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
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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

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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

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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

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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

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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.

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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;

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- 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 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.

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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.

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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 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

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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 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

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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.

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Item 1B - Unresolved Staff Comments

None.

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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

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- 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.

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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.

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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.

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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.

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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.

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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

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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.

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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).

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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

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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.

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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.

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- 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.

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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 &#		