READING INTERNATIONAL INC
Form 10-K
March 16, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

or

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

For the transition period from _______ to ______

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

NEVADA (State or other jurisdiction of incorporation or organization)	95-3885184 (I.R.S. Employer Identification Number)
500 Citadel Drive, Suite 300 Commerce, CA (Address of principal executive offices)	90040 (Zip Code)

Registrant's telephone number, including Area Code: (213) 235-2240

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K of any amendments to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of March 16, 2009, there were 20,987,115 shares of Class A Non-voting Common Stock, par value $0.01 per share and 1,495,490 shares of Class B Voting Common Stock, par value $0.01 per share, outstanding. The aggregate market value of voting and nonvoting stock held by non-affiliates of the Registrant was $127,928,176 as of June 30, 2008.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2008
INDEX

Table of Contents

PART I

Item 1 – Our Business

General Description of Our Business

Reading International, Inc., a Nevada corporation ("RDI"), was incorporated in 1999 incident to our reincorporation in Nevada. Our Class A Nonvoting Common Stock ("Class A Stock") and Class B Voting Common Stock ("Class B Stock") are listed for trading on the NYSE Alternext US under the symbols RDI and RDI.B. Our principal executive offices are located at 500 Citadel Drive, Suite 300, Commerce, California 90040. Our general telephone number is (213) 235-2240 and our website is www.readingrdi.com. It is our practice to make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with or furnished it to the Securities and Exchange Commission. In this Annual Report, we from time to time use terms such as the "Company," "Reading" and "we," "us," or "ou to refer collectively to RDI and our various consolidated subsidiaries and corporate predecessors.

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

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

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

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

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

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

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

Table of Contents

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

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

While we do not believe the cinema exhibition business to be a growth business at this time, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in a recessionary or inflationary environment. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home and that, when compared to other forms of outside the home entertainment, movies continue to be a popular, and competitively priced option. However, since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see our future asset growth coming more from our real estate development activities and from the acquisition of existing cinemas rather than from the development of new cinemas. Over time, we anticipate that our cinema operations will become increasingly a source of cash flow to support our real estate oriented activities, rather than a focus of growth, and that our real estate activities will, again, over time become the principal thrust of our business. We also, from time to time, invest in the shares of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

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

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

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

Table of Contents

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

Historically, we have endeavored to match the currency in which we have financed our development with the jurisdiction within which these developments are located. However, in February 2007 we broke with this policy and privately placed $50.0 million of 20-year Trust Preferred Securities, with dividends fixed at 9.22% for the first five years, to serve as a long term financing foundation for our real estate assets and to pay down our New Zealand and Australia Dollar denominated debt. Although structured as the issuance of trust-preferred securities by a related trust, the financing is essentially the same as an issuance of fully subordinated debt: the payments are tax deductible to us and the default remedies are the same as debt.

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

In summary, while we do have operating company attributes, we see ourselves principally as a hard asset company and intend to add to shareholder value by building the value of our portfolio of tangible assets including both entertainment and other types of land, brick, and mortar assets. We are endeavoring to maintain a reasonable asset allocation between our domestic and overseas assets and operations, and between our cash generating cinema operations and our cash consuming real estate development activities. We believe that by blending the cash generating capabilities of a cinema company with the investment and development opportunities of a real estate development company, we are unique among public companies in our business plan.

At December 31, 2008, our principal assets included:

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

Our Cinema Exhibition Activities and Business

General

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

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

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

- third, pure cinema operators can get themselves into financial difficulty as demands upon them to produce cinema based earnings growth tempt them into reinvesting their cash flow into increasingly marginal cinema sites. While we believe that there will continue to be attractive cinema acquisition opportunities in the future, and believe that we have taken advantage of one such opportunity through our

Table of Contents

purchase of Consolidated Cinemas, we do not feel pressure to build or acquire cinemas for the sake of simply adding on units. We intend to focus our cash flow on our real estate development and operating activities, to the extent that attractive cinema opportunities are not available to us; and

- fourth, we are never afraid to convert an entertainment property to another use, if there is a higher and better use of our property, or to sell individual assets, if we are presented with an attractive opportunity.

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

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

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

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

- first, modern stadium seating multiplex cinemas featuring conventional film product;

- second, specialty and art cinemas, such as our Angelika Film Centers in Manhattan and Dallas and the Rialto cinema chain in New Zealand; and

- third, in some markets, particularly small town markets that will not support the development of a modern stadium design multiplex cinema, conventional sloped floor cinemas.

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

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

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

Show times and features are placed in advertisements in local newspapers and on our various websites. In the United States, film distributors may also advertise certain feature films in various print, radio and television media, as well as on the internet and those costs are generally paid by distributors. In Australia and New Zealand, the exhibitor typically pays the costs of local newspaper film advertisements, while the distributors are responsible for the cost of any national advertising campaign.

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

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

In New Zealand, we also own a one-third interest in Rialto Distribution. Rialto Distribution, an unincorporated joint venture, is engaged in the business of distributing art film in New Zealand and Australia. The remaining 2/3 interest is owned by the founders of the company, who have been in the art film distribution business since 1993.

Management of Cinemas

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

Licensing/Pricing

Film product is available from a variety of sources ranging from the major film distributors such as Columbia, Disney, Buena Vista, DreamWorks, Fox, MGM, Paramount, Warner Bros, and Universal, to a variety of smaller independent film distributors such as Miramax. In Australia and New Zealand, some of those major distributors distribute through local unaffiliated distributors. The major film distributors dominate the market for mainstream conventional films. Similarly, most art and specialty films come from the art and specialty divisions of these major distributors, such as Fox's Searchlight and Miramax. Generally speaking, film payment terms are based upon an agreed upon percentage of box office receipts which will vary from film to film as films are licensed in Australia, New Zealand and the United States on a film-by-film, theatre by theatre basis.

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

Competition

In each of the United States, Australia, and New Zealand, film patrons typically select the cinema that they are going to go to first by selecting the film they want to see, and then by selecting the cinema in which they would prefer to see it. Accordingly, the principal factor in the success or failure of a particular cinema is access to popular film products. If a particular film is only offered at one cinema in a given market, then customers wishing to see that film will, of necessity, go to that cinema. If two or more cinemas in the same market offer the same film, then customers will typically take into account factors such as the relative convenience and quality of the various cinemas. In many markets, the number of prints in distribution is less than the number of exhibitors seeking that film for that market, and distributors typically take the position that they are free to provide or not provide their films to particular exhibitors, at their complete and absolute discretion.

Table of Contents

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

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

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

The principal exhibitors in Australia include a joint venture of Greater Union and Village (GUV) in certain suburban multiplexes. The major exhibitors control approximately 68% of the total cinema box office: Village/Greater Union/Birch Carroll and Coyle 45% and Hoyts Cinemas ("Hoyts") 21%. Greater Union has 243 screens nationally; Village 218 screens; Birch Carroll & Coyle (a subsidiary of Greater Union) 230 screens and Hoyts 333 screens. By comparison, our 151 screens represent approximately 6% of the total box office.

The major players in New Zealand are Sky Cinemas with 94 screens nationally, Reading with 59 screens (not including partnerships), and Hoyts with 61 screens. The major exhibitors in New Zealand control approximately 71% of the total box office: Sky Cinemas 31%, Reading 21% and Hoyts 19%, (Sky and Reading market share figures again do not include any partnership theaters).

Greater Union is the owner of Birch Carroll & Coyle. Generally speaking, all new multiplex cinema projects announced by Village are being jointly developed by a joint venture comprised of Greater Union and Village. These companies have substantial capital resources. Village had a publicly reported consolidated net worth of approximately $746.8 million (AUS$781.0 million) at June 30, 2008. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately $540.3 million (AUS$565.0 million) at June 30, 2008. Hoyts is privately held and does not publish financial reports. Hoyts is currently owned by Pacific Equity Partners.

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

Digital and 3D

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

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

Table of Contents

- who will pay for the conversion from conventional to digital and 3D technology between exhibitors and distributors;
- what the impact will be on film licensing expense; and
- how to deal with security and potential pirating issues if film is distributed in a digital format.

Several major exhibitors have now announced plans to convert their cinemas to digital projection, along with 3D for some of their screens at their various cinemas. At some point, this will compel us likewise to incur the costs of conversion, as the costs of digital production are much less than the cost of conventional film production, from the studio's point of view and as distributors will, at some point in time cease distributing film prints. At the present time, we estimate that it would likely cost in the range of $47.0 million for us to convert our wholly owned cinemas to digital distribution on a worldwide basis. We have begun the process of converting some of our theatres in the locations where we feel it is best suited and most helpful against the competition.

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

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

Seasonality

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

Employees

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

Our Real Estate Activities

Our real estate activities have historically consisted principally of:

- the ownership of fee or long term leasehold interests in properties used in our cinema exhibition activities or which were acquired for the development of cinemas or cinema based real estate development projects;

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

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

Table of Contents

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

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

Table of Contents

Item 1A – Risk Factors

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

Business Risk Factors

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

Cinema Exhibition and Live Theatre Business Risk Factors

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Our screen advertising revenues may decline.

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

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

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

Real Estate Development and Ownership Business Risks

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

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

Risks Related to the Real Estate Industry Generally

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

Events and conditions generally applicable to developers, owners, and operators of real property will affect our performance as well. These include (i) changes in the national, regional and local economic climate, (ii) local conditions such as an oversupply of, or a reduction in demand for commercial space and/or entertainment oriented

Table of Contents

properties, (iii) reduced attractiveness of our properties to tenants; (iv) competition from other properties, (v) inability to collect rent from tenants, (vi) increased operating costs, including real estate taxes, insurance premiums and utilities, (vii) costs of complying with changes in government regulations, and (viii) the relative illiquidity of real estate investments. In addition, periods of economic slowdown or recession, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in declining rents or increased lease defaults.

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

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

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

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

Real estate development involves a variety of risks.

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

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

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

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

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

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

Table of Contents

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

The ownership of properties involves risk.

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

International Business Risks

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

- Risk of currency fluctuations. While we report our earnings and assets in US dollars, substantial portions of our revenues and of our obligations are denominated in either Australian or New Zealand dollars. The value of these currencies can vary significantly compared to the US dollar and compared to each other. We typically have not hedged against these currency fluctuations, but rather have relied upon the natural hedges that exist as a result of the fact that our film costs are typically fixed as a percentage of box office, and our local operating costs and obligations are likewise typically denominated in local currencies. However, we do have debt at our parent company level that is serviced by our overseas cash flow and our ability to service this debt could be adversely impacted by declines in the relative value of the Australian and New Zealand Dollar compared to the US Dollar. Set forth below is a chart of the exchange ratios between these three currencies over the past twenty years:

- Risk of adverse government regulation. At the present time, we believe that relations between the United States, Australia, and New Zealand are good. However, no assurances can be given that this

Table of Contents

relationship will continue and that Australia and New Zealand will not in the future seek to regulate more highly the business done by US companies in their countries.

Risks Associated with Certain Discontinued Operations

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

Operating Results, Financial Structure and Certain Tax Matters

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

In recent years, as we have invested our cash in new acquisitions and the development of our existing properties, and from time to time we have had negative working capital. This negative working capital, which we consider to be akin to an interest free loan, is typical in the cinema exhibition industry, since revenues are received in advance of our obligation to pay film licensing fees, rent and other costs.

We have substantial short to medium term debt.

Generally speaking, we have historically financed our operations through relatively short-term debt. No assurances can be given that we will be able to refinance this debt, or if we can, that the terms will be reasonable. However, as a counterbalance to this debt, we have significant unencumbered real property assets, which could be sold to pay debt or encumbered to assist in the refinancing of existing debt, if necessary.

In February 2007, we issued $50.0 million in 20-year Trust Preferred Securities, and utilized the net proceeds principally to retire short-term bank debt in New Zealand and Australia. However, the interest rate on our Trust Preferred Securities is only fixed for five years, and since we have used US Dollar denominated obligations to retire debt denominated in New Zealand and Australian Dollars, this transaction and use of net proceeds has increased our exposure to currency risk. In the first quarter of 2009, we repurchased $22.9 million of our Trust Preferred Securities at a 50% discount.

In connection with the financing of 15 additional cinemas in 2008, we have taken on substantial additional debt. This transaction was, in essence, 100% financed, resulting in an increase in our debt for book purposes from $177.2 million at December 31, 2007 to $248.2 million as of February 22, 2008. As of December 31, 2008, this total debt had been reduced to $239.2 million.

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

We have substantial lease liabilities.

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

The Internal Revenue Service has given us notice of a claimed liability of $20.9 million in back taxes, plus interest of $19.6 million.

While we believe that we have good defenses to this liability, the claimed exposure is substantial compared to our net worth, and significantly in excess of our current or anticipated near term liquidity. This contingent

Table of Contents

liability is discussed in greater detail under Item 3 – Legal Proceedings: Tax Audit. If we were to lose on this matter, we would also be confronted with a potential additional $5.4 million in taxes to the California Franchise Tax Board, plus interest of approximately $5.8 million.

Our stock is thinly traded.

Our stock is thinly traded, with an average daily volume in 2008 of only approximately 4,600 shares. This can result in significant volatility, as demand by buyers and sellers can easily get out of balance.

Ownership Structure, Corporate Governance, and Change of Control Risks

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

Mr. James J. Cotter beneficially owns 68.5% of our outstanding Class B Voting Common Stock. Our Class A Non-Voting Common Stock is essentially non-voting, while our Class B Voting Common Stock represents all of the voting power of our Company. As a result, as of December 31, 2008, Mr. Cotter controlled 68.5% of the voting power of all of our outstanding common stock. For as long as Mr. Cotter continues to own shares of common stock representing more than 50% of the voting power of our common stock, he will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. Mr. Cotter will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Mr. Cotter but not to other stockholders. In addition, Mr. Cotter and his affiliates have controlling interests in companies in related and unrelated industries. In the future, we may participate in transactions with these companies (see Note 25 – Related Parties and Transactions).

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

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

Table of Contents

Item 1B - Unresolved Staff Comments

None.

Item 2 – Properties

Executive and Administrative Offices

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

Entertainment Properties

Entertainment Use Leasehold Interests

As of December 31, 2008, we lease approximately 2.16 million square feet of completed cinema space in the United States, Australia, and New Zealand as follows:

	Aggregate Square Footage	Approximate Range of Remaining Lease Terms (including renewals)
United States	1,002,625	2010 – 2049
Australia	817,820	2016 – 2049
New Zealand	340,000	2023 – 2034

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

Entertainment Use Fee Interests

In Australia, we own as of December 31, 2008 approximately 3.2 million square feet of land at eight locations plus one strata title estate consisting of 22,000 square feet. Most of this land is located in the greater metropolitan areas of Brisbane, Melbourne, Perth, and Sydney, including the 50.6-acre Burwood site in suburban Melbourne that we are holding for development and which is anticipated to include a cinema component. Of these fee interests, approximately 809,000 square feet is currently improved with cinemas.

In New Zealand, we own as of December 31, 2008 a 152,000 square foot site, which includes an existing 335,000 square foot, nine-level parking structure in the heart of Wellington, the capital of New Zealand. All but 38,000 square feet of the Wellington site has been developed as an ETRC that incorporates the existing parking garage. The remaining land is currently leased and is slated for development as phase two of our Wellington ETRC. We own the fee interests underlying three additional cinemas in New Zealand, which properties include approximately 12,000 square feet of ancillary retail space.

In the United States, we own as of December 31, 2008, on a consolidated basis, approximately 126,000 square feet of improved real estate comprised of four live theater buildings which include approximately 58,000 square feet of leasable space, the fee interest in our Cinemas 1, 2 & 3 in Manhattan (held through a limited liability company in which we have a 75% managing member interest).

Live Theaters (Liberty Theaters)

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

- the Minetta Lane (399 seats);
- the Orpheum (364 seats); and

Table of Contents

- the Union Square (499 seats).

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

We are primarily in the business of leasing theatre space. However, we may from time to time participate as an investor in a play, which can help facilitate the production of the play at one of our facilities, and do from time to time rent space on a basis that allows us to share in a productions revenues or profits. Revenues, expenses, and profits are reported as apart of the real estate segment of our business.

Joint Venture Cinema Interests

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

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

- in New Zealand, we own a 50% unincorporated joint venture interest in three cinemas with 22 screens in the New Zealand cities of Auckland, Christchurch, and Dunedin.

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

Income Producing Real Estate Holdings

We own, as of December 31, 2008 fee interests in approximately 920,000 square feet of income producing properties (including certain properties principally occupied by our cinemas). In the case of properties leased to our cinema operations, these numbers include an internal allocation of “rent” for such facilities.

Table of Contents

Property7	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Auburn 100 Parramatta Road Auburn, NSW, Australia	57,000 / 57,000 Plus an 871-space subterranean parking structure	81%	$23,561,000
Belmont Knutsford Ave and Fulham St Belmont, WA, Australia	19,000 / 49,000	76%	$10,558,000
Cinemas 1, 2 & 38 1003 Third Avenue Manhattan, NY, USA	0 / 24,000	N/A	$23,812,000
Courtenay Central 100 Courtenay Place Wellington, New Zealand	38,000 / 68,000 Plus a 245,000 square foot parking structure	76%	$18,455,000
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	7,000 / 20,000	85%	$ 1,916,000
Lake Taupo Motel 138-140 Lake Terrace Road Taupo, New Zealand	22,000 / 0	Short-term rentals	$ 2,397,000
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22,000	N/A	$ 1,661,000
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9,000	N/A	$ 8,299,000
Napier Cinema 154 Station Street Napier, New Zealand	5,000 / 18,000	100%	$ 2,148,000
Newmarket Newmarket, QLD, Australia	93,000 / 0	100%	$30,164,000
Orpheum Theatre 126 2nd Street Manhattan, NY, USA	0 / 5,000	N/A	$ 3,282,000
Royal George 1633 N. Halsted Street Chicago, IL, USA	37,000 / 23,000 Plus 21,000 square feet of parking	91%	$ 3,403,000
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19,000	N/A	$ 2,088,000
Union Square Theatre	21,000 / 17,000	100%	$ 9,217,000

100 E. 17th Street
Manhattan, NY, USA

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

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

Table of Contents

Long-Term Leasehold Real Estate Holdings

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

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

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

Table of Contents

Real Estate Development Properties

We are engaged in several real estate development projects:

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

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

Table of Contents

Other Property Interests and Investments

Place 57, Manhattan

We own a 25% membership interest in the limited liability company that has developed the site of our former Sutton Cinema on 57th Street just east of 3rd Avenue in Manhattan, as a 143,000 square foot residential condominium tower, with the ground floor retail unit and the resident manager's apartment. The project is sold out. At December 31, 2008, all debt on the project had been repaid, and we had received distributions totaling $11.7 million from this project, on an investment of $3.0 million made in 2004. The remaining commercial unit was sold in February 2009 for approximately $4.0 million.

Malulani Investments, Limited

In 2006, we acquired an 18.4% equity interest in Malulani Investments, Limited ("MIL") a closely held private company organized under the laws of the State of Hawaii. The assets of MIL consist principally of commercial properties in Hawaii and California. Incident to the settlement of certain litigation, we have agreed to sell this interest to MIL's controlling shareholder, See Item 3, Legal Proceedings.

Landplan Property Partners, Ltd

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

Non-operating Properties

We own the fee interest in 25 parcels comprising 195 acres in Pennsylvania and Delaware. These acres consist primarily of vacant land. We believe the value of these properties to be immaterial to our asset base, and while they are available for sale, we are not actively involved in the marketing of such properties. With the exception of certain properties located in Philadelphia (including the raised railroad bed leading to the old Reading Railroad Station), the properties are principally located in rural areas of Pennsylvania and Delaware. Additionally, we own a condominium in the Los Angeles, California area that is used for offsite corporate meetings and by our Chief Executive Officer when he is in town. These properties are unencumbered with any debt and lien free.

Table of Contents

Item 3 – Legal Proceedings

Tax Audit/Litigation

The Internal Revenue Service (the "IRS") has completed its audits of the tax return of Reading Entertainment Inc. (RDGE) for its tax years ended December 31, 1996 through December 31, 1999 and the tax return of Craig Corporation (CRG) for its tax year ended June 30, 1997. These companies are each now wholly owned subsidiaries of RDI, but for the time periods under audit, were not consolidated with RDI for tax purposes. With respect to both of these companies, the principal focus of these audits was the treatment of the contribution by RDGE to our wholly owned subsidiary, Reading Australia, and thereafter the subsequent repurchase by Stater Bros. Inc. from Reading Australia, of certain preferred stock in Stater Bros. Inc. (the "Stater Stock"). The Stater Stock was received by RDGE from CRG as a part of a private placement of securities by RDGE, which closed in October 1996. A second issue involving an equipment-leasing transaction entered into by RDGE (discussed below) has been conceded by RDGE resulting in a net tax refund.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of RDGE and CRG for the years in question (the "Examination Reports"). The Examination Report for each of RDGE and CRG proposed that the gains on the disposition by RDGE of Stater Stock, reported as taxable on the RDGE return, should be allocated to CRG. As reported, the gain resulted in no additional tax to RDGE inasmuch as the gain was entirely offset by a net operating loss carry forward of RDGE. This proposed change would result in an additional tax liability for CRG of approximately $20.9 million plus interest of approximately $19.6 million as of December 31, 2008. In addition, this proposal would result in California tax liability of approximately $5.4 million plus interest of approximately $5.8 million as of December 31, 2008. Accordingly, this proposed change represented, as of December 31, 2008, an exposure of approximately $51.7 million.

Moreover, California has "amnesty" provisions imposing additional liability on taxpayers who are determined to have materially underreported their taxable income. While these provisions have been criticized by a number of corporate taxpayers to the extent that they apply to tax liabilities that are being contested in good faith, no assurances can be given that these new provisions will be applied in a manner that would mitigate the impact on such taxpayers. Accordingly, these provisions may cause an additional $4.0 million exposure to CRG, for a total exposure of approximately $55.7 million. We have accrued $5.5 million in accordance with the cumulative probability approach prescribed in FIN 48 in relation to this exposure and believe that the possible total settlement amount will be between $5.5 million and $55.7 million.

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

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

We intend to litigate aggressively the Stater matter in the U.S. Tax Court and an appeal was filed with the court on September 26, 2006. While there are always risks in litigation, we believe that a settlement at the level currently offered by the IRS would substantially understate the strength of our position and the likelihood that we would prevail in a trial of these matters. We are currently in the discovery process and the trial is scheduled for September 2009.

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

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

Environmental and Asbestos Claims

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

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

We are in the process of remediating certain environmental issues with respect to our 50-acre Burwood site in Melbourne. That property was at one time used as a brickworks and we have discovered petroleum and asbestos at the site. During 2007, we developed a plan for the remediation of these materials, in some cases through removal and in other cases through encapsulation. As of December 31, 2008, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $8.1 million (AUS$9.6 million) and as of that date we had incurred a total of $6.2 million (AUS$7.4 million) of these costs. We do not believe that this has added materially to the overall development cost of the site, as much of the work is being done in connection with excavation and other development activity already contemplated for the property.

Whitehorse Center Litigation

On October 30, 2000, we commenced litigation in the Supreme Court of Victoria at Melbourne, Commercial and Equity Division, against our joint venture partner and the controlling stockholders of our joint venture partner in the Whitehorse Shopping Center. That action is entitled Reading Entertainment Australia Pty, Ltd vs. Burstone Victoria Pty, Ltd and May Way Khor and David Frederick Burr, and was brought to collect on a promissory note (the “K/B Promissory Note”) evidencing a loan that we made to Ms. Khor and Mr. Burr and that was guaranteed by Burstone Victoria Pty, Ltd (“Burstone” and collectively with Ms. Khor and Mr. Burr, the “Burstone Parties”). The Burstone Parties asserted in defense certain set-offs and counterclaims, alleging, in essence, that we had breached our alleged obligations to proceed with the development of the Whitehorse Shopping Center, causing the Burstone Parties damages. On May 10, 2005, a mixed judgment was entered by the trial court. Appeal rights have been exhausted and the net result of that judgment has been the payment to us by the defendants during the 2008 first quarter of $830,000 (AUS$901,000) and $314,000 (AUS$333,000) during the 2008 second quarter. These payments are each included in other income.

Mackie Litigation

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

Table of Contents

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

Attempts to mediate the dispute have not been successful. The matter has not yet been fixed for trial, however orders have now been made for the preparation of material for trial, and we expect that the matter will be set down for trial before the end of the year. We believe that we have adequate support for our position and that a reserve for these claims is not required as the likelihood of an unfavorable outcome is not probable and reasonably capable of being estimated.

Malulani Investments Litigation

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

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

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

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

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

Table of Contents

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

At our 2008, Annual Meeting of Stockholders held on May 15, 2008, the stockholders voted on the following proposals:

- by the following vote, our eight directors were reelected to serve on the Board of Directors until the 2009 Annual Meeting of Stockholders:

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

Table of Contents

PART II

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

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

Market Information

Reading International, Inc., a Nevada corporation ("RDI" and collectively with our consolidated subsidiaries and corporate predecessors, the "Company," "Reading" and "we," "us," or "our"), was incorporated in 1999 and, following t consummation of a consolidation transaction on December 31, 2001 (the "Consolidation"), is now the owner of the consolidated businesses and assets of Reading Entertainment, Inc. ("RDGE"), Craig Corporation ("CRG"), and Citadel Holding Corporation ("CDL"). Following the consolidation, we changed our name to Reading International, Inc. and were listed on the American Stock Exchange (AMEX). Effective January 2, 2002, our common stock traded on the AMEX under the symbols RDI.A and RDI.B. In March 2004, we changed our nonvoting stock symbol from RDI.A to RDI. Due to the 2008 purchase of the AMEX by the NYSE Alternext US, we are now listed on that exchange.

The following table sets forth the high and low closing prices of the RDI and RDI.B common stock for each of the quarters in 2008 and 2007 as reported by NYSE Alternext US:

		Class A Nonvoting Common Stock		Class B Voting Common Stock	
		High	Low	High	Low
2008:	Fourth Quarter	$ 6.90	$ 3.70	$ 8.00	$ 3.90
	Third Quarter	$ 8.00	$ 6.55	$ 9.25	$ 7.90
	Second Quarter	$ 9.70	$ 7.75	$ 10.50	$ 9.25
	First Quarter	$ 10.00	$ 9.34	$ 10.50	$ 10.00
2007:	Fourth Quarter	$ 10.22	$ 9.60	$ 10.50	$ 10.00
	Third Quarter	$ 10.64	$ 9.53	$ 10.75	$ 9.40
	Second Quarter	$ 9.34	$ 8.35	$ 9.57	$ 8.30
	First Quarter	$ 8.70	$ 8.18	$ 8.50	$ 8.00

Holders of Record

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

Dividends on Common Stock

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

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

None.

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

None.

Table of Contents

Item 6 – Selected Financial Data

The table below sets forth certain historical financial data regarding our Company. This information is derived in part from, and should be read in conjunction with our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for the year ended December 31, 2008 (the "2008 Annual Report"), and the related notes to the consolidated financial statements (dollars in thousands, except per share amounts).

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

-28-

Table of Contents

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

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

Table of Contents

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

The following review should be read in conjunction with the consolidated financial statements and related notes included in our 2008 Annual Report. Historical results and percentage relationships do not necessarily indicate operating results for any future periods.

Overview

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

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

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

We manage our worldwide cinema businesses under various different brands:

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

While we do not believe the cinema exhibition business to be a growth business at this time, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in a recessionary or inflationary environment. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home and that, when compared to other forms of outside the home entertainment, movies continue to be a popular, and competitively priced option. However, since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see our future asset growth coming more from our real estate development activities and from the acquisition of existing cinemas rather than from the development of new cinemas. Over time, we anticipate that our cinema operations will become increasingly a source of cash flow to support our real estate oriented activities, rather than a focus of growth, and that our real estate activities will, again, over time become the principal thrust of our business. We also, from time to time, invest in the shares of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

Business Climate

Cinema Exhibition - General

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

Table of Contents

Cinema Exhibition – Australia / New Zealand

The film exhibition industry in Australia and New Zealand is highly concentrated and somewhat vertically integrated in that one of the Major Exhibitors, Roadshow Film Distributors, also serves as a distributor of film in Australia and New Zealand for Warner Bros. and New Line. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow. Typically, the Major Exhibitors own the newer multiplex and megaplex cinemas, while the independent exhibitors typically have older and smaller cinemas. Accordingly, we believe it likely that the Major Exhibitors may control upwards of 70% of the total cinema box office in Australia and New Zealand. Also, the Major Exhibitors have in recent periods built a number of new multiplexes as joint venture partners or under-shared facility arrangements, and have historically not engaged in head-to-head competition.

Cinema Exhibition – North America

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

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

Real Estate – Australia and New Zealand

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

The Australian commercial sector of the real estate market has slowed in Australia during 2008. The large institutional funds are still seeking out prime assets with premium prices being paid for good retail and commercial investments and development opportunities. Leasing interest in prime areas such as Brisbane is driving demand. Sydney and Melbourne residential vacancy rates remain low (approximately 1%) meaning rental properties remain in short supply, which is influencing in a positive way demand and the development activity in that sector.

Real Estate – North America

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

Table of Contents

Business Segments

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

Cinema Exhibition

One of our primary businesses consists of the ownership and operation of cinemas. At December 31, 2008 we:

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

As part of the above cinemas that we directly operated during 2008, and, consistent with our philosophy to look for opportunities in the cinema exhibition industry, on February 22, 2008, we acquired from two related companies, Pacific Theatres and Consolidated Amusement Theatres, substantially all of their cinema assets in Hawaii of nine complexes (98 screens), San Diego County of four complexes (51 screens), and Northern California of two complexes (32 screens) for $70.2 million. In total, we acquired fourteen mature leasehold cinemas and the management rights to one additional mature cinema with 8 screens. In saying that these cinema are "mature" we mean that they have been in operation for some years, and are, in our view, proven performers in their markets. We refer to these cinemas from time to time in this report as Consolidated Entertainment cinemas. In addition, during 2008, we opened our Rouse Hill and Dandenong leasehold cinemas in Australia that collectively have 15 screens.

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

Real Estate

For fiscal 2008, our rental generating real estate holdings consisted of the following properties:

- our Belmont, Western Australia ETRC, our Auburn, New South Wales ETRC and our Wellington, New Zealand ETRC;
- our Newmarket shopping center in Newmarket, Queensland, a suburb of Brisbane;
- three single auditorium live theaters in Manhattan (Minetta Lane, Orpheum, and Union Square) and a four auditorium live theater complex in Chicago (The Royal George) and, in the case of the Union Square and the Royal George their accompanying ancillary retail and commercial tenants;
- a New Zealand property rented to an unrelated third party, to be held for current income and long-term appreciation;
- our Lake Taupo property in New Zealand that is currently improved with a motel that we have recently renovated to be condominiums. A portion of this property includes unimproved land that we do not intend to develop; and

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

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

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

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

In 2008, we acquired the following real property interests:

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

In 2007, we acquired the following real property interests:

- Manukau Land. On July 27, 2007, we purchased through a Landplan Property Partners Ltd. (“Reading Landplan”) property trust a 64.0 acre parcel of undeveloped agricultural real estate for approximately $9.3 million (NZ$12.1 million). We intend to rezone the property from its current agricultural use to commercial use, and thereafter to redevelop the property in accordance with its new zoning. No assurances can be given that such rezoning will be achieved, or if achieved, that it will occur in the near term.

- New Zealand Commercial Property. On June 29, 2007, we acquired a commercial property for $5.9 million (NZ$7.6 million), rented to an unrelated third party, to be held for current income and long-term appreciation.

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

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

- Tower Ground Lease. On February 8, 2007, we purchased the tenant’s interest in the ground lease underlying the building lease for one of our domestic cinemas for $493,000.

Property Held For or Under Development

For fiscal 2008, our investments in property held for or under development consisted of:

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

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

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

Table of Contents

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

- a 25% interest, representing an investment of $3.0 million, in the company redeveloping the site of our old Sutton Cinema site in Manhattan, New York. The property has been redeveloped as an approximately 100,000 square foot residential condominium project with ground floor retail and marketed under the name "Place 57." In 2006, the joint venture was able to close on the sales of 59 condominiums resulting in gross sales of $117.7 million and equity earnings from unconsolidated joint venture to us of $8.3 million. During 2007, this joint venture sold the remaining eight residential condominiums resulting in gross sales of $25.7 million and equity earnings from unconsolidated joint venture to us of $1.3 million. As of December 31, 2008, we had received distributions totaling $9.5 million from the earnings of this project and we have received $2.1 million of return of capital investment. The remaining commercial unit was sold in February 2009 for approximately $4.0 million;

- a 0.3 acre property with a two-story 3,464 square foot building Indooroopilly, Brisbane, Australia. We are currently developing this property to be a 28,000 square foot grade A commercial office building comprising six floors of office space and two basement levels of parking with 33 parking spaces. We anticipate this project to be completed by March 2009;

- the Manukau land parcel was purchased on July 27, 2007 through a Reading Landplan property trust a 64.0 acre parcel of undeveloped agricultural real estate for approximately $9.3 million (NZ$12.1 million). We intend to rezone the property from its current agricultural use to commercial use, and thereafter to redevelop the property in accordance with its new zoning. No assurances can be given that such rezoning will be achieved, or if achieved, that it will occur in the near term; and

- a 1.0-acre parcel of commercial real estate located in Lake Taupo, New Zealand. The property was improved with a motel in which we recently renovated the property's units to be condominiums.

Critical Accounting Policies

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

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

We review long-lived assets, including goodwill and intangibles, for impairment as part of our annual budgeting process, at the end of the third quarter, and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. We review internal management reports on a monthly basis as well as monitor current and potential future competition in film markets for indications of potential impairment. We evaluate our long-lived assets using historical and projected data of cash flow as our primary indicator of potential impairment and we take into consideration the seasonality of our business. If the sum of the estimated future cash flows, undiscounted, were to be less than the carrying amount of the asset, then an impairment would be recognized for the amount by which the carrying value of the asset exceeds its estimated fair value based on a discounted cash flow calculation. Goodwill and intangible assets are evaluated on a reporting unit basis. The impairment evaluation is based on the present value of estimated future cash flows of the segment plus the expected terminal value. There are significant assumptions and estimates used in determining the future cash flows and terminal value. Accordingly, actual results could vary materially from such estimates. Based on calculations of current value, we recorded impairment losses of $6.1 million relating to certain of our property and cinema locations for the year ended December 31, 2008.

We record our estimated future tax benefits and liabilities arising from the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards. We estimate the recoverability of any tax assets recorded on the balance sheet and provide any necessary allowances as required. As of December 31, 2008, we had recorded approximately $60.6 million of deferred tax assets related to the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards and tax credit carry forwards. These deferred tax assets were fully offset by a valuation allowance in the same amount, resulting in a net deferred tax asset of zero. The recoverability of deferred tax assets is dependent upon our ability to generate future taxable income. There is no assurance that sufficient future taxable income will be generated to benefit from our tax loss carry forwards and tax credit carry forwards.

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

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

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

Results of Operations

We currently operate two operating segments: Cinema and Real Estate. Our cinema segment includes the operations of our consolidated cinemas. Our real estate segment includes the operating results of our commercial real estate holdings, cinema real estate, live theater real estate and ETRC's.

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

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

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

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

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

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

Cinema Segment

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

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

Table of Contents

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

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

Cinema Results for 2008 Compared to 2007

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

Cinema Results for 2007 Compared to 2006

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

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

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

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

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

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

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

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

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

-38-

Table of Contents

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

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

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

Real Estate Segment

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

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

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

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

Real Estate Results for 2008 Compared to 2007

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

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

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

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

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

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

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

Real Estate Results for 2007 Compared to 2006

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

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

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

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

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

Table of Contents

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

Non-Segment Activity

2008 Compared to 2007

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

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

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

Also during 2008:

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

2007 Compared to 2006

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

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

Table of Contents

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

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

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

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

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

During 2007:

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

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

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

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

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

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

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

Income taxes

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

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

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

Table of Contents

Consolidated Net Income (Loss)

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

Business Plan, Liquidity and Capital Resources of the Company

Business Plan

Our business plan has evolved from a belief that while cinema exhibition is not a growth business at this time, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in a recessionary or inflationary environment. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home and that, when compared to other forms of outside the home entertainment, movies continue to be a popular, and competitively priced option. However, since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see our future asset growth coming more from our real estate development activities and from the acquisition of existing cinemas rather than from the development of new cinemas. Over time, we anticipate that our cinema operations will become increasingly a source of cash flow to support our real estate oriented activities, rather than a focus of growth, and that our real estate activities will, again, over time become the principal thrust of our business. We also, from time to time, invest in the shares of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

In short, while we do have operating company attributes, we see ourselves principally as a hard asset company and intend to add to shareholder value by building the value of our portfolio of tangible assets including both entertainment and other types of land, brick, and mortar assets. We are endeavoring to maintain a reasonable asset allocation between our domestic and overseas assets and operations, and between our cash generating cinema operations and our cash consuming real estate development activities. We believe that by blending the cash generating capabilities of a cinema company with the investment and development opportunities of a real estate development company, we are unique among public companies in our business plan.

Liquidity and Capital Resources

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

Currently, our liquidity needs continue to arise mainly from:

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

- debt servicing requirements.

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

Table of Contents

Discussion of Our Statement of Cash Flows

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

Operating Activities

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

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

offset by

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

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

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

Investing Activities

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

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

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

offset by

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

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

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

- $15.7 million to purchase marketable securities;

Table of Contents

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

offset by

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

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

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

offset by

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

Financing Activities

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

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

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

Table of Contents

offset by

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

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

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

offset by

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

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

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

offset by

- $6.2 million of cash used to pay down long-term debt which was primarily related to the payoff of $3.2 million on the mortgage on our Union Square Property as part of a renegotiation of the loan; the payoff of our Movieland purchase note payable of approximately $512,000; the payoff of the Palms – Christchurch Cinema bank debt of approximately $1.9 million; and on the pay down of our Australian Corporate Credit Facility by $280,000;
- $791,000 of cash used to repurchase the Class A Nonvoting Common Stock (these shares were previously issued to the Movieland sellers who exercised their put option during 2006 to sell back to us the shares they had received in partial consideration for the sale of the Movieland cinemas); and
- $1.2 million in distributions to minority interests.

Future Liquidity and Capital Resources

We believe that we have sufficient borrowing capacity to meet our short-term working capital requirements (see discussion below regarding our Trust Preferred Securities).

During the past 24 months, we have put into place several measures that have already had a positive effect on our overall liquidity, including:

- on February 5, 2007, we issued $51.5 million in Trust Preferred Securities through our wholly owned trust subsidiary. We used the funds principally to payoff our bank indebtedness in New Zealand by $34.4 million (AUS$50.0 million) and to pay down our indebtedness in Australia by $5.8 million (AUS$7.4 million). On December 31, 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

Table of Contents

$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 these payments are not made, the only remedy is the termination of the waiver. Additionally, in January 2009, we took advantage of current market illiquidity for securities such as our Trust Preferred Securities to repurchase $22.9 million of those securities for $11.5 million.

- As part of the Consolidated Entertainment acquisition, we secured bank financing of $50.0 million and seller financing of $21.0 million. We have successfully paid down $9.0 million of the bank financing and decreased the seller's note associated with the acquisition by $6.3 million. Aside from the acquisition, we drew down on a seller's line of credit of $4.5 million. Built into the purchase agreement of the acquisition are reductions in the seller's note based on certain operational results and other criteria that may result in no balance or interest being owed to the seller.

- on March 17, 2008, we entered into a $7.1 million loan agreement with a financial institution, secured by our Royal George Theatre in Chicago, Illinois and our Minetta and Orpheum Theatres in New York. The loan agreement requires only monthly principal and interest payments along with self-reported annual financial statements.

- on June 28, 2007, Sutton Hill Properties, LLC ("SHP"), one of our consolidated subsidiaries, entered into a $15.0 million loan that is secured by SHP's interest in the Cinemas 1, 2 & 3 land and building. SHP is owned 75% by Reading and 25% by Sutton Hill Capital, LLC ("SHC"), a joint venture indirectly wholly owned by Mr. James J. Cotter, our Chairman and Chief Executive Officer, and Mr. Michael Forman.

Potential uses for funds during 2009 that would reduce our liquidity, other than those relating to working capital needs and debt service requirements include:

- the selective and potentially slowed development of our currently held for development projects;

- the acquisition of undeveloped assets with proven cash flow that we believe to be resistant to the current recessionary trends; and

- the possible further investments in securities.

Based upon the current levels of the consolidated operations, further anticipated cost savings and future growth, we believe our cash flow from operations, together with both the existing and anticipated lines-of-credit and other sources of liquidity (including future potential asset sales) will be adequate to meet our anticipated requirements for interest payments and other debt service obligations, working capital, capital expenditures and other operating needs.

The current economic climate has necessitated a review of the timing of all our development projects. Our development in Burwood, Australia, with cost estimates in excess of $0.4 billion (AUS$0.6 billion) will clearly not be funded from normal working capital even in a phased approach. We continue to investigate all options available to us including debt financing, equity financing, and joint venture partnering to achieve the optimal financing structure for this most significant development.

In late February 2007, it became apparent that our cost estimates with respect to the Burwood site preparation were low, as the extent of the contaminated soil present at the site – a former brickworks – was greater than we had originally believed. Our previous estimated cost of $500.0 million included approximately $1.4 million (AUS$1.8 million) of estimated cost to remove the contaminated soil. As we were not the source of this contamination, we are not currently under any legal obligation to remove this contaminated soil from the site. However, as a practical matter, we intend to address these issues in connection with our planned redevelopment of this site as a mixed-use retail, entertainment, commercial and residential complex. 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. In accordance with Emerging Issues Task Force (EITF) 90-8 "Capitalization of Costs to Treat Environmental Contamination," contamination clean up costs that improve the property from its original acquisition state are capitalized as part of the property's overall development costs.

There can be no assurance, however, that the business will continue to generate cash flow at or above current levels or that estimated cost savings or growth can be achieved. Future operating performance and our

Table of Contents

ability to service or refinance existing indebtedness will be subject to future economic conditions and to financial and other factors, such as access to first-run films, many of which are beyond our control. If our cash flow from operations and/or proceeds from anticipated borrowings should prove to be insufficient to meet our funding needs, our current intention is either:

- to defer construction of projects currently slated for land presently owned by us;
- to take on joint venture partners with respect to such development projects; and/or
- to sell assets.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt and lease obligations at December 31, 2008 (in thousands):

	2009	2010	2011	2012	2013	Thereafter
Long-term debt	$ 1,347	$ 16,598	$ 73,628	$ 15,921	$ 62,592	$ 3,529
Long-term debt to related parties	--	14,000	--	--	--	--
Subordinated notes	--	--	--	--	--	51,547
Pension liability	6	11	17	23	29	2,480
Lease obligations	27,335	26,895	26,354	24,914	22,452	92,390
Interest on long-term debt	15,930	15,756	16,040	9,385	5,003	34,229
Total	$ 44,618	$ 73,260	$ 116,039	$ 50,243	$ 90,076	$ 184,175

Estimated interest on long-term debt is based on the anticipated loan balances for future periods calculated against current fixed and variable interest rates.

We adopted FASB Interpretation ("FIN") 48, Accounting for Uncertainty in Income Taxes on January 1, 2007. As of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions was $12.5 million increasing to $13.7 million and to $14.5 million as of December 31, 2007 and December 31, 2008, respectively. We do not expect a significant tax payment related to these obligations within the 12 months.

Unconsolidated Joint Venture Debt

Total debt of unconsolidated joint ventures was $1.2 million and $4.2 million as of December 31, 2008 and December 31, 2007, respectively. Our share of unconsolidated debt, based on our ownership percentage, was $785,000 and $2.0 million as of December 31, 2008 and December 31, 2007, respectively. Each loan is without recourse to any assets other than our interests in the individual joint venture.

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Financial Risk Management

Our internally developed risk management procedure, seeks to minimize the potentially negative effects of changes in foreign exchange rates and interest rates on the results of operations. Our primary exposure to fluctuations in the financial markets is currently due to changes in foreign exchange rates between U.S and Australia and New Zealand, and interest rates.

In 2006, we determined that it would be beneficial to have a layer of long-term fully subordinated debt financing to help support our long-term real estate assets. On February 5, 2007 we issued $51.5 million in 20-year fully subordinated notes, interest fixed for five years at 9.22%, to a trust which we control, and which in turn issued $50.0 million in trust preferred securities in a private placement. There are no principal payments until maturity in 2027 when the notes are paid in full. The trust is essentially a pass through, and the transaction is accounted for on

Table of Contents

our books as the issuance of fully subordinated notes. The placement generated $48.4 million in net proceeds, which were used principally to retire all of our bank indebtedness in New Zealand $34.4 million (NZ$50.0 million) and to retire a portion of our bank indebtedness in Australia $5.8 million (AUS$7.4 million).

If our operational focus shifts more to Australia and New Zealand, unrealized foreign currency translation gains and losses could materially affect our financial position. Historically, we managed our currency exposure by creating natural hedges in Australia and New Zealand. This involves local country sourcing of goods and services as well as borrowing in local currencies. However, by paying off our New Zealand debt and paying down on our Australia debt with the proceeds of our Trust Preferred Securities, we have added an increased element of currency risk to our Company. We believe that this currency risk is mitigated by the long-term nature of the fully subordinated notes and our recent ability to repurchase, at a discount, some of these securities.

However, in the first quarter 2009, we took advantage of current market illiquidity for securities such as our Trust Preferred Securities to repurchase $22.9 million 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, which was partially funded with borrowings against our New Zealand line-of-credit, we once again have substantially matched the currency in which we have financed our developments with the jurisdictions in which these developments are located.

Our exposure to interest rate risk arises out of our long-term debt obligations. Consistent with our internally developed guidelines, we seek to reduce the negative effects of changes in interest rates by changing the character of the interest rate on our long-term debt, converting a fixed rate into a variable rate and vice versa. Our internal procedures allow us to enter into derivative contracts on certain borrowing transactions to achieve this goal. Our Australian Credit Facility provides for floating interest rates based on the Bank Bill Swap Bid Rate (BBSY bid rate), but requires that not less than 70% of the loan be swapped into fixed rate obligations. Additionally, under our GE Capital Term Loan, we are required to swap no less than 50% of our variable rate drawdowns for the first two years of the loan agreement.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 133 - Accounting for Derivative Instruments and Hedging Activities, we marked our interest swap instruments to market on the consolidated balance sheet resulting in a $2.1 million increase to interest expense during 2008, an $320,000 decrease to interest expense during 2007, and a $845,000 decrease to interest expense during 2006.

Inflation

We continually monitor inflation and the effects of changing prices. Inflation increases the cost of goods and services used. Competitive conditions in many of our markets restrict our ability to recover fully the higher costs of acquired goods and services through price increases. We attempt to mitigate the impact of inflation by implementing continuous process improvement solutions to enhance productivity and efficiency and, as a result, lower costs and operating expenses. In our opinion, the effects of inflation have been managed appropriately and as a result, have not had a material impact on our operations and the resulting financial position or liquidity.

Recent Accounting Pronouncements

SFAS No. 141(R) and No. 160

In December 2007, the FASB issued SFAS No. 141(R) Business Combinations ("SFAS No. 141(R)") and SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51 ("SFAS No. 160"). SFAS No. 141(R) requires an acquiring entity to recognize acquired assets and assumed liabilities in a transaction at fair value as of the acquisition date and changes the accounting treatment for certain items, including acquisition costs, which will be required to be expensed as incurred. SFAS No. 160 requires that noncontrolling interests be presented as a component of consolidated stockholders' equity and eliminates "minority interest accounting" such that the amount of net income attributable to the noncontrolling interests will be presented as part of consolidated net income on the consolidated statement of operations. SFAS No. 141(R) and SFAS No. 160 require concurrent adoption and are to be applied prospectively for the first annual reporting period beginning

Table of Contents

on or after December 15, 2008. Early adoption of either standard is prohibited. Management believes that these statements may have a material impact on the Company's consolidated results of operations or cash flows. However, management is currently evaluating whether the adoption of SFAS No. 160 could have a material impact on the consolidated balance sheets and statements of shareholders' equity.

FASB Staff Position EITF No. 03-6-1

In June 2008, the FASB issued FASB Staff Position (FSP) EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF No. 03-6-1"). This new standard requires that nonvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents be treated as participating securities in the computation of earnings per share pursuant to the two-class method. We believe that FSP EITF No. 03-6-1 will not have a material impact on our consolidated financial statements and results of operations. FSP EITF No. 03-6-1 will be applied retrospectively to all periods presented for fiscal years beginning after December 15, 2008.

SFAS No. 161

In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ("SFAS No. 161"). This new standard enhances disclosure requirements for derivative instruments in order to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is to be applied prospectively for the first annual reporting period beginning on or after November 15, 2008. We believe that the adoption of SFAS No. 161 will not have a material impact on our consolidated financial statement disclosures since we solely have interest rate swap agreements not formally designated as cash flow hedges at the inception of the derivative contract.

FSP 142-3

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 is to be applied prospectively for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of FSP 142-3 on our consolidated financial position, results of operations and cash flows but currently does not believe it will have a material impact on our consolidated financial statements.

Forward-Looking Statements

Our statements in this annual report contain a variety of forward-looking statements as defined by the Securities Litigation Reform Act of 1995. Forward-looking statements reflect only our expectations regarding future events and operating performance and necessarily speak only as of the date the information was prepared. No guarantees can be given that our expectation will in fact be realized, in whole or in part. You can recognize these statements by our use of words such as, by way of example, "may," "will," "expect," "believe," and "anticipate" or other similar terminology.

These forward-looking statements reflect our expectation after having considered a variety of risks and uncertainties. However, they are necessarily the product of internal discussion and do not necessarily completely reflect the views of individual members of our Board of Directors or of our management team. Individual Board members and individual members of our management team may have different view as to the risks and uncertainties involved, and may have different views as to future events or our operating performance.

Among the factors that could cause actual results to differ materially from those expressed in or underlying our forward-looking statements are the following:

- with respect to our cinema operations:
  - the number and attractiveness to movie goers of the films released in future periods;
  - the amount of money spent by film distributors to promote their motion pictures;

Table of Contents

- o the licensing fees and terms required by film distributors from motion picture exhibitors in order to exhibit their films;
- o the comparative attractiveness of motion pictures as a source of entertainment and willingness and/or ability of consumers (i) to spend their dollars on entertainment and (ii) to spend their entertainment dollars on movies in an outside the home environment;
- o the extent to which we encounter competition from other cinema exhibitors, from other sources of outside of the home entertainment, and from inside the home entertainment options, such as “home theaters” and competitive film product distribution technology such as, by way of example, digital and 3D technology, cable, satellite broadcast, DVD and VHS rentals and sales, and so called “movies on demand;” and
- o the extent to and the efficiency with which, we are able to integrate acquisitions of cinema circuits with our existing operations.

• with respect to our real estate development and operation activities:

- o the rental rates and capitalization rates applicable to the markets in which we operate and the quality of properties that we own;
- o the extent to which we can obtain on a timely basis the various land use approvals and entitlements needed to develop our properties;
- o the risks and uncertainties associated with real estate development;
- o the availability and cost of labor and materials;
- o competition for development sites and tenants;
- o environmental remediation issues; and
- o the extent to which our cinemas can continue to serve as an anchor tenant who will, in turn, be influenced by the same factors as will influence generally the results of our cinema operations.

• with respect to our operations generally as an international company involved in both the development and operation of cinemas and the development and operation of real estate; and previously engaged for many years in the railroad business in the United States:

- o our ongoing access to borrowed funds and capital and the interest that must be paid on that debt and the returns that must be paid on such capital;
- o the relative values of the currency used in the countries in which we operate;
- o changes in government regulation, including by way of example, the costs resulting from the implementation of the requirements of Sarbanes-Oxley;
- o our labor relations and costs of labor (including future government requirements with respect to pension liabilities, disability insurance and health coverage, and vacations and leave);

- our exposure from time to time to legal claims and to uninsurable risks such as those related to our historic railroad operations, including potential environmental claims and health related claims relating to alleged exposure to asbestos or other substances now or in the future recognized as being possible causes of cancer or other health related problems;

- changes in future effective tax rates and the results of currently ongoing and future potential audits by taxing authorities having jurisdiction over our various companies; and

- changes in applicable accounting policies and practices.

The above list is not necessarily exhaustive, as business is by definition unpredictable and risky, and subject to influence by numerous factors outside of our control such as changes in government regulation or policy, competition, interest rates, supply, technological innovation, changes in consumer taste and fancy, weather, and the extent to which consumers in our markets have the economic wherewithal to spend money on beyond-the-home entertainment.

Table of Contents

Given the variety and unpredictability of the factors that will ultimately influence our businesses and our results of operation, it naturally follows that no guarantees can be given that any of our forward-looking statements will ultimately prove to be correct. Actual results will undoubtedly vary and there is no guarantee as to how our securities will perform either when considered in isolation or when compared to other securities or investment opportunities.

Finally, please understand that we undertake no obligation to update publicly or to revise any of our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable law. Accordingly, you should always note the date to which our forward-looking statements speak.

Additionally, certain of the presentations included in this annual report may contain “non-GAAP financial measures.” In such case, a reconciliation of this information to our GAAP financial statements will be made available in connection with such statements.

Table of Contents

Item 7A – Quantitative and Qualitative Disclosure about Market Risk

The Securities and Exchange Commission requires that registrants include information about potential effects of changes in currency exchange and interest rates in their Form 10-K filings. Several alternatives, all with some limitations, have been offered. The following discussion is based on a sensitivity analysis, which models the effects of fluctuations in currency exchange rates and interest rates. This analysis is constrained by several factors, including the following:

- it is based on a single point in time.
- it does not include the effects of other complex market reactions that would arise from the changes modeled.

Although the results of such an analysis may be useful as a benchmark, they should not be viewed as forecasts.

At December 31, 2008, approximately 44% and 18% of our assets (determined by the book value of such assets) were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), respectively, including approximately $19.6 million in cash and cash equivalents. At December 31, 2007, approximately 51% and 25% of our assets were invested in assets denominated in Australian and New Zealand dollars, respectively, including approximately $10.3 million in cash and cash equivalents.

Our policy in Australia and New Zealand is to match revenue and expenses, whenever possible, in local currencies. As a result, a majority of our expenses in Australia and New Zealand have been procured in local currencies. Due to the developing nature of our operations in Australia and New Zealand, our revenue is not yet significantly greater than our operating expense. The resulting natural operating hedge has led to a negligible foreign currency effect on our earnings. As we continue to progress our acquisition and development activities in Australia and New Zealand, we cannot assure you that the foreign currency effect on our earnings will be insignificant in the future.

Historically, our policy has been to borrow in local currencies to finance the development and construction of our entertainment complexes in Australia and New Zealand whenever possible. As a result, the borrowings in local currencies have provided somewhat of a natural hedge against the foreign currency exchange exposure. Even so, approximately 42% and 82% of our Australian and New Zealand assets (based on book value), respectively, remain subject to such exposure unless we elect to hedge our foreign currency exchange between the U.S. and Australian and New Zealand dollars. If the foreign currency rates were to fluctuate by 10% the resulting change in Australian and New Zealand assets would be $6.6 million and $5.3 million, respectively, and the change in annual net income would be $32,000 and $313,000, respectively. At the present time, we have no plan to hedge such exposure. On February 5, 2007 we issued $51.5 million in 20-year fully subordinated notes and paid off our bank indebtedness in New Zealand $34.4 million (NZ$50.0 million) and retired a portion of our bank indebtedness in Australia $5.8 million (AUS$7.4 million). By paying off our New Zealand debt and paying down on our Australia debt with the proceeds of our Trust Preferred Securities, we have added an increased element of currency risk to our Company. We believe that this currency risk is mitigated by the long-term nature of the fully subordinated notes and our recent ability to repurchase, at a discount, some of these securities.

We record unrealized foreign currency translation gains or losses that could materially affect our financial position. We have accumulated unrealized foreign currency translation gains of approximately $8.8 million and $48.2 million as of December 31, 2008 and 2007, respectively.

Historically, we maintained most of our cash and cash equivalent balances in short-term money market instruments with original maturities of six months or less. Some of our money market investments may decline in value if interest rates increase. Due to the short-term nature of such investments, a change of 1% in short-term interest rates would not have a material effect on our financial condition.

The majority of our U.S. bank loans have fixed interest rates; however, one of our domestic loans has a variable interest rate and a change of approximately 1% in short-term interest rates would have resulted in approximately $226,000 increase or decrease in our 2008 interest expense.

Table of Contents

Item 8 – Financial Statements and Supplementary Data

TABLE OF CONTENTS

Table of Contents

Report of Independent Registered Public Accountants

To the Board of Directors and Stockholders of
Reading International, Inc.
Los Angeles, California

We have audited the accompanying consolidated balance sheets of Reading International, Inc. and subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Reading International, Inc. and subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 14 to the Consolidated Financial Statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109.

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

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Los Angeles, California
March 16, 2009

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Balance Sheets as of December 31, 2008 and 2007
(U.S. dollars in thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 30,874	$ 20,782
Receivables	7,868	5,671
Inventory	797	654
Investment in marketable securities	3,100	4,533
Restricted cash	1,656	59
Assets held for sale	20,119	25,941
Prepaid and other current assets	2,324	3,800
Total current assets	66,738	61,440
Land held for sale	--	1,984
Property held for development	9,005	9,289
Property under development	58,595	66,787
Property & equipment, net	153,165	154,012
Investment in unconsolidated joint ventures and entities	11,643	15,480
Investment in Reading International Trust I	1,547	1,547
Goodwill	34,964	19,100
Intangible assets, net	25,118	8,448
Other assets	9,301	7,984
Total assets	$ 370,076	$ 346,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 13,170	$ 12,331
Film rent payable	7,315	3,275
Notes payable – current portion	1,347	395
Note payable to related party – current portion	--	5,000
Taxes payable	6,425	4,770
Deferred current revenue	5,645	3,214
Other current liabilities	201	169
Total current liabilities	34,103	29,154
Notes payable – long-term portion	172,268	111,253
Notes payable to related party – long-term portion	14,000	9,000
Subordinated debt	51,547	51,547
Noncurrent tax liabilities	6,347	5,418
Deferred non-current revenue	554	566
Other liabilities	23,604	14,936
Total liabilities	302,423	221,874
Commitments and contingencies (Note 19)		
Minority interest in consolidated affiliates	1,817	2,835
Stockholders’ equity:		
Class A Nonvoting Common Stock, par value $0.01, 100,000,000 shares authorized, 35,564,339 issued and 20,987,115 outstanding at December 31, 2008 and at December 31, 2007	216	216

Class B Voting Common Stock, par value $0.01, 20,000,000 shares authorized and 1,495,490 issued and outstanding at December 31, 2008 and at December 31, 2007	15	15
Nonvoting Preferred Stock, par value $0.01, 12,000 shares authorized and no issued or outstanding shares at December 31, 2008 and 2007	--	--
Additional paid-in capital	133,906	131,930
Accumulated deficit	(71,205)	(52,670)
Treasury shares	(4,306)	(4,306)
Accumulated other comprehensive income	7,210	46,177
Total stockholders' equity	65,836	121,362
Total liabilities and stockholders' equity	$ 370,076	$ 346,071

See accompanying notes to consolidated financial statements.

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Statements of Operations for the Three Years Ended December 31, 2008
(U.S. dollars in thousands, except per share amounts)

	Year Ended December 31, 2008	2007	2006
Operating revenue			
Cinema	$ 177,256	$ 99,703	$ 90,504
Real estate	14,030	13,701	10,346
Total operating revenue	191,286	113,404	100,850
Operating expense			
Cinema	141,761	74,051	66,736
Real estate	8,754	7,365	6,558
Depreciation and amortization	17,868	10,737	11,912
Impairment expense	6,045	--	--
General and administrative	21,434	16,085	12,991
Total operating expense	195,862	108,238	98,197
Operating income (loss)	(4,576)	5,166	2,653
Interest income	1,009	798	306
Interest expense	(16,749)	(8,959)	(6,903)
Net loss on sale of assets	--	(185)	(45)
Other income (expense)	991	(320)	(1,953)
Loss before minority interest, discontinued operations, income tax expense and equity earnings of unconsolidated joint ventures and entities	(19,325)	(3,500)	(5,942)
Minority interest	(620)	(1,003)	(672)
Loss before discontinued operations, income tax expense, and equity earnings of unconsolidated joint ventures and entities	(19,945)	(4,503)	(6,614)
Gain on sale of a discontinued operation, net of tax	--	1,912	--
Income (loss) from discontinued operations, net of tax	562	(19)	(249)
Loss before income tax expense and equity earnings of unconsolidated joint ventures and entities	(19,383)	(2,610)	(6,863)
Income tax expense	(2,099)	(2,038)	(2,270)
Loss before equity earnings of unconsolidated joint ventures and entities	(21,482)	(4,648)	(9,133)
Equity earnings of unconsolidated joint ventures and entities	497	2,545	9,547
Gain on sale of unconsolidated joint venture	2,450	--	3,442
Net income (loss)	$ (18,535)	$ (2,103)	$ 3,856
Earnings (loss) per common share – basic:			
Earnings (loss) from continuing operations	$ (0.84)	$ (0.18)	$ 0.18
Earnings (loss) from discontinued operations, net	0.02	0.09	(0.01)
Basic earnings (loss) per share	$ (0.82)	$ (0.09)	$ 0.17
Weighted average number of shares outstanding – basic	22,477,471	22,478,145	22,425,941
Earnings (loss) per common share – diluted:			
Earnings (loss) from continuing operations	$ (0.84)	$ (0.18)	$ 0.18
Earnings (loss) from discontinued operations, net	0.02	0.09	(0.01)

Diluted earnings (loss) per share	$ (0.82)	$ (0.09)	$ 0.17
Weighted average number of shares outstanding – diluted	22,477,471	22,478,145	22,674,818

See accompanying notes to consolidated financial statements.

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity for the Three Years Ended December 31, 2008
(U.S. dollars in thousands)

	Common Stock								
	Class A Shares	Class A Par Value	Class B Shares	Class B Par Value	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
At January 1, 2006	20,990	$215	1,495	$15	$128,028	$(3,515)	$(53,914)	$28,575	$99,404
Net income	--	--	--	--	--	--	3,856	--	3,856
Other comprehensive income:									
Cumulative foreign exchange rate adjustment	--	--	--	--	--	--	--	4,928	4,928
Unrealized loss on securities	--	--	--	--	--	--	--	(110)	(110)
Total comprehensive income	--	--	--	--	--	--	--	--	8,674
Stock option and restricted stock compensation expense	16	--	--	--	284	--	--	--	284
Class A common stock received upon exercise of put option	(99)	--	--	--	--	(791)	--	--	(791)
Class A common stock issued for stock options exercised	74	1	--	--	87	--	--	--	88
At December 31, 2006	20,981	216	1,495	15	128,399	(4,306)	(50,058)	33,393	107,659
Net loss	--	--	--	--	--	--	(2,103)	--	(2,103)
Other comprehensive income:									
Cumulative foreign exchange rate adjustment	--	--	--	--	--	--	--	14,731	14,731
Accrued pension service costs	--	--	--	--	--	--	--	(2,063)	(2,063)
Unrealized gain on securities	--	--	--	--	--	--	--	116	116
Total comprehensive income	--	--	--	--	--	--	--	--	10,681
Stock option and restricted stock compensation expense	--	--	--	--	994	--	--	--	994
	--	--	--	--	--	--	(509)	--	(509)

Adjustment to accumulated deficit for adoption of FIN 48									
Exercise of Sutton Hill Properties option	--	--	--	--	2,512	--	--	--	2,512
Class A common stock issued for stock options exercised	6	--	--	--	25	--	--	--	25
At December 31, 2007	20,987	216	1,495	15	131,930	(4,306)	(52,670)	46,177	121,362
Net loss	--	--	--	--	--	--	(18,535)	--	(18,535)
Other comprehensive income:									
Cumulative foreign exchange rate adjustment	--	--	--	--	--	--	--	(39,264)	(39,264)
Accrued pension service costs	--	--	--	--	--	--	--	318	318
Unrealized loss on securities	--	--	--	--	--	--	--	(21)	(21)
Total comprehensive loss	--	--	--	--	--	--	--	--	(57,502)
Stock option and restricted stock compensation expense	--	--	--	--	1,976	--	--	--	1,976
At December 31, 2008	20,987	$216	1,495	$15	$133,906	$(4,306)	$(71,205)	$ 7,210	$65,836

See accompanying notes to consolidated financial statements.

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2008
(U.S. dollars in thousands)

	Year Ended December 31,		
	2008	2007	2006
Operating Activities			
Net income (loss)	$ (18,535)	$ (2,103)	$ 3,856
Adjustments to reconcile net income(loss) to net cash provided by operating activities:			
Realized (gain) loss on foreign currency translation	574	(131)	38
Equity earnings of unconsolidated joint ventures and entities	(497)	(2,545)	(9,547)
Distributions of earnings from unconsolidated joint ventures and entities	951	4,619	6,647
Gain on the sale of unconsolidated joint venture or entity	(2,450)	--	(3,442)
Gain on sale of Glendale Building	--	(1,912)	--
(Gain) loss on sale of marketable securities	--	(773)	--
Actuarial gain on pension plan	--	385	--
Loss provision on marketable securities	607	779	--
Loss provision on impairment of asset	6,045	89	--
Loss on extinguishment of debt	--	99	167
Loss on sale of assets, net	--	185	45
Gain on insurance settlement	(910)	--	--
Depreciation and amortization	18,558	11,921	13,212
Amortization of prior service costs related to pension plan	318	253	--
Amortization of above and below market lease	637	--	--
Amortization of deferred financing costs	1,235	--	--
Amortization of straight-line rent	1,459	--	--
Stock based compensation expense	1,976	994	284
Minority interest	620	1,003	672
Changes in assets and liabilities:			
(Increase) decrease in receivables	(3,152)	1,377	(556)
(Increase) decrease in prepaid and other assets	784	(1,753)	(1,914)
Increase in payable and accrued liabilities	4,677	307	1,108
Increase (decrease) in film rent payable	4,856	(1,631)	(103)
Increase in deferred revenues and other liabilities	6,562	2,121	1,442
Net cash provided by operating activities	24,315	13,284	11,909
Investing Activities			
Proceeds from sale of unconsolidated joint venture	3,267	--	4,573
Acquisitions of real estate and leasehold interests	(51,746)	(20,633)	(8,087)
Acquisition deposit	2,000	(2,000)	--
Purchases of and additions to property and equipment	(23,420)	(21,781)	(8,302)
Investment in Reading International Trust I	--	(1,547)	--
Distributions of investment in unconsolidated joint ventures and entities	311	2,445	--
Investment in unconsolidated joint ventures and entities	(372)	--	(2,676)
(Increase) decrease in restricted cash	(1,852)	981	(844)
Option proceeds related to property held for sale	1,363	--	--
Purchases of marketable securities	--	(15,651)	(8,109)
Sale of marketable securities	--	19,900	--
Proceeds from insurance settlement	910	--	--
Net cash used in investing activities	(69,539)	(38,286)	(23,445)

Financing Activities			
Repayment of long-term borrowings	(9,414)	(57,560)	(6,242)
Proceeds from borrowings	74,734	97,632	19,274
Capitalized borrowing costs	(3,581)	(2,334)	(223)
Option deposit received	--	--	3,000
Proceeds from exercise of stock options	--	25	88
Repurchase of Class A Nonvoting Common Stock	--	--	(791)
Proceeds from contributions to minority interest	--	50	--
Minority interest distributions	(1,585)	(3,870)	(1,167)
Net cash provided by financing activities	60,154	33,943	13,939
Effect of exchange rate on cash	(4,838)	833	57
Increase in cash and cash equivalents	10,092	9,774	2,460
Cash and cash equivalents at beginning of year	20,782	11,008	8,548
Cash and cash equivalents at end of year	$ 30,874	$ 20,782	$ 11,008
Supplemental Disclosures			
Cash paid during the period for:			
Interest on borrowings	$ 18,018	$ 12,389	$ 8,731
Income taxes	$ 319	$ 282	$ 585
Non-Cash Transactions			
Note payable due to Seller issued for acquisition (Note 12)	14,750	--	--
Increase (decrease) in cost basis of Cinemas 1, 2 & 3 related to the purchase price adjustment of the call option liability to a related party	--	(2,100)	1,087
Adjustment to retained earnings related to adoption of FIN 48 (Note 10)	--	509	--
Decrease in deposit payable and increase in minority interest liability related to the exercise of the Cinemas 1, 2 & 3 call option by a related party (Note 15)	--	(3,000)	--
Decrease in call option liability and increase in additional paid in capital related to the exercise of the Cinemas 1, 2 & 3 call option by a related party (Note 15)	--	(2,512)	--
Accrued addition to property and equipment	--	385	--

See accompanying notes to consolidated financial statements.

Table of Contents

Reading International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2008

Note 1 – Nature of Business

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"). Our businesses consist primarily of:

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

- the development, ownership, and operation of retail and commercial real estate in Australia, New Zealand, and the United States.

Note 2 – Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of RDI and its subsidiaries include the accounts of CDL, RDGE and CRG. Also consolidated are Angelika Film Center LLC ("AFC"), in which we own a 50% controlling membership interest and whose only asset is the Angelika Film Center in Manhattan; Australia Country Cinemas Pty, Limited ("ACC"), a company in which we own a 75% interest, and whose only assets are our leasehold cinemas in Townsville and Dubbo, Australia; and the Elsternwick Classic, an unincorporated joint venture in which we own a 66.6% interest and whose only asset is the Elsternwick Classic cinema in Melbourne, Australia.

With the exception of one other investment, we have concluded that all other investment interests are appropriately accounted for as unconsolidated joint ventures and entities, and accordingly, our unconsolidated joint ventures and entities in 20% to 50% owned companies are accounted for on the equity method. These investment interests include our

- 33.3% undivided interest in the unincorporated joint venture that owns the Mt. Gravatt cinema in a suburb of Brisbane, Australia;

- our 25% undivided interest in the unincorporated joint venture that owns 205-209 East 57th Street Associates, LLC (Place 57) a limited liability company formed to redevelop our former cinema site at 205 East 57th Street in Manhattan;

- our 33.3% undivided interest in Rialto Distribution, an unincorporated joint venture engaged in the business of distributing art film in New Zealand and Australia; and

- our 50% undivided interest in the unincorporated joint venture that owns Rialto Cinemas.

We also had, at December 31, 2008, an 18% direct undivided interest and an additional 11.3% indirect interest in a private real estate company. We have been in contact with Malulani Investments, Limited ("MIL") and requested quarterly or annual operating financials. To date, MIL has not responded to our request for relevant financial information (see Note 19 – Commitments and Contingencies). Based on this situation, we do not believe that we can assert significant influence over the dealings of this entity. As such and in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 35 – Criteria for Applying the Equity Method of Accounting for Investments in Common Stock – an Interpretation of APB Opinion No. 18, we are treating this investment on a cost basis by recognizing earnings as they are distributed to us. As of March 11, 2009, we sold that interest. (See Note 27 – Subsequent Events)

Accounting Principles

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Table of Contents

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents for which cost approximates fair value.

Receivables

Our receivables balance is composed primarily of credit card receivables, representing the purchase price of tickets or coupon books sold at our various businesses. Sales charged on customer credit cards are collected when the credit card transactions are processed. The remaining receivables balance is primarily made up of the goods and services tax ("GST") refund receivable from our Australian taxing authorities and the management fee receivable from the managed cinemas. We have no history of significant bad debt losses and we establish an allowance for accounts that we deem uncollectible.

Inventory

Inventory is composed of concession goods used in theater operations and is stated at the lower of cost (first-in, first-out method) or net realizable value.

Investment in Marketable Securities

We account for investments in marketable debt and equity securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). Our investment in Marketable Securities includes equity instruments that are classified as available for sale and are recorded at market using the specific identification method. In accordance with SFAS No. 115, available for sale securities are carried at their fair market value and any difference between cost and market value is recorded as unrealized gain or loss, net of income taxes, and is reported as accumulated other comprehensive income in the consolidated statement of stockholders' equity. Premiums and discounts of debt instruments are recognized in interest income using the effective interest method. Realized gains and losses and declines in value expected to be other-than-temporary on available for sale securities are included in other expense. We evaluate our available for sale securities for other than temporary impairments at the end of each reporting period. During 2008 and 2007, we realized losses of $607,000 and $779,000, respectively, on certain marketable securities due to an other than temporary decline in market price. There were no unrealized gains or losses during 2006. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available for sale are included in interest income.

Restricted Cash

We classify restricted cash as those cash accounts for which the use of funds is restricted by contract or bank covenant. At December 31, 2008, our restricted cash balance was $1.7 million, which was primarily funds held in escrow for the renovation of one of our cinemas.

Fair Value of Financial Instruments

The carrying amounts of our cash and cash equivalents, restricted cash and accounts payable approximate fair value due to their short-term maturities. See Note 16 – Fair Value of Financial Instruments.

Derivative Financial Instruments

In accordance with SFAS No. 133 - Accounting for Derivative Instruments and Hedging Activities, as subsequently amended by SFAS No. 138 - Accounting for Certain Derivative Instruments and Certain Hedging Activities an Amendment of SFAS No. 133, we carry all derivative financial instruments on our Consolidated Balance Sheets at fair value. Derivatives are generally executed for interest rate management purposes but are not designated as hedges in accordance with SFAS No. 133 and SFAS No. 138. Therefore, changes in market values are recognized in current earnings.

Table of Contents

Property Held for Development

Property held for development consists of land (including land acquisition costs) initially acquired for the potential development of multiplex cinemas and/or ETRC's. Property held for development is carried at cost. At the time construction of the related multiplex cinema, ETRC, or other development commences, the property is transferred to "property under development."

Property Under Development

Property under development consists of land, new buildings and improvements under development, and their associated capitalized interest and other development costs. These building and improvement costs are directly associated with the development of potential cinemas (whether for sale or lease), the development of ETRC locations, or other improvements to real property. Start-up costs (such as pre-opening cinema advertising and training expense) and other costs not directly related to the acquisition and development of long-term assets are expensed as incurred. We cease capitalization on a development property when the property is complete and ready for its intended use, or if activities necessary to get the property ready for its intended use have been suspended.

Incident to the development of our Burwood property, in late 2006, we began various fill and earth moving operations. In late February 2007, it became apparent that our cost estimates with respect to site preparation were low, as the extent of the contaminated soil present at the site, former brickworks, was greater than we had originally believed. As we were not the source of this contamination, we are not currently under any legal obligation to remove this contaminated soil from the site. However, as a practical matter, we intend to address these issues in connection with our planned redevelopment of the site as a mixed-use retail, entertainment, commercial and residential complex. As of 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. In accordance with Emerging Issues Task Force (EITF) 90-8, Capitalization of Costs to Treat Environmental Contamination, contamination clean up costs that improve the property from its original acquisition state are capitalized as part of the property's overall development costs.

Property and Equipment

Property and equipment consists of land, buildings and improvements, leasehold improvements, fixtures and equipment. With the exception of land, property and equipment is carried at cost and depreciated over the useful lives of the related assets. In accordance with US GAAP, land is not depreciated.

Construction-in-Progress Costs

Construction-in-progress includes costs associated with already existing buildings, property, furniture and fixtures for which we are in the process of improving the site or its associated business assets.

Accounting for the Impairment of Long Lived Assets

We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is then measured by a comparison of the carrying amount to the future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. We recorded impairment losses of approximately $6.1 million relating to certain of our property under development, property held for development, and cinema locations for the year ended December 31, 2008. Our impairment calculations contain uncertainties and use significant estimates and judgments, and are based on the information available at the balance sheet date. Future economic and other events could negatively impact the evaluation and future material impairment charges may become necessary. We evaluate impairment for our joint venture investments using a discounted cash flow analysis in accordance with APB 18.

Goodwill and Intangible Assets

We use the purchase method of accounting for all business combinations. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead, tested for impairment at least annually. Prior to conducting our goodwill impairment analysis, we assess long-lived assets for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets ("SFAS No. 144"). We then perform the impairment analysis at the reporting unit level (one level below the operating segment level) (see Note 10 – Goodwill and Intangibles) as defined by SFAS No. 142. This analysis requires management to make a series of critical assumptions to: (1) evaluate whether any impairment exists; and (2) measure the amount of impairment. We estimate the fair value of our reporting units as compared with their estimated book value. If the estimated fair value of a reporting unit is less than the book value, then impairment is deemed to have occurred. In estimating the fair value of our reporting units, we primarily use the income approach (which uses forecasted, discounted cash flows to estimate the fair value of the reporting unit).

Discontinued Operations and Properties Held for Sale

In accordance with SFAS No. 144, the revenues, expenses and net gain on dispositions of operating properties and the revenues and expenses on properties classified as held for sale are reported in the consolidated statements of operations as discontinued operations for all periods presented through the date of the respective disposition. The net gain (loss) on disposition is included in the period the property is sold. In determining whether the income and loss and net gain on dispositions of operating properties is reported as discontinued operations, we evaluate whether we have any significant continuing involvement in the operations, leasing or management of the sold property in accordance with Emerging Issues Task Force Issue No. 03-13, Applying the Conditions in Paragraph 42 of Statement No. 144 in Determining Whether to Report Discontinued Operations. If we were to determine that there was any significant continuing involvement, the income and loss and net gain on dispositions of the operating property would not be recorded in discontinued operations.

A property is classified as held for sale when certain criteria, as set forth under SFAS No. 144, are met. At such time, we present the respective assets and liabilities related to the property held for sale separately on the balance sheet and ceases to record depreciation and amortization expense. Properties held for sale are reported at the lower of their carrying value or their estimated fair value less the estimated costs to sell. We had one property in Australia classified as held for sale as of December 31, 2008.

Revenue Recognition

Revenue from cinema ticket sales and concession sales are recognized when sold. Revenue from gift certificate sales is deferred and recognized when the certificates are redeemed. Rental revenue is recognized on a straight-line basis in accordance with SFAS No. 13 – Accounting for Leases.

Deferred Leasing/Financing Costs

Direct costs incurred in connection with obtaining tenants and/or financing are amortized over the respective term of the lease or loan on a straight-line basis. Direct costs incurred in connection with financing are amortized over the respective term of the loan utilizing the effective interest method, or straight-line method if the result is not materially different. In addition, interest on loans with increasing interest rates and scheduled principal pre-payments are also recognized on the effective interest method.

General and Administrative Expenses

For the years ended December 31, 2008, 2007, and 2006, we booked gains on the settlement of litigation of $2.5 million, $523,000, and $900,000, respectively, included in other income as a recovery of legal expenses included in general and administrative expenses.

Depreciation and Amortization

Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are generally as follows:

Building and improvements	15-40 years
Leasehold improvement	Shorter of the life of the lease or useful life of the improvement
Theater equipment	7 years
Furniture and fixtures	5 – 10 years

Table of Contents

Translation of Non-U.S. Currency Amounts

The financial statements and transactions of our Australian and New Zealand cinema and real estate operations are reported in their functional currencies, namely Australian and New Zealand dollars, respectively, and are then translated into U.S. dollars. Assets and liabilities of these operations are denominated in their functional currencies and are then translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average exchange rate for the reporting period. Translation adjustments are reported in "Accumulated Other Comprehensive Income," a component of Stockholders' Equity.

The carrying value of our Australian and New Zealand assets fluctuates due to changes in the exchange rate between the U.S. dollar and the Australian and New Zealand dollars. The exchange rates of the U.S. dollar to the Australian dollar were $0.6983 and $0.8776 as of December 31, 2008 and 2007, respectively. The exchange rates of the U.S. dollar to the New Zealand dollar were $0.5815 and $0.7678 as of December 31, 2008 and 2007, respectively.

Earnings per Share

Basic earnings per share is calculated using the weighted average number of shares of Class A and Class B Stock outstanding during the years ended December 31, 2008, 2007, and 2006, respectively. Diluted earnings per share is calculated by dividing net earnings available to common stockholders by the weighted average common shares outstanding plus the dilutive effect of stock options and unvested restricted stock. We had unissued restricted stock of 119,869 shares as of the year ended December 31, 2008 and stock options to purchase 577,850, 577,850, and 514,100 shares of Class A Common Stock were outstanding at December 31, 2008, 2007, and 2006, respectively, at a weighted average exercise price of $5.60, $5.60, and $5.21 per share, respectively. Stock options to purchase 185,100 shares of Class B Common Stock were outstanding at each of the years ended December 31, 2008, 2007, and 2006 at a weighted average exercise price of $9.90 per share. In accordance with SFAS No. 128 – Earnings Per Share, as we had recorded a loss from continuing operations before discontinued operations for the years ended December 31, 2008 and 2007, the effect of the stock options and restricted stock was anti-dilutive and accordingly excluded from the earnings per share computation.

Real Estate Purchase Price Allocation

We allocate the purchase price to tangible assets of an acquired property (which includes land, building and tenant improvements) based on the estimated fair values of those tangible assets assuming the building was vacant. Estimates of fair value for land are based on factors such as comparisons to other properties sold in the same geographic area adjusted for unique characteristics. Estimates of fair values of buildings and tenant improvements are based on present values determined based upon the application of hypothetical leases with market rates and terms.

We record above-market and below-market in-place lease values for acquired properties based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease. We amortize any capitalized above-market lease values as a reduction of rental income over the remaining non-cancelable terms of the respective leases. We amortize any capitalized below-market lease values as an increase to rental income over the initial term and any fixed-rate renewal periods in the respective leases.

We measure the aggregate value of other intangible assets acquired based on the difference between (i) the property valued with existing in-place leases adjusted to market rental rates and (ii) the property valued as if vacant. Management's estimates of value are made using methods similar to those used by independent appraisers (e.g., discounted cash flow analysis). Factors considered by management in its analysis include an estimate of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing, and leasing activities in estimating the fair value of the tangible and intangible assets acquired. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods. Management also estimates costs to execute similar leases including leasing commissions, legal, and other related expenses to the extent that such costs are not already incurred in connection with a new lease origination as part of the transaction.

The total amount of other intangible assets acquired is further allocated to in-place lease values and customer relationship intangible values based on management's evaluation of the specific characteristics of each tenant's lease and our overall relationship with that respective tenant. Characteristics considered by management in allocating these values include the nature and extent of our existing business relationships with the tenant, growth prospects for developing new business with the tenant, the tenant's credit quality and expectations of lease renewals (including those existing under the terms of the lease agreement), among other factors.

We amortize the value of in-place leases to expense over the initial term of the respective leases. The value of customer relationship intangibles is amortized to expense over the initial term and any renewal periods in the respective leases, but in no event may the amortization period for intangible assets exceed the remaining depreciable life of the building. Should a tenant terminate its lease, the unamortized portion of the in-place lease value and customer relationship intangibles would be charged to expense.

These assessments have a direct impact on net income and revenues. If we assign more fair value to the in-place leases versus buildings and tenant improvements, assigned costs would generally be depreciated over a shorter period, resulting in more depreciation expense and a lower net income on an annual basis. Likewise, if we estimate that more of our leases in-place at acquisition are on terms believed to be above the current market rates for similar properties, the calculated present value of the amount above market would be amortized monthly as a direct reduction to rental revenues and ultimately reduce the amount of net income.

Business Acquisition Valuations under SFAS No. 141

The assets and liabilities of businesses acquired are recorded at their respective preliminary fair values as of the acquisition date in accordance with SFAS No. 141 - Business Combinations. We obtain third-party valuations of material property, plant and equipment, intangible assets, debt and certain other assets and liabilities acquired. We also perform valuations and physical counts of property, plant and equipment, valuations of investments and the involuntary termination of employees, as necessary. Costs in excess of the net fair values of assets and liabilities acquired is recorded as goodwill.

We record and amortize above-market and below-market operating leases assumed in the acquisition of a business in the same way as those under real estate acquisitions.

The fair values of any other intangible assets acquired are based on the expected discounted cash flows of the identified intangible assets. Finite-lived intangible assets are amortized using the straight-line method of amortization over the expected period in which those assets are expected to contribute to our future cash flows. We do not amortize indefinite lived intangibles and goodwill.

Fair Value of Financial Instruments

Effective January 1, 2008, we adopted SFAS No. 157, Fair Value Measurements ("SFAS No. 157"), on a prospective basis, as amended by FASB Staff Position (FSP) SFAS No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 ("FSP SFAS 157-1") and FSP SFAS No. 157-2, Effective Date of FASB Statement No. 157 ("FSP SFAS 157-2"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and provides for expanded disclosure about fair value measurements. SFAS No. 157 applies prospectively to all other accounting pronouncements that require or permit fair value measurements. FSP SFAS 157-1 amends SFAS No. 157 to exclude from the scope of SFAS No. 157 certain leasing transactions accounted for under SFAS No. 13, Accounting for Leases. FSP SFAS 157-2 amends SFAS No. 157 to defer the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities except those that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008. In addition, effective for the third quarter of 2008, we adopted FSP 157-3 Determining the Fair

Value of a Financial Asset When the Market for That Asset Is Not Active ("FSP SFAS 157-3"). FSP SFAS 157-3 clarifies the application of SFAS No. 157 to financial instruments in an inactive market. The adoption of SFAS No. 157 and FSP SFAS 157-3 did not have a material impact on our consolidated financial statements since we generally do not record our financial assets and liabilities in our consolidated financial statements at fair value.

Effective January 1, 2008, we also adopted, on a prospective basis, SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The adoption of SFAS No. 159 did not have a material impact on our consolidated financial statements since we elected not to apply the fair value option for any of our eligible financial instruments or other items.

Table of Contents

The fair value of our financial assets and liabilities are disclosed in Note 16 – Fair Value of Financial Instruments to our consolidated financial statements. We generally determine or calculate the fair value of financial instruments using quoted market prices in active markets when such information is available or using appropriate present value or other valuation techniques, such as discounted cash flow analyses, incorporating available market discount rate information for similar types of instruments while estimating for non-performance and liquidity risk. These techniques are significantly affected by the assumptions used, including the discount rate, credit spreads, and estimates of future cash flow.

The financial assets and liabilities recorded at fair value in our consolidated financial statements are marketable securities and interest rate swaps. The carrying amounts of our cash and cash equivalents, restricted cash and accounts payable approximate fair value due to their short-term maturities. The remaining financial assets and liabilities which are only disclosed at fair value are comprised of notes payable, trust preferred securities, and other debt instruments. We estimated the fair value of our secured mortgage notes payable, our unsecured notes payable, trust preferred securities, and other debt instruments by performing discounted cash flow analyses using an appropriate market discount rate. We calculated the market discount rate by obtaining period-end treasury rates for fixed-rate debt, or LIBOR rates for variable-rate debt, for maturities that correspond to the maturities of our debt adding an appropriate credit spreads derived from information obtained from third-party financial institutions. These credit spreads take into account factors such as our credit standing, the maturity of the debt, whether the debt is secured or unsecured, and the loan-to-value ratios of the debt.

We will adopt SFAS No. 157 for our non-financial assets and non-financial liabilities on January 1, 2009 in accordance with FSP SFAS 157-2. We believe the adoption of SFAS No. 157 relating to our non-financial assets and liabilities will not have a material impact to our consolidated financial statements. Assets and liabilities typically recorded at fair value on a non-recurring basis to which SFAS No. 157 will be applied on January 1, 2009 include:

- Non-financial assets and liabilities initially measured at fair value in an acquisition or business combination;
- Long-lived assets measured at fair value due to an impairment assessment under SFAS No. 144; and
- Asset retirement obligations initially measured under SFAS No. 143, Accounting for Asset Retirement Obligations

Recent Accounting Pronouncements

SFAS No. 141(R) and No. 160

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations ("SFAS No. 141(R)") and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51 ("SFAS No. 160"). SFAS No. 141(R) requires an acquiring entity to recognize acquired assets and assumed liabilities in a transaction at fair value as of the acquisition date and changes the accounting treatment for certain items, including acquisition costs, which will be required to be expensed as incurred. SFAS No. 160 requires that noncontrolling interests be presented as a component of consolidated stockholders' equity and eliminates "minority interest accounting" such that the amount of net income attributable to the noncontrolling interests will be presented as part of consolidated net income on the consolidated statement of operations. SFAS No. 141(R) and SFAS No. 160 require concurrent adoption and are to be applied prospectively for the first annual reporting period beginning on or after December 15, 2008. Early adoption of either standard is prohibited. Management believes that these statements may have a material impact on the Company's consolidated balance sheet, results of operations, cash flows, or statements of shareholders' equity.

FSP EITF No. 03-6-1

In June 2008, the FASB issued FSP EITF No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities ("FSP EITF No. 03-6-1"). This new standard requires that nonvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents be treated as participating securities in the computation of earnings per share pursuant to the two-class method. We believe that FSP EITF No. 03-6-1 will not have a material impact on our consolidated financial statements and results of operations. FSP EITF No. 03-6-1 will be applied retrospectively to all periods presented for fiscal years beginning after December 15, 2008.

Table of Contents

SFAS No. 161

In March 2008, the Financial Accounting Standards Board issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (“SFAS No. 161”). This new standard enhances disclosure requirements for derivative instruments in order to provide users of financial statements with an enhanced understanding of (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. SFAS No. 161 is to be applied prospectively for the first annual reporting period beginning on or after November 15, 2008. We believe that the adoption of SFAS No. 161 will not have a material impact on our consolidated financial statement disclosures since we solely have interest rate swap agreements not formally designated as cash flow hedges at the inception of the derivative contract.

FSP 142-3

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets (“FSP 142-3”). FSP 142-3 is to be applied prospectively for fiscal years beginning after December 15, 2008. We are currently evaluating the impact of FSP 142-3 on our consolidated financial position, results of operations and cash flows but currently do not believe it will have a material impact on our consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Note 3 – Stock Based Compensation and Employee Stock Option Plan

Stock Based Compensation

As part of his compensation package, Mr. James J. Cotter, our Chairman of the Board and Chief Executive Officer, was granted $500,000, $350,000, and $250,000 of restricted Class A Non-Voting Common Stock for each of the years ending December 31, 2008, 2007 and 2006. The 2008 stock grant of 66,050 shares was granted fully vested with a stock grant price of $7.57. The 2007 and 2006 stock grants each have a vesting period of two years, a stock grant price of $9.99 and $8.26, respectively; and no total unrealized gain in market value at December 31, 2008. During the year ended December 31, 2008, one-half of his 2007 and one-half of his 2006 stock grants vested representing 17,518 and 15,133 shares, respectively, of Class A Non-Voting Common Stock with stock grant prices of $9.99 and $8.26 per share and fair market values of $69,000 and $60,000, respectively. As of December 31, 2008, these shares had not yet been issued to Mr. Cotter. At December 31, 2007, in recognition of the vesting of one-half of his 2006 and one-half of his 2005 stock grants, we issued to Mr. Cotter 15,133 and 16,047 shares, respectively, of Class A Non-Voting Common Stock, which had a stock grant price of $8.26 and $7.79 per share and fair market values of $151,000 and $160,000, respectively.

On August 21, 2008, as part of their executive compensation, 37,388 shares of fully vested restricted Class A Non-Voting Common Stock were granted to three of our executives as stock bonuses having a grant date fair value of $340,000. As of December 31, 2008, these shares had yet to be issued to them and the executives had the option to accept the shares or to receive a reduced cash payment in lieu of shares.

As part of his compensation package, Mr. John Hunter, our Chief Operating Officer, was granted $100,000 of restricted Class A Non-Voting Common Stock on February 12, 2008 and 2007 in the amounts of 10,309 and 11,587 shares, respectively. These stock grants have vesting periods of two years and stock grant prices of $9.70 and $8.63, respectively. On February 11, 2008, $50,000 of restricted Class A Non-Voting Common Stock vested related to Mr. Hunter's 2007 grant. As of December 31, 2008, 5,794 shares related to this vesting have yet to be issued to him. In July 2008, Mr. Jay Laifman started with the Company as our Corporate General Counsel. As part of his compensation package, Mr. Laifman was granted $100,000 of Class A Non-Voting Common Stock or 10,638 shares with stock grant price of $9.40 upon acceptance of his employment agreement. This stock grant has a vesting period of two years.

Table of Contents

During the years ended December 31, 2008, 2007 and 2006, we recorded compensation expense of $896,000, $238,000, and $188,000, respectively, for the vesting of all our restricted stock grants. The following table details the grants and vesting of restricted stock to our employees (dollars in thousands):

	Non-Vested Restricted Stock	Weighted Average Fair Value at Grant Date
Outstanding – January 1, 2006	32,094	$ 250
Granted	30,266	250
Vested	(16,047)	(188)
Outstanding – December 31, 2006	46,313	312
Granted	46,623	450
Vested	(31,180)	(238)
Outstanding – December 31, 2007	61,756	524
Granted	124,385	1,040
Vested	(152,520)	(990)
Outstanding – December 31, 2008	33,621	$ 574

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

Using our LPP investment vehicle, we acquired or entered into agreements to acquire four parcels in Taringa, Brisbane, Australia during 2008, acquired the two properties called the Lake Taupo Motel and the Manukau property during 2007 in New Zealand, and acquired one property in Indooroopilly, Brisbane, Australia during 2006. With the purchase of these properties, based on SFAS No. 123(R), we calculated the fair value of Mr. Osborne's equity interest in our various trusts to be $117,000 and $237,000 at December 31, 2008 and 2007, respectively. During the years ended December 31, 2008, 2007, and 2006, we expensed ($59,000), $214,000, and $14,000, respectively, associated with Mr. Osborne's interests. At December 31, 2008, the total unrecognized compensation expense related to the LPP equity awards was $229,000, which is expected to be recognized over the remaining weighted average period of approximately 27.0 months.

Employee Stock Option Plan

We have a long-term incentive stock option plan that provides for the grant to eligible employees and non-employee directors of incentive stock options and non-qualified stock options to purchase shares of the Company's Class A Nonvoting Common Stock. For the stock options exercised during the year ending December 31, 2007, we issued for cash to an employee of the corporation under this stock based compensation plan, 6,250 shares of Class A Nonvoting Common Stock at an exercise price of $4.01, and, for the stock options exercised during the year ending December 31, 2006, 12,000 shares and 15,000 shares of Class A Nonvoting Common Stock were issued at exercise prices of $3.80 and $2.76 per share, respectively. During the year ending December 31, 2008, we did not issue any shares under this stock based compensation plan.

Effective January 1, 2006, we adopted SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)) which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such costs be measured at the fair value of the award. This statement was adopted using the modified prospective method, which requires that we recognize compensation expense on a prospective basis for all newly granted options and any modifications or cancellations of previously granted awards. Therefore, prior period consolidated financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based payment awards, modifications to awards, and cancellations of awards, expense is also recognized to reflect the remaining vesting period of awards that

Table of Contents

had been included in pro-forma disclosures in prior periods. We estimate the valuation of stock based compensation using a Black-Scholes option pricing formula.

When our tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. SFAS No. 123(R) requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. Had we previously adopted SFAS No. 123(R), there would have been no impact on our presentation of the consolidated statement of cash flows because there were no recognized tax benefits relating to the year ended December 31, 2005. For the years ended December 31, 2008, 2007, and 2006, there was also no impact to the consolidated statements of cash flows because there were no recognized tax benefits during these periods.

SFAS No. 123(R) requires companies to estimate forfeitures. Based on our historical experience, we did not estimate any forfeitures for the granted options during the years ended December 31, 2008, 2007 and 2006.

In November 2005, the FASB issued FSP SFAS No. 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards. The Company has elected to adopt the alternative transition method provided in this FSP for calculating the tax effects of share-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool or APIC pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R).

In accordance with SFAS No. 123(R), we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility, and the expected life of the options. The dividend yield is excluded from the calculation, as it is our present intention to retain all earnings. We estimated the expected stock price volatility based on our historical price volatility measured using daily share prices back to the inception of the Company in its current form beginning on December 31, 2001. We estimate the expected option life based on our historical share option exercise experience during this same period. We expense the estimated grant date fair values of options issued on a straight-line basis over the vesting period.

No options were granted during 2008. For the 301,250 and 20,000 options granted during 2007 and 2006, respectively, we estimated the fair value of these options at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006
Stock option exercise price	\$8.35 – \$10.30	\$ 8.10
Risk-free interest rate	4.636 – 4.824%	4.22%
Expected dividend yield	--	--
Expected option life	9.60 – 9.96 yrs	5.97 yrs
Expected volatility	33.64 – 45.47%	34.70%
Weighted average fair value	\$ 4.42 – \$4.82	\$ 4.33

Using the above assumptions and in accordance with the SFAS No. 123(R) modified prospective method, we recorded \$640,000, \$756,000 and \$98,000 in compensation expense for the total estimated grant date fair value of stock options that vested during the years ended December 31, 2008, 2007, and 2006, respectively. The effect on earnings per share of the compensation charge was \$0.03, \$0.03, and less than \$0.01 per share for the years ended December 31, 2008, 2007, and 2006, respectively. At December 31, 2008 and 2007, the total unrecognized estimated compensation cost related to non-vested stock options granted was \$236,000 and \$876,000, respectively, which is expected to be recognized over a weighted average vesting period of 0.52 and 1.27 years, respectively. No options were exercised in

2008. The total realized value of stock options exercised during the years ended December 31, 2007 and 2006 was $37,000, and $136,000, respectively. The grant date fair value of options that vested during the years ending December 31, 2007 and 2006 was $55,000 and $199,000, respectively. We recorded cash received from stock options exercised of $25,000 and $88,000 during the years ended December 31, 2007 and 2006, respectively. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at December 31, 2008 and 2007 was $177,000 and $2.5 million, respectively, of which 100.0% and 98.7%, respectively, were currently exercisable.

All stock options granted have a contractual life of 10 years at the grant date. The aggregate total number of shares of Class A Nonvoting Common Stock and Class B Voting Common Stock authorized for issuance under our 1999 Stock Option Plan is 1,287,150. At the time that options are exercised, at the discretion of management, we will either

Table of Contents

issue treasury shares or make a new issuance of shares to the employee or board member. Dependent on the grant letter to the employee or board member, the required service period for option vesting is between zero and four years.

We had the following stock options outstanding and exercisable:

	Common Stock Options Outstanding		Weighted Average Exercise Price of Options Outstanding		Common Stock Exercisable Options		Weighted Average Price of Exercisable Options	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Outstanding- January 1, 2006	521,100	185,100	$ 5.00	$ 9.90	474,600	185,100	$ 5.04	$ 9.90
Granted	20,000	--	$ 8.10	$ --				
Exercised	(27,000)	--	$ 3.22	$ --				
Outstanding-December 31, 2006	514,100	185,100	$ 5.21	$ 9.90	488,475	185,100	$ 5.06	$ 9.90
Granted	151,250	150,000	$ 9.37	$ 10.24				
Exercised	(6,250)	--	$ 4.01	$ --				
Expired	(81,250)	(150,000)	$ 10.25	$ 10.24				
Outstanding-December 31, 2007	577,850	185,100	$ 5.60	$ 9.90	477,850	35,100	$ 4.72	$ 8.47
No activity during the period	--	--	$ --	$ --				
Outstanding-December 31, 2008	577,850	185,100	$ 5.60	$ 9.90	525,350	110,100	$ 5.19	$ 9.67

The weighted average remaining contractual life of all options outstanding, vested and expected to vest, at December 31, 2008 and 2007 were approximately 5.22 and 6.22 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at December 31, 2008 and 2007 was approximately 4.61 and 4.74, respectively.

Note 4 – Earnings (Loss) Per Share

For the three years ended December 31, 2008, we calculated the following earnings (loss) per share (dollars in thousands, except per share amounts):

	2008	2007	2006
Income (loss) from continuing operations	$ (19,097)	$ (3,996)	$ 4,105
Income from discontinued operations	562	1,893	(249)
Net income (loss)	(18,535)	(2,103)	3,856
Weighted average shares of common stock – basic	22,477,471	22,478,145	22,425,941
Weighted average shares of common stock – diluted	22,477,471	22,478,145	22,674,818
Earnings (loss) per share:			
Earnings (loss) from continuing operations – basic and diluted	$ (0.84)	$ (0.18)	$ 0.18
Earnings (loss) from discontinued operations – basic and diluted	$ 0.02	$ 0.09	$ (0.01)
Earnings (loss) per share – basic and diluted	$ (0.82)	$ (0.09)	$ 0.17

For the year ended December 31, 2006, the weighted average common stock – dilutive only included 248,877 of exercisable stock options. For the years ended December 31, 2008 and 2007, we recorded losses from continuing operations. As such, the incremental shares of 152,520 shares of restricted Class A Non-Voting Common Stock and 233,760 of exercisable stock options in 2008 and the 278,376 of exercisable stock options in 2007 were excluded from the computation of diluted loss per share because they were anti-dilutive in those periods.

Table of Contents

Note 5 – Prepaid and Other Assets

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

	December 31, 2008	December 31, 2007
Prepaid and other current assets		
Prepaid expenses	$ 518	$ 569
Prepaid taxes	546	602
Deposits	307	2,097
Other	953	532
Total prepaid and other current assets	$ 2,324	$ 3,800
Other non-current assets		
Other non-cinema and non-rental real estate assets	$ 1,140	$ 1,270
Long-term restricted cash	209	--
Deferred financing costs, net	5,773	2,805
Interest rate swap	--	526
Other receivables	1,586	1,648
Pre-acquisition costs	--	948
Other	593	787
Total non-current assets	$ 9,301	$ 7,984

Note 6 – Property Under Development

Property under development is summarized as follows (dollars in thousands):

Property Under Development	December 31, 2008	December 31, 2007
Land	$ 26,962	$ 36,994
Construction-in-progress (including capitalized interest)	31,633	29,793
Property Under Development	$ 58,595	$ 66,787

The amount of capitalized interest for our properties under development was $5.7 million, $4.4 million, and $1.8 million for the three years ending December 31, 2008, 2007, and 2006, respectively. Subsequent to the year-ended December 31, 2008, we decided to substantially halt our current development progress on certain Australian land development projects. As a result, we will no longer capitalize interest for these projects until the development work recommences. In addition, during the fourth quarter of 2008, we recorded an impairment expense relating to these projects and a New Zealand property totaling $4.0 million as reported in our real estate segment operating income. The impairments are primarily related to the impact of the fourth quarter economic downturn in the Australian economy.

Note 7 – Property and Equipment

Property and equipment is summarized as follows (dollars in thousands):

Property and Equipment	December 31, 2008	December 31, 2007
Land	$ 49,885	$ 51,242

Building and improvements	77,660	96,321
Leasehold interests	30,994	12,171
Construction-in-progress	487	1,318
Fixtures and equipment	60,011	55,658
Total cost	219,037	216,710
Less accumulated depreciation	(65,872)	(62,698)
Property and equipment, net	$ 153,165	$ 154,012

Table of Contents

Depreciation expense for property and equipment was $15.6 million, $11.1 million, and $12.3 million, for the three years ending December 31, 2008, 2007, and 2006, respectively.

During the fourth quarter of 2008, the significant downturn in the New Zealand economy resulted in four of our cinemas requiring impairment charges aggregating $2.1 million as reported in our cinema segment operating income.

Note 8 – Acquisitions and Property Development

2008 Acquisitions and Property Development

Consolidated Entertainment Cinemas Acquisitions

In keeping with our business plan of being opportunistic in adding to our existing cinema portfolio, on February 22, 2008, we acquired 15 cinemas with 181 screens in Hawaii and California (the “Consolidated Entertainment” acquisition) from Pacific Theatres Exhibition Corp. and its affiliates (collectively, the “Sellers”) for $70.2 million. The purchase price was subsequently adjusted to $63.9 million as described below under post closing adjustments, which were applied to reduce the principal amount owed under financing provided by an affiliate of the Sellers (the “Nationwide Note 1”). The financing of the transaction included $48.4 million of debt from GE Capital, net of deferred financing costs of $1.6 million, a loan of $21.0 million as evidenced by the Nationwide Note 1, and $800,000 of cash from Reading (see Note 12 – Notes Payable for a more complete explanation of the GE debt and the Nationwide Note 1).

The theaters and assets are located in California and Hawaii. We acquired the theaters and other assets through certain special purpose entities formed by us for this purpose. The acquired assets consist primarily of the buildings and leasehold interests in fourteen of the theaters; a management agreement with the Sellers under which we will manage one other theater (but pursuant to which we effectively bear the risk and are entitled to the benefits associated with the ownership of that theater), and furniture, fixtures, equipment and miscellaneous inventory at the theaters. The theaters contain a total of 181 screens, which compares to 286 total screens owned or operated by us immediately prior to the acquisition. The leasehold interests have current terms ranging from approximately 2 to 12 years, subject in some cases to favorable renewal options. The management agreement relating to the managed theater is for a term of approximately 4 years and entitles us to a management fee equal to the cash flow of the theater.

The initial aggregate purchase price has now been adjusted down by $6.3 million to $63.9 million, and is subject to further additional adjustments based upon post-closing matters relating to the possible opening of competing theater projects in the vicinity of certain acquired theaters. These additional acquisition price reductions can range from $0 to as much as the full amount of the Nationwide Note 1 as adjusted to date, if all contingencies were met. Pursuant to the $6.3 million reduction in purchase price, the Nationwide Note 1 was correspondingly reduced by $6.3 million during the second quarter of 2008. The reduction in purchase price results in a permanent reduction in the original $21.0 million debt obligation to $14.7 million at December 31, 2008. This loan was subsequently increased in July 2008 by $3.0 million in accordance with the Sales and Purchase Agreement of Consolidated Entertainment (see Note 12 – Notes Payable).

During the fourth quarter of 2008, we finalized our estimates of the value of the assets and liabilities acquired from this acquisition in accordance with SFAS No. 141, Business Combinations. These fair value estimates of the cinema assets acquired have been allocated to the acquired tangible assets, identified intangible assets and liabilities, consisting of the value of above and below-market leases, if any, based in each case on their respective fair values at the date of acquisition. Goodwill was recorded to the extent the purchase price including certain acquisition and close costs exceeded the fair value estimates of the net acquired assets. Our finalized purchase price allocation is as follows:

Table of Contents

	Initial Allocation	Purchase Price and Allocation Adjustments	Final Allocation
Inventory	$ 271	$ --	$ 271
Prepaid assets	543	--	543
Property & Equipment:			
Leasehold improvements	32,303	(12,363)	19,940
Furniture and equipment	7,030	2,137	9,167
Intangibles:			
Trade name	7,220	--	7,220
Non-compete agreement	400	--	400
Below market leases	9,999	1,832	11,831
Goodwill	12,556	6,308	18,864
Trade payables	(123)	--	(123)
Above market leases	--	(4,164)	(4,164)
Total Purchase Price	$ 70,199	$ (6,250)	$ 63,949

The unaudited pro forma results, assuming the above noted acquisition had occurred as of January 1, 2007 for purposes of the 2008 and 2007 pro forma disclosures, are presented below. These unaudited pro forma results have been prepared for comparative purposes only and include certain adjustments, such as increased depreciation and amortization expenses as a result of tangible and intangible assets acquired in the acquisition, as well as higher interest expense as a result of the debt incurred to finance the acquisition. These unaudited pro forma results do not purport to be indicative of what operating results would have been had the acquisition occurred on January 1, 2007 and January 1, 2008, respectively, and may not be indicative of future operating results (dollars in thousands, except share data):

	2008	2007
Revenue	$ 195,631	$ 197,271
Operating income	(538)	925
Net loss from continuing operations	(15,898)	(14,109)
Basic and diluted loss per share from continuing operations	(0.71)	(0.63)
Weighted average number of shares outstanding – basic	22,477,471	22,478,145
Weighted average number of shares outstanding – dilutive	22,477,471	22,478,145

Taringa Land

During the first quarter of 2008, we have acquired or entered into agreements to acquire four contiguous properties of approximately 50,000 square feet, which we intend to develop. The aggregate purchase price of these properties is $9.8 million (AUS$13.7 million), of which $2.5 million (AUS$2.8 million) relates to the three properties that have been acquired and $7.6 million (AUS$10.9 million) relates to the one property that is under contract to be acquired. As part of the agreement to purchase the one property under contact, we paid a refundable deposit of $209,000 (AUS$300,000) associated with the purchase of one of these properties. Our obligation to close on the fourth property is subject to certain conditions (which we may waive) including a rezoning.

2007 Acquisitions and Property Development

New Zealand Property Acquisitions

On July 27, 2007, we purchased through a Reading Landplan property trust a 64.0 acre parcel of undeveloped agricultural real estate for approximately $9.3 million (NZ$12.1 million). We intend to rezone the property from its current agricultural use to commercial use, and thereafter to redevelop the property in accordance with its new zoning. No assurances can be given that such rezoning will be achieved, or if achieved, that it will occur in the near term.

On June 29, 2007, we acquired a commercial property for $5.9 million (NZ$7.6 million), rented to an unrelated third party, to be held for current income and long-term appreciation. We have completed our purchase price allocation for this property and the related acquired operating lease in accordance with SFAS 141 – Business Combinations. The initial purchase price allocation was based on the assets acquired from the seller. The purchase price allocation for this acquisition is $1.2 million (NZ$1.6 million) allocated to land and $4.7 million (NZ$6.1 million) allocated to building.

On February 14, 2007, we acquired, through a Reading Landplan property trust, a 1.0 acre parcel of commercial real estate for approximately $4.9 million (NZ$6.9 million). A portion of this property includes unimproved land that we do not intend to develop. This land was determined to have a fair value of $1.8 million (NZ$2.6 million) at the time of purchase and was previously included on our balance sheet as land held for sale. The remaining property and its cost basis of $3.1 million (NZ$4.3 million) was included in property under development. During 2008, this property was transferred from held for sale to held for future development and a write-down of $1.0 million to fair value was recognized at the date of transfer. The operating activities of the motel are not material. We have completed our purchase price allocation for this property in accordance with SFAS No. 141 - Business Combinations.

Cinemas 1, 2 & 3 Building

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

Tower Ground Lease

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

2006 Acquisitions and Property Development

Indooroopilly Land

On September 18, 2006, we purchased a 0.3 acre property for $1.8 million (AUS$2.3 million). We have obtained approval to develop the property to be a 28,000 square foot grade A commercial office building comprising six floors of office space and two basement levels of parking with 33 parking spaces. We expect to spend US$8 million (AUS$9.4 million) in development costs. We anticipate this project being completed by March 2009.

Moonee Ponds Land

On September 1, 2006, we purchased two parcels of land aggregating 0.4 acres adjacent to our Moonee Ponds property for $2.5 million (AUS$3.3 million). This acquisition increases our holdings at Moonee Ponds to 3.3 acres and gives us frontage facing the principal transit station servicing the area. We are now in the planning stages of determining best use depending on factors including development of adjacent properties. This property is zoned for high-density as a "Principal Activity Area."

Berkeley Cinemas

Additionally, effective April 1, 2006, we purchased from our Joint Venture partner the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand for cash of $2.6 million (NZ$4.1 million) and the proportionate share of assumed debt which amounted to $987,000 (NZ$1.6 million). This 8-screen, leasehold cinema had previously been included in our Berkeley Cinemas Joint Venture investment and was not previously consolidated for accounting purposes. We drew down $4.8 million (AUS$6.3 million) on our Australian Corporate Credit Facility to purchase the Palms cinema and to payoff its bank debt of $2.0 million (NZ$3.1 million). We have finalized the purchase price allocation of this acquisition, which resulted in a 50% step up in basis of assets acquired and liabilities assumed, in accordance with SFAS No. 141 - Business Combinations. A summary of the increased assets and liabilities relating to this acquisition as recorded at estimated fair values is as follows (dollars in thousands):

Table of Contents

		Palms Cinema
Assets		
Accounts receivable	$	31
Inventory		11
Other assets		8
Property and equipment		1,430
Goodwill		2,310
Total assets		3,790
Liabilities		
Accounts payable and accrued liabilities		178
Note payable		987
Other liabilities		12
Total liabilities		1,177
Total net assets	$	2,613

As a result of these transactions, the only cinema held in the Berkeley Joint Venture at December 31, 2006 and 2007, is the Botany Downs cinema in suburban Auckland.

Malulani Investments, Limited

On June 26, 2006, we acquired for $1.8 million, an 18.4% interest in Malulani Investments, Limited, a private real estate company. As of March 11, 2009, we sold that interest (See Note 27 – Subsequent Events).

Queenstown Cinema

Effective February 23, 2006, we purchased a 3-screen leasehold cinema in Queenstown, New Zealand for $939,000 (NZ$1.4 million). Of this purchase price, $647,000 (NZ$977,000) was allocated to the acquired fixed assets and $297,000 (NZ$448,000) was allocated to goodwill. We funded this acquisition through internal sources.

Newmarket ETRC

During the first quarter of 2006, we completed the development and opened the remaining retail portion of an ETRC on our 177,497 square foot parcel in Newmarket, a suburb of Brisbane, in Queensland, Australia. The total construction costs for the site were $26.7 million (AUS$34.2 million) including $1.4 million (AUS$1.9 million) of capitalized interest. This project was primarily funded through our $78.8 million (AUS$100.0 million) Australian Corporate Credit Facility with the Bank of Western Australia, Ltd. As of December 31, 2008, this property was 100% leased.

Note 9 – Assets Held for Sale and Disposals

2008 Transactions

In accordance with SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets, we report as discontinued operations real estate assets that meet the definition of a component of an entity and have been sold or meet the criteria to be classified as held for sale under SFAS No. 144. We included all results of these discontinued operations, less applicable income taxes, in a separate component of operations on the consolidated statements of operations under the heading "discontinued operations." This treatment resulted in reclassifications of the 2007 financial statement amounts to conform to the 2008 presentation.

Auburn Cinema and Real Estate

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, as timetabled in the agreement, $1.3 million

Table of Contents

(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.

The assets of the Auburn real estate and cinema are as follows (dollars in thousands):

	December 31, 2008	December 31, 2007
Assets		
Land	$ 7,395	$ 9,294
Building	13,131	16,754
Equipment and fixtures	7,364	8,991
Less: Accumulated depreciation	(7,771)	(9,098)
Total assets held for sale	$ 20,119	$ 25,941