold in February 2009; and

- in addition to the aforementioned equity earnings, we recorded a gain on sale of an unconsolidated joint venture of $3.4 million (NZ$5.4 million) during 2006 which was not repeated in 2007, from the sale of our 50% interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand.

Income taxes

We are subject to income taxation in several jurisdictions throughout the world. Our effective tax rate and income tax liabilities will be affected by a number of factors, such as:

- the amount of taxable income in particular jurisdictions;
- the tax rates in particular jurisdictions;
- tax treaties between jurisdictions;
- the extent to which income is repatriated; and
- future changes in law.

Generally, we file consolidated or combined tax returns in jurisdictions that permit or require such filings. For jurisdictions that do not permit such a filing, we may owe income, franchise, or capital taxes even though, on an overall basis, we may have incurred a net loss for the tax year.

Table of Contents

Consolidated Net Income (Loss)

For the years ending 2008 and 2007, our consolidated business units produced net losses of $18.5 million and $2.1 million, respectively. For 2006, we achieved net income of $3.9 million. For many of the years prior to 2006, we consistently experienced net losses. However, as explained in the Cinema and Real Estate segment sections above, we have generally noted improvements in our segment operating income such that we have a positive segment operating income for each of the years of 2008, 2007, and 2006 that in years past has typically been negative. Although we cannot assure that this trend will continue, we are committed to the overall improvement of earnings through good fiscal management.

Business Plan, Liquidity and Capital Resources of the Company

Business Plan

Our business plan has evolved from a belief that while cinema exhibition is not 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. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

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 asset allocation between our domestic and overseas assets and operations, and 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.

Liquidity and Capital Resources

Our ability to generate sufficient cash flows from operating activities in order to meet our obligations and commitments drives our liquidity position. This is further affected by our ability to obtain adequate, reasonable financing and/or to convert non-performing or non-strategic assets into cash.

Currently, our liquidity needs continue to arise mainly from:

- working capital requirements;
- capital expenditures including the acquisition, holding and development of real property assets; and

- debt servicing requirements.

With the recent changes to the worldwide credit markets, the business community is concerned that credit will be more difficult to obtain especially for potentially risky ventures like business and asset acquisitions. However, we believe that our acquisitions over the past few years coupled with our strengthening operational cash flows demonstrate our ability to improve our profitability. We believe that this business model will help us to demonstrate to lending institutions our ability not only to do new acquisitions but also to service the associated debt.

Table of Contents

Discussion of Our Statement of Cash Flows

The following discussion compares the changes in our cash flows over the past three years.

Operating Activities

2008 Compared to 2007. Cash provided by operations was $24.3 million in 2008 compared to $13.3 million in 2007. The increase in cash provided by operations of $11.0 million was primarily related to

- increased cinema operational cash flow primarily from our Australia and domestic acquisition operations;
- increased real estate operational cash flow predominately from our Australia and New Zealand operations; and
- one time cash receipts related to litigation and other claims of $1.6 million;

offset by

- a decrease in distributions from predominately our Place 57 joint venture (the assets of which have now been substantially monetized) of $3.7 million.

2007 Compared to 2006. Cash provided by operations was $13.3 million in 2007 compared to $11.9 million in 2006. The increase in cash provided by operations of $1.4 million was primarily related to

- increased cinema operational cash flow primarily from our Australia operations;
- increased real estate operational cash flow predominately from our Australia operations. This increase can be particularly attributed to our Newmarket shopping center in Brisbane, Australia; offset by
- a decrease in distributions from unconsolidated joint ventures and entities of $1.8 million was predominately related to lower distributions from our Place 57 joint venture.

Investing Activities

Cash used in investing activities for 2008 was $69.5 million compared to $38.3 million in 2007, and $23.4 million in 2006. The following summarizes our investing activities for each of the three years ending December 31, 2008:

The $69.5 million cash used in 2008 was primarily related to:

- $49.2 million to purchase the assets of the Consolidated Cinemas circuit;
- $2.5 million to purchase other real estate assets;
- $1.9 million in restricted cash primarily related to construction deposits for repair work on one of our cinemas; and
- $23.4 million in property enhancements to our existing properties;

offset by

- $2.0 million of deposit returned upon acquisition of the Consolidated Cinema circuit;

- $1.3 million of sale option proceeds for our Auburn property;
- $910,000 of proceeds from insurance settlement; and
- $3.3 million of cash received from the sale of our interest in the Botany Downs cinema in New Zealand.

The $38.3 million cash used in 2007 was primarily related to:

- $15.7 million to purchase marketable securities;

Table of Contents

- $22.6 million to purchase real estate assets including
  - o $20.1 million for real estate purchases in New Zealand,
  - o $100,000 for the purchase of the Cinemas 1, 2 & 3 building,
  - o $2.0 million acquisition deposit for our acquisition of Consolidated Entertainment cinemas, and
  - o $493,000 for the purchase of the ground lease of our Tower Cinema in Sacramento, California;
- $2.8 million in property enhancements to our existing properties;
- $19.0 million in development costs associated with our properties under development; and
- $1.5 million in our investment in Reading International Trust I securities (the issuer of our Trust Preferred Securities);

offset by

- $19.9 million in cash provided by the sale of marketable securities;
- $981,000 decrease in restricted cash related to settled claims by our credit card companies; and
- $2.4 million in distributions from our investment in joint ventures.

The $23.4 million cash used in 2006 was primarily related to:

- $8.1 million in acquisitions including:
  - o $939,000 in cash used to purchase the Queenstown Cinema in New Zealand,
  - o $2.6 million in cash used to purchase the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand,
  - o $1.8 million for the Australia Indooroopilly property, and
  - o $2.5 million for the adjacent parcel to our Moonee Ponds property;
- $8.3 million in cash used to complete the Newmarket property and for property enhancements to our Australia, New Zealand and U.S. properties;
- $2.7 million in cash used to invest in unconsolidated joint ventures and entities including $1.8 million paid for Malulani Investments Limited stock and $876,000 additional cash invested in Rialto Cinemas used to pay off their bank debt;
- $844,000 increase in restricted cash related to potential claims by our credit card companies; and
- $8.1 million in cash used to purchase marketable securities.

offset by

- $4.6 million cash received from the sale of our interest the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand.

Financing Activities

Cash provided by financing activities for 2008 was $60.2 million compared to $33.9 million in 2007, and $13.9 million in 2006. The following summarizes our financing activities for each of the three years ending December 31, 2008:

The $60.2 million cash used in 2008 was primarily related to:

- $48.0 million of net proceeds from our new GE Capital Term Loan used to finance the Consolidated Entertainment transaction;
- $7.1 million of net proceeds from our new Liberty Theatres loan;
- $4.5 million of borrowing on the Nationwide Loans; and
- $13.2 million of borrowing on our Australia and New Zealand credit facilities;

Table of Contents

offset by

- $9.4 million of loan repayments including $9.0 million to pay down on our GE Capital loan;
- $1.1 million waiver fee on our trust preferred securities; and
- $1.6 million in distributions to minority interests.

The $33.9 million cash used in 2007 was primarily related to:

- $49.9 million of net proceeds from our Trust Preferred Securities;
- $14.4 million of net proceeds from our Euro-Hypo loan;
- $3.1 million of proceeds from our margin account on marketable securities; and
- $27.9 million of additional borrowing on our Australia and New Zealand credit facilities;

offset by

- $57.6 million of cash used to retire bank indebtedness which primarily includes $34.4 million (NZ$50.0 million) to pay off our New Zealand term debt, $5.8 million (AUS$7.4 million) to retire a portion of our bank indebtedness in Australia, $3.1 million to pay off our margin account on marketable securities, $12.1 million (NZ$15.7 million) to pay down our New Zealand Westpac line of credit in August 2007, and $1.7 million for the final balloon payment on the Royal George Theater Term Loan; and
- $3.9 million in distributions to minority interests.

The $13.9 million cash used in 2006 was primarily related to:

- $19.1 million of net borrowings which includes $11.8 million from our existing Australian Corporate Credit Facility and $7.3 million of net proceeds from a renegotiated mortgage on our Union Square Property; and
- $3.0 million of a deposit received from Sutton Hill Capital, LLC for the option to purchase a 25% non-managing membership interest in the limited liability company that owns the Cinemas 1, 2 & 3;

offset by

- $6.2 million of cash used to pay down long-term debt which was primarily related to the payoff of $3.2 million on the mortgage on our Union Square Property as part of a renegotiation of the loan; the payoff of our Movieland purchase note payable of approximately $512,000; the payoff of the Palms – Christchurch Cinema bank debt of approximately $1.9 million; and on the pay down of our Australian Corporate Credit Facility by $280,000;