READING INTERNATIONAL INC
Form 10-K
March 15, 2012

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, 2011

or

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

For the transition period from _______ to ______

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

NEVADA	95-3885184
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6100 Center Dr., Suite 900 Los Angeles, CA	90045
(Address of principal executive offices)	(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	NASDAQ
Class B Voting Common Stock, $0.01 par value	NASDAQ

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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 14, 2012, there were 21,311,348 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 $81,885,359 as of June 30, 2011.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2011
INDEX

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 non-voting common stock ("Class A Stock") and class B voting common stock ("Class B Stock") are listed for trading on the NASDAQ Capital Market (Nasdaq-CM) under the symbols RDI and RDIB, respectively. Our principal executive offices are located at 6100 Center Drive, Suite 900, Los Angeles, California 90045. 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 "our" to refer collectively to RDI and our various consolidated subsidiaries a corporate predecessors.

We are an internationally diversified "hard asset" 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 57 cinemas, and

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

We believe that these two business segments 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, 2011, the book value of our assets was $430.8 million; and as of that same date, we had a consolidated stockholders' book equity of $125.0 million. Calculated based on book value, $243.6 million or 57%, of our assets relate to our cinema exhibition activities and $171.0 million or 40%, of our assets relate to our real estate activities.

For additional segment financial information, please see Note 22 – Business Segments and Geographic Area Information to our 2011 Consolidated Financial Statements.

Table of Contents

Recognizing that we are part of a world economy, we have diversified our assets among three countries: the United States, Australia, and New Zealand. We currently have approximately 26% of our assets (based on net book value) in the United States, 57% in Australia and 17% in New Zealand compared to 29%, 55%, and 16% at the end of 2010. For 2011, our gross revenue in these jurisdictions was $112.0 million, $111.6 million, and $22.2 million, respectively, compared to $110.6 million, $94.2 million, and $25.0 million for 2010.

For additional financial information concerning the geographic distribution of our business, please see Note 22 – Business Segments and Geographic Area Information to our 2011 Consolidated Financial Statements.

While we do not believe the cinema exhibition business to be a growth business, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in recessionary or inflationary environments. 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 securities 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 recent years, the market value of most commercial and undeveloped real estate has seen a material decline in the markets in which we operate. While this decline has been, in our view, less pronounced in Australia and New Zealand than in the United States (and while the impact of the declines in Australia and New Zealand have been somewhat mitigated by renewed strength of the Australian and New Zealand dollar as compared to the US dollar), real estate values today are in many cases less than they were at the end of 2007. This has affected some of our development projects resulting in impairment losses. However, the practical impact on our real estate holdings has been minimal, as we have continued to enjoy increases in rentals from the tenants in our retail holdings, and as our strategy generally calls for development of our raw land holdings over time for long-term development. On an overall or portfolio basis, our estimated value of our real estate and cinema assets has not in fact declined since the end of 2008. Furthermore, in our view, it appears that values have stabilized in the markets in which we operate. In some markets (such as Manhattan), our real estate portfolio values have increased and have, in our estimation, a value substantially in excess of their book value.

Table of Contents

In light of uncertainties in the real estate and financial markets in recent periods, and the need to focus our attention on the renewal and preservation of our various lending facilities we have generally delayed our plans for development of our various properties. In 2010, we were advised by our principal lender, BOS International ("BOSI"), in Australia that it was curtailing lending activities in that country, and would not be renewing our $115.8 million (AUS$110.0 million) credit facility. However, on June 24, 2011, we replaced that facility with a new three-year credit facility from National Australia Bank ("NAB") in the amount of $110.5 million (AUS$105.0 million). On December 1, 2010, we refinanced our $29.5 million credit facility with GE Credit with a new $37.5 million facility, which expires on December 1, 2015, and, on February 8, 2012, we received an approved amendment from Westpac renewing our existing $35.1 million (NZ$45.0 million) New Zealand credit facility with a three-year $31.2 million (NZ$40.0 million) credit facility.

Historically, it has not been our practice to sell assets, except in connection with the repositioning of such assets to a higher and better use. This was the situation, for example, in our sale of our interests in two Manhattan cinemas: the Sutton Cinema (redeveloped as a residential condominium complex commonly known as Place 57) and the Murray Hill Cinema (redeveloped as a hospital commonly known as NYU Clinical Cancer Center). However, in the current market, given the difficulty in obtaining leverage on attractive terms and our interest in now moving forward with the development or redevelopment of certain of our real property assets, we anticipate the sale of certain real estate assets such as our Cinemas 1, 2 & 3 property in Manhattan, our 0.54 acre property in Taringa, Australia and our 1.0 acre property in Lake Taupo, New Zealand (recently rezoned for residential purposes). Over the past year, we have also had substantive negotiations with third-party developers regarding the development of our Burwood property in Melbourne and our Union Square property in Manhattan. We have continued to add to our overall real estate holdings in recent periods by acquiring the fee interest in a property (aggregating approximately 6.4 acres) adjoining our 64.0 acre property in Manukau, New Zealand enhancing its accessibility, and by acquiring a 50% interest in the limited liability company that acquired an approximately 202-acre property in Riverside County, California which, while zoned residential and approved for 823 single family lots, is currently being used for agricultural purposes. The Riverside property was acquired in January 2012 in a foreclosure sale for $5.5 million.

Given the resurgence of Manhattan commercial real estate values, in 2012, we intend to focus on the sale of our Cinemas 1, 2 & 3 property and the redevelopment of our Union Square property. Also, we are actively pursuing the development of the next phase of our Courtenay Central property in Wellington, New Zealand. We continue to evaluate our options concerning our 50.6 acre Burwood property in Melbourne, Australia.

It is anticipated that our 3.3 acre holdings in the Moonee Ponds area of Melbourne will benefit from the new structure plan adopted for Moonee Ponds, which has increased the density permitted at the site from ten to sixteen stories.

Consistent with our philosophy of acquiring proven cash-flowing cinemas, in February 2008, we acquired fifteen leasehold cinemas in Hawaii and California representing 181 screens for an adjusted purchase price of $46.8 million. These cinemas produced gross revenue of $75.7 million in 2011. In 2010, we opened a new 8-screen cinema in Australia and are currently fitting out a new 8-screen "Angelika" branded cinema in the Greater Washington D.C. area. We also acquired an existing 17-screen cinema in Southern California for $4.2 million in August 2011.

We continue our efforts to upgrade the quality of our cinema offerings. Over the past two years we have added digital 3D capacity to 63 screens, and we have converted several theater auditoriums to a premium "gold class" formats. We anticipate over the next 24 months converting substantially all of our cinema auditoriums to digital.

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 ("TPS"), 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 a portion of our Australian dollar denominated debt. Although structured as the issuance of TPS 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. During the first quarter of 2009, we returned somewhat to our debt-to-local-currency matching policy by taking advantage of the then current market illiquidity for TPS to repurchase $22.9 million in face value of our TPS for $11.5 million. As a result of this transaction, in 2009, we recorded a $10.7 million gain on retirement of subordinated debt. In addition, in December 2008 we secured a waiver of all financial covenants with respect to our TPS for a period of nine years (through December 2017), in consideration of the payment of $1.6 million, consisting of an initial payment of $1.1 million, a payment of $270,000 made in December 2011 and a contractual obligation to pay $270,000 in December 2014. In the event that the remaining payment is not made, the only remedy is the termination of the waiver.

Table of Contents

In summary, while we do have operating company attributes, we see ourselves principally as a geographically diversified real estate company and intend to add to stockholder value by building the value of our portfolio of tangible assets including both entertainment and other types of land and brick and mortar assets. We endeavor 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 operation with the investment and development opportunities of our real estate development operation, our business strategy is unique among public companies. While historically we have retained our properties through development, we continue to evaluate the sale of certain assets to provide capital to develop our remaining properties.

At December 31, 2011, our principal assets included:

- interests in 55 cinemas comprising some 462 screens;
- fee interests in four live theaters (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 15.6 million square feet of land; and
- cash, cash equivalents, and investments in marketable securities aggregating $31.6 million.

Our Cinema Exhibition Activities

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 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 we believe that we have taken advantage of one such opportunity through our purchase of Consolidated Cinemas in February 2008, we do not feel pressure to build or acquire cinemas for the sake of adding units. We intend to focus our use of 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 always open to the idea of converting an entertainment property to another use, if there is a higher and better use for the property, or to sell individual assets, if we are presented with an attractive opportunity.

Table of Contents

Our current cinema assets that we own and/or manage are as set forth in the following chart:

	Wholly Owned	Consolidated1	Unconsolidated2	Managed3	Totals
Australia	18 cinemas 138 screens	2 cinemas 11 screens	1 cinema 4 16 screens	None	21 cinemas 165 screens
New Zealand	8 cinemas 44 screens	None	2 cinemas5 13 screens	None	10 cinemas 57 screens
United States	23 cinemas 234 screens	1 cinema6 6 screens	None	2 cinemas 9 screens	26 cinemas 249 screens
Totals	49 cinemas 416 screens	3 cinemas 17 screens	3 cinemas 29 screens	2 cinemas 9 screens	57 cinemas 471 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, large screens, enhanced audio stadiums, and other 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 does not vary materially from jurisdiction to jurisdiction. In each jurisdiction, our gross receipts are primarily from box office receipts, concession sales, and screen advertising. Our ancillary revenue is created principally from theater 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 generated approximately 70% of their 2011 revenue from box office receipts. Ticket prices vary by location and we offer 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 accounted for approximately 24% of our total 2011 revenue. Although certain cinemas have licenses for the sale and consumption of alcoholic beverages, concession products primarily include popcorn, candy, and soda.

Table of Contents

Screen advertising and other revenue contribute approximately 6% of our total 2011 revenue. 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 nationally recognized screen-advertising companies 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 with executives located in Los Angeles, Manhattan, Melbourne, Australia, and Wellington, New Zealand. Approximately 2,124 individuals were employed (on a full time or part time basis) in our cinema operations in 2011. 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, Greater Union, 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 as well.

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. 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, theater by theater 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 product. 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.

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, in the United States, 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 preference 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 choose 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 and/or premium class seating 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 exhibitors in the United States are Regal (with 6,620 screens in 528 cinemas), AMC (with 5,203 screens in 361 cinemas), Cinemark (with 3,864 screens in 296 cinemas), and Carmike (with 2,215 screens in 235 cinemas). As of December 31, 2011, we were the 11th largest exhibitor with 1% of the box office in the United States with 249 screens in 26 cinemas.

The principal exhibitors in Australia are Greater Union, who do business under the Event name (a subsidiary of Amalgamated Holdings Limited), Hoyts Cinemas (“Hoyts”), and Village. The major exhibitors control approximately 66% of the total cinema box office: Event 31%, Hoyts 21%, and Village 14%. Event has 476 screens nationally, Hoyts 359 screens, and Village 217 screens. By comparison, our 149 screens represent approximately 7% of the total box office.

The principle exhibitors in New Zealand are Event with 108 screens nationally and Hoyts with 64 screens. Reading has 44 screens (not including partnerships). The major exhibitors in New Zealand control approximately 70% of the total box office: Event 45% and Hoyts 25%. Reading has 13% of the market (Event and Reading market share figures again do not include any partnership theaters).

Greater Union is the owner of Birch Carroll & Coyle in Australia and purchased Sky Cinemas in New Zealand during 2010. In addition, 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 $715.5 million (AUS$666.7 million) at June 30, 2011. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately $909.0 million (AUS$847.0 million) at June 30, 2011. Hoyts is privately held and does not publish financial reports. Hoyts is currently owned by Pacific Equity Partners.

In Australia, the industry is somewhat vertically integrated in that Roadshow Film Distributors, a subsidiary of Village, 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

After years of uncertainty as to the future of digital and 3D exhibition and the impact of these technologies on cinema exhibition, it now appears that the industry is going digital, and that the major exhibitors are in the process of equipping many of their facilities with 3D capability. In recent periods, cinemagoers have demonstrated a strong appetite for and a willingness to pay premium prices for 3D movies. The release schedule for 2012 lists 39 titles for 3D release, compared to 33 titles for the 2011 release schedule.

As of the end of 2011, we had 3D projectors in 35 of the 52 cinema locations that we either wholly own or consolidate and anticipate that this number will increase to approximately 47 by the end of 2012. We have now come to believe that the transition from film to digital projectors has now become inevitable and intend to convert all or substantially all of our auditoriums to digital over the next 24 months.

Table of Contents

In-Home Competition

The "in-home" entertainment industry has experienced significant leaps in recent periods in both the quality and affordability of in-home entertainment systems and in the accessibility to entertainment programming through cable, satellite, DVD, and internet 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 above 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 Year's Days, this fact provides some balancing of our revenue 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 Australian and New Zealand holidays that are not celebrated in the United States.

Employees

We have 64 full time executive and administrative employees and approximately 2,124 cinema employees. Our cinema employees in Wellington, New Zealand and our projectionists in Hawaii are unionized. None of our other employees is subject to union contracts. Our one union contract with respect to our projectionists in Hawaii expires on March 31, 2012. We are currently involved in negotiations with the union and anticipate signing a new agreement prior to the expiration date. Our union contracts with respect to our New Zealand employees expire on August 31, 2012. We are currently in the process of renegotiating these contracts. None of our Australian 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 in land for general real estate development;
- the leasing to shows of our live theaters; 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, again historically, has principally been in support of that business. In recent periods, however, we have acquired or developed properties which do not have any cinema or other entertainment component. As opportunities for cinema development become more limited, it is likely that our real estate activities will continue to expand beyond the development of entertainment-oriented properties. An example of this is our recent acquisition of the Riverside property described above.

Our real estate activities, holdings and developments are described in greater detail in Item 2 – Properties.

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 discuss separately below 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 theater operations as real estate operations – since we are principally in the business of renting space to producers rather than in licensing or producing plays ourselves – the cinema exhibition and live theater businesses share certain risk factors and are, accordingly, discussed together below.

Cinema Exhibition and Live Theater 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 exhibitors 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 revenue 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 theaters, 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 theater, moving directly to larger Broadway venues.

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

Both our cinema and live theater 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 ”in-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

However, there is the risk that, over time, distributors may move towards simultaneous release of motion picture product in multiple channels of distribution. This would adversely affect the competitive advantage enjoyed by cinemas over "in-home" forms of entertainment, as it may be that both the cinema market and the "in-home" market will have simultaneous access to motion picture product.

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 theaters and vice versa.

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

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

Our ability to generate revenue 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, the amount of money spent by film distributors to promote their motion pictures, and the willingness of these producers to license their films on terms that are financial viable to our cinemas and to rent our theaters for the presentation of their plays. To the extent that popular movies and plays are produced, our cinema and live theater 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.

We rely on film distributors to supply the films shown in our theatres. In the U.S., the film distribution business is highly concentrated, with six major film distributors accounting for approximately 83.0% of U.S. box office revenues. Numerous antitrust cases and consent decrees resulting from these antitrust cases impact the distribution of films. The consent decrees bind certain major film distributors to license films to exhibitors on a theatre-by-theatre and film-by-film basis. Consequently, we cannot guarantee a supply of films by entering into long-term arrangements with major distributors. We are therefore required to negotiate licenses for each film and for each theatre. A deterioration in our relationship with any of the [six] major film distributors could adversely affect our ability to obtain commercially successful films and to negotiate favorable licensing terms for such films, both of which could adversely affect our business and operating results.

Adverse economic conditions could materially affect our business by reducing discretionary income and by limiting or reducing sources of film and live theater funding.

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 theater businesses. Adverse economic conditions can also affect the supply side of our business, as reduced liquidity can adversely affect the availability of funding for movies and plays. This is particularly true in the case of Off-Broadway plays, which are often times financed by high net worth individuals or groups of such individuals and which are very risky due to the absence of any ability to recoup investment in secondary markets like DVD or cable.

Our screen advertising revenue 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 counterproductive by giving consumers a disincentive to choose going to the movies over "in-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.

Table of Contents

It has been generally assumed that cinema exhibition will change over from film projection to digital projection technology. Such technology offers various cost benefits to both distributors and exhibitors. After years of uncertainty as to the future of digital and 3D exhibition and the impact of these technologies on cinema exhibition, it now appears that the industry is going digital, and that the major exhibitors are in the process of equipping at least one auditorium in each of their significant locations with 3D capability. Since 2009, cinemagoers demonstrated a strong appetite for and a willingness to pay premium prices for 3D movies. The release schedule for 2012 lists 39 titles for 3D release, compared to 33 titles for the 2011 release schedule. We have now come to believe that the transition from film to digital projectors has now become inevitable and intend to convert all or substantially all of our auditoriums to digital over the next 24 months. There can be no guarantee that we will have sufficient funding to make the conversion or that we will realize a positive return on the investment in the conversion.

Real Estate Development and Ownership Business Risks

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

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

Risks Related to the Real Estate Industry Generally

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

Events and conditions generally applicable to developers, owners, and operators of real property will affect our performance as well. These include (i) changes in the national, regional and local economic climate, (ii) local conditions such as an oversupply of, or a reduction in demand for commercial space and/or entertainment oriented properties, (iii) reduced attractiveness of our properties to tenants, (iv) the rental rates and capitalization rates applicable to the markets in which we operate and the quality of properties that we own, (v) competition from other properties, (vi) inability to collect rent from tenants, (vii) increased operating costs, including labor, materials, real estate taxes, insurance premiums, and utilities, (viii) costs of complying with changes in government regulations, (ix) the relative illiquidity of real estate investments, and (x) decreases in sources of both construction and long-term lending as traditional sources of such funding leave or reduce their commitments to real estate based lending. 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-through of such costs to tenants.

Table of Contents

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 Australian 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 risks involved in the leasing of a rental property or the sale of a condominium or built-for-sale property. For our entertainment themed retail centers ("ETRCs"), the extent to which our cinemas can continue to serve as an anchor tenant will be influenced by the same factors as will influence generally the results of our cinema operations. Leasing or sale can be influenced by economic factors that are neither known nor knowable at the commencement of the development process and by local, national, and even international economic conditions, both real and perceived.

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

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 revenue 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 the 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. Our cash in Australia and New Zealand of $16.5 million (AUS$16.1 million) and $3.3 million (NZ$4.2 million), respectively, is denominated in local currencies and subject to the risk of currency exchange rate fluctuations. Set forth below is a chart of the exchange ratios between these three currencies over the past twenty years:

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

- Risk of adverse labor relations. 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).

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. Where we have knowledge of such environmental issues and are in a position to make an assessment as to our exposure, we have established what we believe to be appropriate reserves, but 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.

Table of Contents

Operating Results, Financial Structure and Borrowing Risk

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, we have from time to time had negative working capital. This negative working capital is typical in the cinema exhibition industry, since revenue 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 TPS, and utilized the net proceeds principally to retire short-term bank debt in New Zealand and Australia. However, the interest rate on our TPS 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 TPS at a 50% discount.

At the present time, corporate borrowers both domestically and internationally are facing greater than normal constraints on liquidity. No assurances can be given that we will be able to refinance these debts as they become 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 revenue sufficiently to offset increases in our rental liabilities.

Our stock is thinly traded.

Our stock is thinly traded, with an average daily volume in 2011 of only approximately 21,000 shares. This can result in significant volatility, as demand by buyers and sellers can easily get out of balance.

Ownership and Management Structure, Corporate Governance, and Change of Control Risks

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

Mr. James J. Cotter beneficially owns 70.4% of our outstanding Class B Stock. Our Class A Stock is non-voting, while our Class B Stock represents all of the voting power of our Company. As a result, as of December 31, 2011, Mr. Cotter controlled 70.4% of the voting power of all of our outstanding common stock. For as long as Mr. Cotter continues to own shares of common stock representing more than 50% of the voting power of our common stock, he will be able to elect all of the members of our board of directors and determine the outcome of all matters submitted to a vote of our stockholders, including matters involving mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional shares of common stock or other equity securities and the payment of dividends on common stock. Mr. Cotter will also have the power to prevent or cause a change in control, and could take other actions that might be desirable to Mr. Cotter but not to other stockholders. In addition, Mr. Cotter and his affiliates have controlling interests in companies in related and unrelated industries. In the future, we may participate in transactions with these companies (see Note 26 – Related Parties and Transactions to our 2011 Consolidated Financial Statements).

Table of Contents

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

Generally speaking, the NASDAQ 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 NASDAQ 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.

We depend on key personnel for our current and future performance.

Our current and future performance depends to a significant degree upon the continued contributions of our senior management team and other key personnel. The loss or unavailability to us of any member of our senior management team or a key employee could significantly harm us. We cannot assure you that we would be able to locate or employ qualified replacements for senior management or key employees on acceptable terms.

Table of Contents

Item 1B - Unresolved Staff Comments

None.

Table of Contents

Item 2 – Properties

Executive and Administrative Offices

We lease approximately 9,800 square feet of office space in Los Angeles, California to serve as our executive headquarters. We own an 8,783 square foot office building in Melbourne, Australia, approximately 5,200 square feet of which serves as the headquarters for our Australian and New Zealand operations (the remainder being leased to an unrelated third party). We maintain our accounting personnel and certain IT and operational personnel in approximately 5,900 square foot of offices located in our Wellington Courtenay Central shopping center. 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 for offsite corporate meetings and residential space by our Chairman and Chief Executive Officer.

Entertainment Properties

Entertainment Use Leasehold Interests

As of December 31, 2011, we lease approximately 2.0 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	1,005,000	2012 – 2049
Australia	756,000	2017 – 2049
New Zealand	193,000	2024 – 2034

On February 22, 2008, we acquired 15 pre-existing cinemas from a third party, comprising approximately 708,000 square feet of cinema improvements in the United States. During 2010, we opened a new cinema in Newcastle, NSW Australia, elected not to renew the lease of our 4-screen Kapiti cinema in New Zealand, and, during September 2010, our landlord terminated the lease on our 8-screen AFC Houston cinema.

On February 12, 2010, we entered into a lease for an approximately 33,000 8-screen art cinema to be built as a part of the Mosaic District in the Greater Washington D.C. area. This lease is not reflected in the above table, as the cinema is not anticipated to open until late 2012.

On August 17, 2011, we acquired a 17-screen leasehold cinema in Southern California.

Entertainment Use Fee Interests

In Australia, as of December 31, 2011, we own approximately 3.3 million square feet of land at nine 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. Of these fee interests, approximately 610,500 square feet are currently improved with cinemas.

In New Zealand, as of December 31, 2011, we own approximately 3.4 million square feet of land at seven locations. This includes an existing 335,000 square foot, nine-level parking structure in the heart of Wellington, the capital of New Zealand. All but 47,000 square feet of the Wellington site has been developed as an entertainment themed retail center ("ETRC") that incorporates the existing parking garage. 38,000 square feet of the remaining land is currently leased and all the remaining 47,000 square feet 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.

Table of Contents

In the United States, as of December 31, 2011, we own approximately 128,000 square feet of improved real estate comprised of four live theater buildings, which include approximately 58,000 square feet of leasable space, and 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 in excess of 12 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 (347 seats); and
- the Union Square (499 seats).

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

We are primarily in the business of leasing theater 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 production's revenue or profits. Revenue, expense, and profits are reported as a part 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 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 two cinemas with 13 screens in the New Zealand cities of Auckland 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.

Table of Contents

Income Producing Real Estate Holdings

As of December 31, 2011, we own fee interests in approximately 1.1 million square feet of income producing properties (including certain properties principally occupied by our cinemas).

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	100%	$ 37,141,000
Belmont Knutsford Avenue and Fulham Street Belmont, WA, Australia	15,000 / 52,000	78%	$ 15,804,000

7 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. 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. 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, 2011.

Table of Contents

Property	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Cinemas 1, 2 & 38 1003 Third Avenue Manhattan, NY, USA	0 / 21,000	N/A	$ 23,458,000
Courtenay Central 100 Courtenay Place Wellington, New Zealand	38,000 / 71,000 Plus a 335,000 square foot parking structure	75%	$ 24,771,000
Indooroopilly, 70 Station Road Brisbane, Australia	24,000/0	100%	$ 13,527,000
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	10,000 / 24,000	72%	$ 3,061,000
Lake Taupo Motel 138-140 Lake Terrace Road Taupo, New Zealand	9,000 / 0	Short-term rentals	$ 2,079,000
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22,000	N/A	$ 2,439,000
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9,000	N/A	$ 8,329,000
Napier Cinema 154 Station Street Napier, New Zealand	12,000 / 17,000	100%	$ 3,251,000
Newmarket 400 Newmarket Road Newmarket, Queensland, Australia	93,000 / 0	97%	$ 44,440,000
Orpheum Theatre 126 2nd Street Manhattan, NY, USA	0 / 5,000	N/A	$ 3,430,000
Royal George 1633 N. Halsted Street Chicago, IL, USA	37,000 / 23,000 Plus 21,000 square feet of parking	91%	$ 3,421,000
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19,000	N/A	$ 2,874,000
Union Square Theatre 100 E. 17th Street Manhattan, NY, USA	21,000 / 17,000	100%	$ 9,045,000

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, 2011, we had approximately 179,000 square foot of space subject to such long-term leases.

Property9	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Manville	0 /53,000	N/A	$ 2,274,000
Tower	0 / 16,000	N/A	$ 902,000
Village East10	4,000 / 38,000	100%	$ 11,950,000
Waurn Ponds	6,000 / 52,000	100%	$ 3,606,000

9 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. 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. 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, 2011.

10 The lease of the Village East provides for a call option pursuant to which Reading may purchase the cinema ground lease for $5.9 million at the end of the lease term in 2020. Additionally, the lease has a put option pursuant to which SHC may require Reading to purchase all or a portion of SHC's interest in the existing cinema lease and the cinema ground lease at any time between July 1, 2013 and December 4, 2019. See Note 26 - Related Parties and Transactions to our 2011 Consolidated Financial Statements.

Table of Contents

Real Estate Development Properties

We are engaged in several real estate development projects:

Property10	Square Feet of Acreage		Gross Book Value (in U.S. Dollars)	Status
Auburn Sydney, Australia	2.6 acres	$	2,078,000	No longer held for sale. We have elected to continue to hold the property for development for the foreseeable future.
Burwood Victoria, Australia	50.6 acres	$	53,419,000	No longer held for sale. We continue to evaluate our options with regards to this property.
Courtenay Central Wellington, New Zealand	1.1 acres	$	6,268,000	Have regulatory approval for expansion and we are actively pursuing the development of the next phase.
Moonee Ponds Victoria, Australia	3.3 acres	$	14,201,000	In planning stages of determining best use depending on factors including development of adjacent properties. Zoned for high-density as a "Principal Activity Area." Recently, this property has enjoyed a rezoning by the city increasing our permitted development potential from up to 10 levels to a range of 10 to 16 levels.
Taringa Queensland, Australia	0.54 acres	$	1,848,000	At December 31, 2011, this property is held for sale.
Newmarket Queensland, Australia	0.6 acres	$	2,815,000	Analyzing if plans for a cinema should be replaced with plans for additional retail space.
Lake Taupo Taupo, New Zealand	0.5 acre	$	2,079,000	No longer classified as held for sale but we are actively pursuing various methods to dispose of this property.
Manakau, Auckland, New Zealand	64.0 acres zoned agricultural and 6.4 acres zoned industrial	$	14,165,000	The bulk of the land is zoned for agriculture and is currently used for horticulture commercial purposes. A development plan has been filed to rezone the property for warehouse, distribution and manufacturing uses. While we currently anticipate that this rezoning will be approved, we do not anticipate that this process will conclude prior to mid 2013. In 2010, we acquired an adjacent property which is zoned industrial, but is currently unimproved. This property links our existing parcel with the existing road network.

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

Some of our income producing real estate and our development properties carry various debt encumbrances based on their income streams and geographic locations. For an explanation of our debt and the associated security collateral please see Note 12 – Notes Payable to our 2011 Consolidated Financial Statements.

Other Property Interests and Investments

We currently own fee interests in the following properties located in Australia and New Zealand which are not related to our cinema activities: Indooroopilly, Taringa, Lake Taupo, and Manukau.

Non-operating Properties

We own the fee interest in 9 parcels comprising 189 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. Except for a negative pledge on the aforementioned Los Angeles condominium, these properties are unencumbered with any debt and are lien free.

Table of Contents

Item 3 – Legal Proceedings

Tax Audit/Litigation

The Internal Revenue Service (the "IRS") has examined 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 both now wholly owned subsidiaries of the Company, but for the time periods under audit, were not consolidated with the Company for tax purposes.

CRG and the IRS agreed to compromise the claims made by the IRS against CRG and the Tax Court's order was entered on January 6, 2011. In the settlement, the IRS conceded 70% of its claimed adjustment to income. Instead of a claim for unpaid taxes of $20.9 million plus interest, the effect of settlement on the Reading consolidated group was to require a total federal income tax obligation of $5.4 million, reduced by a federal tax refund of $800,000 and increased by interest of $9.3 million, for a net federal tax liability of $13.9 million as of January 6, 2011. On October 26, 2011, CRG reached an agreement with the IRS for an installment plan to pay off this federal tax liability, including additional interest accruals at the prescribed IRS floating rate. The agreement requires monthly payments of $290,000 over a period of approximately five years. As of December 31, 2011, after the payments made during 2011, the remaining federal tax obligation was $4.3 million in tax plus $9.2 million in interest. Of the $13.5 million owed under the installment agreement as of December 31, 2011, $3.5 million was recorded as current taxes payable, with the remaining balance being recorded as non-current tax liability.

The impact of the settlement upon the state taxes of the Reading consolidated group, if the adjustment to income agreed with the IRS were reflected on state returns, would be an obligation of approximately $1.4 million in tax plus interest and potential penalty. CRG's 1997 tax year remains open with respect to CRG's potential tax liability to the State of California. As of December 31, 2011, no deficiency has been asserted by the State of California, and we have made no final decision as to the course of action to be followed when a deficiency is asserted.

In 2011, the Company claimed federal and state tax deductions for interest owed to the IRS and to state tax agencies, plus an additional federal deduction for taxes owed to state tax agencies.

The decision to settle was based on various business considerations, the most prominent of which was the potential size of an adverse judgment (some $63.0 million net federal tax liability, including interest, if the case had remained unsettled as of December 31 2011), plus state liabilities and the direct costs of trial.

Prior to the settlement, we had accrued $6.6 million in accordance with the cumulative probability approach prescribed in Financial Accounting Standards Board Accounting Standards Codification ("ASC") 740-10-25 – Income Taxes. As a result of the settlement, we recorded an additional federal and state tax expense of $12.1 million for the year ended December 31, 2010 to increase our reserve for uncertain tax positions.

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. Our known exposure to these types of claims, asserted or probable of being asserted, is not material.

Table of Contents

In connection with the development of our 50.6 acre Burwood site, it will be necessary to address certain environmental issues. 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, 2011, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $12.5 million (AUS$12.2 million) and as of that date we had incurred a total of $8.5 million (AUS$8.3 million) of these costs. We do not believe that this has added materially to the overall development cost of the site, as it is anticipated that much of the work will be done in connection with the excavation and other development activity already contemplated for the property.

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. Historically, we ha been listed on the AMEX and due to the 2008 purchase of the AMEX by the NYSE Alternext US, we were listed on that exchange at December 31, 2008. During July 2009, we moved our listing from NYSE Alternext to NASDAQ.

The following table sets forth the high and low closing prices of the RDI and RDIB common stock for each of the quarters in 2011 and 2010 as reported by NASDAQ:

		Class A Stock		Class B Stock	
		High	Low	High	Low
2011	Fourth Quarter	$4.30	$3.95	$7.01	$4.26
	Third Quarter	$4.49	$3.88	$7.00	$6.00
	Second Quarter	$5.02	$4.53	$7.00	$5.25
	First Quarter	$5.16	$4.86	$9.00	$6.04
2010	Fourth Quarter	$5.30	$4.51	$9.25	$7.53
	Third Quarter	$4.73	$3.87	$8.80	$6.52
	Second Quarter	$4.45	$3.71	$9.90	$5.87
	First Quarter	$4.54	$3.85	$9.90	$5.25

The following table summarizes the securities authorized for issuance under our equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	807,450	6.63	442,550
Equity compensation plans not approved by security holders	--	N/A	--
Total	807,450	6.63	442,550

Table of Contents

Performance Graph

The following line graph compares the cumulative total stockholder return on Reading International, Inc.'s common stock for the years ended December 31, 2007, 2008, 2009, 2010, and 2011 against the cumulative total return as calculated by the NASDAQ composite, the motion picture theater operator group, and the real estate operator group.

Holders of Record

The number of holders of record of our Class A Stock and Class B Stock in 2011 was approximately 3,500 and 300, respectively. On March 14, 2012, the closing price per share of our Class A Stock was $4.49 and the closing price per share of our Class B Stock was $4.26.

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

During 2011, we purchased 172,300 of Class A Nonvoting shares on the open market for $747,000. Additionally, during the first quarter of 2010, we purchased 62,375 shares for a total cost of $251,000.

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, 2011 (the "2011 Annual Report"), and the related notes to the consolidated financial statements (dollars in thousands, except per share amounts).

	As of or for the Year Ended December 31,				
	2011	2010	2009	2008	2007
Revenue	$245,805	$230,119	$217,014	$197,054	$119,235
Operating income (loss)	$18,410	$13,166	$13,922	$(2,288)	$5,149
Income from discontinued operations	1,656	$--	$--	$--	$1,912
Net income (loss)	$10,896	$(12,034)	$6,482	$(16,189)	$(1,100)
Net income (loss) attributable to Reading International, Inc. shareholders	$9,956	$(12,650)	$6,094	$(16,809)	$(2,103)
Basic earnings (loss) per share – continuing operations	$0.37	$(0.56)	$0.27	$(0.75)	$(0.18)
Basic earnings per share – discontinued operations	$0.07	$--	$--	$--	$0.09
Basic earnings (loss) per share	$0.44	$(0.56)	$0.27	$(0.75)	$(0.09)
Diluted earnings (loss) per share – continuing operations	$0.36	$(0.56)	$0.27	$(0.75)	$(0.18)
Diluted earnings per share – discontinued operations	$0.07	$--	$--	$--	$0.09
Diluted earnings (loss) per share	$0.43	$(0.56)	$0.27	$(0.75)	$(0.09)

Other Information:

	2011	2010	2009	2008	2007
Shares outstanding	22,806,838	22,804,313	22,588,403	22,482,605	22,482,605
Weighted average shares and dilutive share equivalents	22,764,666	22,781,392	22,580,942	22,477,471	22,478,145
Weighted average shares and dilutive share equivalents	22,993,135	22,781,392	22,767,735	22,477,471	22,478,145
Total assets	$430,764	$430,349	$406,417	$371,870	$346,071
Total debt	$209,614	$228,821	$226,993	$239,162	$177,195
Working capital (deficit)	$(25,491)	$(57,634)	$(16,229)	$12,516	$6,345
Stockholders' equity	$124,987	$112,639	$110,263	$69,447	$124,197
EBIT	$18,664	$13,900	$22,618	$1,030	$8,098
Depreciation and amortization	$16,960	$15,914	$15,168	$18,558	$11,921
EBITDA	$35,624	$29,814	$37,786	$19,588	$20,019
Debt to EBITDA	5.88	7.67	6.01	12.21	8.85
Capital expenditure (including acquisitions)	$9,376	$19,371	$5,686	$75,167	$42,414
Number of employees at 12/31	2,263	2,109	2,207	1,986	1,383

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

	2011	2010	2009	2008	2007
Net income (loss) attributable to Reading International, Inc. shareholders	$9,956	$(12,650)	$6,094	$(16,809)	$(2,103)
Add: Interest expense, net	21,038	12,286	14,572	15,740	8,163
Add: Income tax (benefit) expense	(12,330)	14,264	1,952	2,099	2,038
EBIT	$18,664	$13,900	$22,618	$1,030	$8,098
Add: Depreciation and amortization	16,960	15,914	15,168	18,558	11,921
EBITDA	$35,624	$29,814	$37,786	$19,588	$20,019

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 this 2011 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 57 multiplex theaters, and
- Real Estate, including real estate development and the rental of retail, commercial and live theater assets.

We believe that these two business segments 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 exhibition 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, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in 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. From time to time, we invest in the securities 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

After years of uncertainty as to the future of digital and 3D exhibition and the impact of these technologies on cinema exhibition, it now appears that the industry is going digital, and that the major exhibitors are in the process of equipping many of their facilities with 3D capability. In recent periods, cinemagoers have demonstrated a strong appetite for and a willingness to pay premium prices for 3D movies. The release schedule for 2012 lists 39 titles for

3D release compared to 33 titles for the 2011 release schedule.

As of the end of 2011, we had 3D projectors in 35 of the 52 cinema locations that we either wholly own or consolidate and anticipate that this number will increase to approximately 47 by the end of 2012. We believe that the transition from film to digital projectors has now become inevitable and intend to convert all or substantially all of our auditoriums to digital over the next 24 months.

Table of Contents

In the case of "in-home" entertainment alternatives, the industry has experienced significant leaps in recent periods in both the quality and affordability of in-home entertainment systems and in the accessibility to entertainment programming through cable, satellite, DVD, and internet 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.

Cinema Exhibition – Australia / New Zealand

The film exhibition industry in Australia and New Zealand is highly concentrated in that Village, Event, and Hoyts (the "Major Exhibitors") control approximately 66% of the cinema box office in Australia while Event and Hoyts control approximately 70% of New Zealand's cinema box office. The industry is also vertically integrated in that one of the Major Exhibitors, Roadshow Film Distributors (part of Village), 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. In addition, 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 compress the supply of 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 have and can continue to 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 affected 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 early 2009 interest rates materially decreased to 40-year lows in Australia and New Zealand. During 2010 and 2011, interest rates in these areas have slowing and sporadically begun to rise. Up until recently, New Zealand has had consistent growth in rentals and values although project commencements have slowed. New Zealand values softened during 2009 but have somewhat stabilized during 2010 and 2011.

Although the Australian property market softened in the first half of 2009, there are signs of improvement in the latter half of the year and during 2010 and 2011. An improved sentiment in retail and residential sectors has provided an improved outlook. These factors and an improving economy are putting upward pressure on interest rates.

The large institutional funds are still seeking out prime assets with premium prices being paid for good retail and commercial investments and development opportunities. Residential projects are in high demand.

-32-

Table of Contents

Real Estate – North America

The commercial real estate market has followed the larger economy into a downturn that is likely to last through 2012. We believe that as our real estate is well located in generally large urban environments, it will be the first to see signs of recovery when the U.S. economy starts to recover.

Business Segments

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

Cinema Exhibition

One of our primary businesses consists of the ownership and operation of cinemas. For a breakdown of our current cinema assets that we own and/or manage please see Item 1 – Our Business of this 2011 Annual Report under the subheading "Our Cinema Exhibition Activities."

On February 22, 2008, we acquired from two related companies, Pacific Theatres and Consolidated Amusement Theatres, substantially all of their cinema assets in Hawaii (consisting of nine complexes with 98 screens), San Diego County (consisting of four complexes with 51 screens), and central and northern California (consisting of two complexes with 32 screens) for $70.2 million subject to certain purchase price adjustments which have reduced the purchase price to $46.8 million. We do not anticipate any further reductions in the purchase price. 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.

During the third quarter of 2009, we leased two existing cinemas in New York City with 3 screens but elected not to renew the lease of our 5-screen cinema in Market City, Australia.

In 2010, we entered in to a lease for an approximately 33,000 square foot 8-screen art cinema being built as a part of the Mosaic District in the greater Washington D.C. metropolitan area which is scheduled to open in late 2012 and we opened a new 8-screen cinema in Charlestown, NSW, Australia that opened strongly. During May 2010, we elected not to renew the lease of our 4-screen Kapiti cinema in New Zealand, and, during September 2010, our landlord terminated the lease on our 8-screen AFC Houston cinema. We also extended our lease (with option to buy) of our Village East Cinema in Manhattan.

In August 2011, we purchased a 17-screen multiplex in Murrieta, California (the "CalOaks Cinema") for $4.2 million made up of $3.9 million of cash and a $250,000 holdback note for certain offset charges to the purchase price.

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 film rent expense, operating costs, and occupancy costs. Cinema revenue and expense fluctuate 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 2011, our income producing 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;

Table of Contents

- a New Zealand commercial property and Australian commercial properties rented to unrelated third parties, to be held for current income and long-term appreciation; and
- the ancillary retail and commercial tenants at some of our non-ETRC cinema properties.

In addition, we had various parcels 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 owned an 8,783 square foot commercial building in Melbourne, which serves as our administrative headquarters for Australia and New Zealand, approximately 41% of which is leased to an unrelated third party.

Acquisitions

On January 10, 2012, a limited liability company owned by our Company acquired a 202 acre property, zoned for the development of up to 843 single family residential units, located in the City of Coachella, California. The property was acquired at a foreclosure auction for $5.5 million. See Note 28 – Subsequent Events to our 2011 Consolidated Financial Statements.

In August 2011, we purchased a 17-screen multiplex in Murrieta, California (the “CalOaks Cinema”), our largest screened cinema to date, for $4.2 million made up of $3.9 million of cash and a $250,000 holdback note for certain offset charges to the purchase price.

On April 30, 2009, we entered into an agreement to purchase for $3.6 million (NZ$5.2 million) a property adjacent to our Manukau property. An initial deposit of $26,000 (NZ$50,000) was paid upon signing of the agreement, a second deposit of $175,000 (NZ$258,000) was paid in the second quarter of 2009 and a third deposit of $531,000 (NZ$773,000) was paid in August 2009. The fourth and final purchase payment of $2.9 million (NZ$4.1 million) was made on March 31, 2010 completing our acquisition of this land parcel.

Disposals

On April 14, 2011, we sold our 66.7% share of the 5-screen Elsternwick Classic cinema located in Melbourne, Australia to our joint venture partner for $1.9 million (AUS$1.8 million) and recognized a gain on sale of a discontinued operation of $1.7 million (AUS$1.6 million).

Properties Held for Sale

For fiscal 2011, our investments in property held for sale consisted of three properties in the Taringa area of Brisbane, Australia of approximately 1.1 acres. As of December 31, 2011, we were under contract to sell these properties for $1.8 million (AUS$1.8 million). These properties were sold on February 21, 2012 for the agreed upon amount. See Note 28 – Subsequent Events to our 2011 Consolidated Financial Statements.

Property Held For or Under Development

We are engaged in several real estate development projects. For a complete list of these properties with their size, status, and gross book values please see Item 2 – Properties under the heading of “Real Estate Development Properties.”

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.

Table of Contents

We review long-lived assets, including goodwill and intangibles, for impairment as part of our annual budgeting process, at the beginning of the fourth quarter, and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. We review internal management reports on a monthly basis as well as monitor current and potential future competition in film markets for indications of potential impairment. We evaluate our long-lived assets using historical and projected data of cash flow as our primary indicator of potential impairment and we take into consideration the seasonality of our business. If the sum of the estimated future cash flows, undiscounted, were to be less than the carrying amount of the asset, then an impairment would be recognized for the amount by which the carrying value of the asset exceeds its estimated fair value based on an appraisal or 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. The most significant assumptions include our cost of debt and cost of equity assumptions that comprise the weighted average cost of capital for each reporting unit. Accordingly, actual results could vary materially from such estimates. Based on calculations of current value, we recorded impairment losses of $369,000, $2.2 million and $3.2 million relating to certain of our property and cinema locations for the years ended December 31, 2011, 2010, and 2009, respectively. The impairments reflect our estimates of fair value which were based on appraisals or a discounted income approach with market based assumptions.

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, 2011, we had recorded approximately $53.1 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 offset by a valuation allowance of $38.7 million resulting in a net deferred tax asset of $14.4 million. 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. Our known exposure to these types of claims, asserted or probable of being asserted, is not material.

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, tax claims, employment matters, and anti-trust issues, among other matters.

Table of Contents

Results of Operations

We currently operate two operating segments: Cinema Exhibition and Real Estate. Our cinema exhibition 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.

During 2010, we changed our reporting for intercompany property rent where our cinema operations were substantially the only tenant of such property by eliminating the intersegment revenue and expense relating to the intercompany rent, and transferring the third party lease costs from the real estate segment to the cinema exhibition segment. This change in management's structure of the reportable segments commenced on January 1, 2010, such changes to segment reporting are reflected in the segment results for 2011, 2010, and 2009, respectively. The retroactive presentation in 2009 segment results decreased intersegment revenue and expense for the intercompany rent by $4.4 million and transferred the third party lease costs from the real estate segment to the cinema exhibition segment. The overall results of these changes decreased real estate segment revenue and expense by $4.4 million for the year ended December 31, 2009. This change resulted in a reduction of real estate operating expense and an increase of cinema operating expense of $4.4 million on our Consolidated Statements of Operations for the year ended December 31, 2009.

The tables below summarize the results of operations for our principal business segments for the years ended December 31, 2011, 2010, and 2009 (dollars in thousands).

Year Ended December 31, 2011	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$225,849	$27,388	$ (7,432)	$245,805
Operating Expense	189,647	10,419	(7,432)	192,634
Depreciation & amortization	11,842	4,809	--	16,651
Impairment expense	--	369	--	369
General & administrative expense	2,740	646	--	3,386
Segment operating income	$21,620	$11,145	$ --	$32,765

Year Ended December 31, 2010	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$211,073	$25,512	$ (6,466)	$230,119
Operating expense	178,261	9,221	(6,466)	181,016
Depreciation & amortization	10,559	4,640	--	15,199
Impairment expense	--	2,239	--	2,239
General & administrative expense	2,880	1,220	--	4,100
Segment operating income	$19,373	$8,192	$ --	$27,565

Year Ended December 31, 2009	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$201,388	$20,867	$ (5,241)	$217,014
Operating expense	165,708	7,591	(5,241)	168,058
Depreciation & amortization	10,816	3,686	--	14,502
Loss on transfer of real estate held for sale to continuing operations	--	549	--	549
Impairment expense	--	3,217	--	3,217
Contractual commitment loss	--	1,092	--	1,092
General & administrative expense	2,645	1,063	--	3,708

Segment operating income	$22,219	$3,669	$ --	$25,888

Table of Contents

Reconciliation to net income attributable to Reading International, Inc. shareholders:	2011	2010	2009
Total segment operating income	$32,765	$27,565	$25,888
Non-segment:			
Depreciation & amortization expense	309	715	666
General & administrative expense	14,046	13,684	13,851
Other operating income	--	--	(2,551)
Operating income	18,410	13,166	13,922
Interest expense, net	(21,038)	(12,286)	(14,572)
Other income (expense)	1,157	(347)	(2,013)
Gain (loss) on sale of assets	(67)	352	(2)
Income tax benefit (expense)	12,330	(14,264)	(1,952)
Equity earnings (loss) of unconsolidated joint ventures and entities	(1,552)	1,345	117
Income from discontinued operations	1,656	--	--
Gain on extinguishment of debt	--	--	10,714
Gain on sale of unconsolidated joint venture	--	--	268
Net income (loss)	$10,896	$(12,034)	$6,482
Net income attributable to noncontrolling interests	(940)	(616)	(388)
Net income (loss) attributable to Reading International, Inc. common shareholders	$9,956	$(12,650)	$6,094

Cinema Exhibition Segment

The following tables and discussion that follows detail our operating results for our 2011, 2010, and 2009 cinema exhibition segment (dollars in thousands):

Year Ended December 31, 2011	United States	Australia	New Zealand	Total
Admissions revenue	$73,062	$72,887	$12,622	$158,571
Concessions revenue	28,225	23,306	3,446	54,977
Advertising and other revenues	5,482	6,019	800	12,301
Total revenues	106,769	102,212	16,868	225,849
Cinema costs	89,602	75,771	13,998	179,371
Concession costs	4,461	4,963	852	10,276
Total operating expense	94,063	80,734	14,850	189,647
Depreciation and amortization	6,525	4,218	1,099	11,842
General & administrative expense	1,973	691	76	2,740
Segment operating income	$4,208	$16,569	$843	$21,620

Table of Contents

Year Ended December 31, 2010	United States	Australia	New Zealand	Total
Admissions revenue	$73,266	$61,640	$15,601	$150,507
Concessions revenue	27,391	18,658	3,861	49,910
Advertising and other revenues	5,096	4,559	1,001	10,656
Total revenues	105,753	84,857	20,463	211,073
Cinema costs	89,531	63,976	15,578	169,085
Concession costs	4,260	4,009	907	9,176
Total operating expense	93,791	67,985	16,485	178,261
Depreciation and amortization	6,556	2,969	1,034	10,559
General & administrative expense	2,040	840	--	2,880
Segment operating income	$3,366	$13,063	$2,944	$19,373

Year Ended December 31, 2009	United States	Australia	New Zealand	Total
Admissions revenue	$75,105	$53,533	$13,985	$142,623
Concessions revenue	29,021	17,862	3,905	50,788
Advertising and other revenues	4,820	2,383	774	7,977
Total revenues	108,946	73,778	18,664	201,388
Cinema costs	88,839	54,073	13,636	156,548
Concession costs	4,602	3,662	896	9,160
Total operating expense	93,441	57,735	14,532	165,708
Depreciation and amortization	7,043	2,658	1,115	10,816
General & administrative expense	1,943	702	--	2,645
Segment operating income	$6,519	$12,683	$3,017	$22,219

Cinema Results for 2011 Compared to 2010

- Cinema revenue increased in 2011 by $14.8 million or 7.0% compared to 2010. The geographic activity of our revenue can be summarized as follows:

o United States - Revenue in the United States increased by $1.0 million or 1.0%. This increase in revenue was predominately attributable to an increase in concessions and other cinema revenue in part from our newly acquired cinema in Murrieta, California; offset by, a decrease in our admissions revenue which was primarily affected by a 1.3% decrease in the average ticket price coupled with a relatively flat number of box office admissions.

o Australia - Revenue in Australia increased by $17.4 million or 20.5%. This increase in revenue was predominately attributable to the opening of a new cinema in October 2010, a year over year increase in the average ticket price of 3.1%, a small increase in admissions of 83,000, and an increase in the value of the Australian dollar compared to the U.S. dollar. This change in currency value translated to higher Australian revenue for 2011 compared to 2010 (see below).

o New Zealand - Revenue in New Zealand decreased by $3.6 million or 17.6%. This decrease in revenue was predominately attributable to a year over year decrease in the average ticket price of 2.2% and a 463,000 decrease in admissions due to poor film product being delivered to the country as a whole. The decrease in admissions was in large part affected by poorer film product offered throughout the country as a result of the rugby world cup being held in New Zealand during 2011. This decrease in revenue was somewhat offset by an increase in the value of the New Zealand dollar compared to the U.S. dollar (see below).

Table of Contents

- Operating expense increased in 2011 by $11.4 million or 6.4% compared to 2010. Year over year operating expense decreased in relation to revenue from 84.5% to 84.0%.

o United States - Operating expense in the United States increased by $272,000 or 0.3% primarily due to higher utility costs associated with our Hawaiian cinemas.

o Australia - Operating expense in Australia increased by $12.7 million or 18.8%. This increase was in line with the above-mentioned increase in cinema revenue which directly affects film rental costs and with the year over year increase in the value of the Australian dollar compared to the U.S. dollar (see below).

o New Zealand - Operating expense in New Zealand decreased by $1.6 million or 9.9%. This decrease was in line with the above-mentioned decrease in cinema revenue which directly affects film rental costs offset by the above-mentioned year over year increase in the value of the New Zealand dollar compared to the U.S. dollar (see below).

- Depreciation expense increased in 2011 by $1.3 or 12.2% compared to 2010. This increase was primarily related to the opening of a new cinema in Australia and our continuing purchases of digital equipment.

- General and administrative expense decreased in 2011 by $140,000 or 4.9% compared to 2010. This decrease was primarily related to preopening costs in 2010 for a newly opened Australian cinema which did not recur in 2011.

- Australian and New Zealand monthly average exchange rates for 2011 increased by 12.2% and 9.7%, respectively, from those in 2010, which had an overall positive impact on the income statement.

- As a result, cinema exhibition segment operating income increased in 2011 by $2.2 million compared to 2010 primarily from the aforementioned increase in revenue from our Australian cinema operations.

Cinema Results for 2010 Compared to 2009

- Cinema revenue increased in 2010 by $9.7 million or 4.8% compared to 2009. The geographic activity of our revenue can be summarized as follows:

o United States - Revenue in the United States decreased by $3.2 million or 2.9%. This decrease in revenue was predominately attributable to a decrease in box office admissions of 564,000 which included a decrease in admissions from one of the acquired cinemas of the Consolidated Entertainment cinemas acquisition resulting in a purchase price adjustment of $12.5 million (see Note 8 – Acquisitions and Assets Held for Sale to our 2011 Consolidated Financial Statements). The U.S. revenue was also affected by a decrease in concessions revenue of $1.6 million offset by a 4.1% increase in average ticket price.

o Australia - Revenue in Australia increased by $11.1 million or 15.0%. This increase in revenue was predominately attributable to a year over year increase in the average ticket price of 7.1% coupled with a 16.2% increase in the value of the Australian dollar compared to the U.S. dollar. This change in currency value translated to higher Australian revenue for 2010 compared to 2009 (see below). These increases in revenue were offset by a decrease in box office admissions of 414,000 compared to 2009.

o New Zealand - Revenue in New Zealand increased by $1.8 million or 9.6%. This increase in revenue was predominately attributable to a year over year increase in the average ticket price of 5.4% coupled with a 13.6% increase in the value of the New Zealand dollar compared to the U.S. dollar. This change in currency value translated to higher New Zealand revenue for 2010 compared to 2009 (see below). These increases in revenue were offset by a decrease in box office admissions of 121,000 compared to 2009.

- Operating expense increased in 2010 by $12.6 million or 7.6% compared to 2009. Year over year operating expense increased in relation to revenue from 82.3% to 84.5%.

Table of Contents

o United States - Operating expense in the United States increased by $350,000 or 0.4% primarily due to the newly leased 3D equipment and the associated increased labor-intensive nature of showing 3D films.

o Australia - Operating expense in Australia increased by $10.3 million or 17.8%. This increase was in line with the above-mentioned increase in cinema revenue associated with the year over year increase in the value of the Australian dollars compared to the U.S. dollar (see below).

o New Zealand - Operating expense in New Zealand increased by $2.0 million or 13.4%. This increase was in line with the above-mentioned increase in cinema revenue associated with the year over year increase in the value of the New Zealand dollar compared to the U.S. dollar (see below).

- Depreciation expense decreased in 2010 by $257,000 or 2.4% compared to 2009. This decrease was primarily related to the short useful lives of the used assets associated with our Consolidated Entertainment cinemas purchased February 2008.

- General and administrative expense increased in 2010 by $235,000 or 8.9% compared to 2009. This increase was primarily related to higher occupancy costs and a one-time union pension settlement in the U.S. and the aforementioned increase in the Australian dollar in 2010 compared to 2009 (see below).

- Australian and New Zealand monthly average exchange rates for 2010 increased by 16.2% and 13.6%, respectively, from those in 2009, which had an overall positive impact on the income statement.

- As a result, cinema exhibition segment operating income decreased in 2010 by $2.8 million compared to 2009 primarily from the aforementioned decrease in revenue from our U.S. cinema operations driven in large part by the $1.6 million decrease in revenue from one of our acquired Consolidated Entertainment cinemas.

Real Estate Segment

As discussed above, our other 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 that follow detail our operating results for our 2011, 2010, and 2009 real estate segment (dollars in thousands):

Year Ended December 31, 2011	United States	Australia	New Zealand	Total
Live theater rental and ancillary income	$3,507	$--	$--	$3,507
Property rental income	1,714	14,676	7,491	23,881
Total revenue	5,221	14,676	7,491	27,388
Live theater costs	1,946	--	--	1,946
Property rental cost	528	5,857	2,088	8,473
Total operating expense	2,474	5,857	2,088	10,419
Depreciation and amortization	326	3,213	1,270	4,809
Impairment expense	--	369	--	369
General & administrative expense	32	554	60	646
Segment operating income	$2,389	$4,683	$4,073	$11,145

Table of Contents

Year Ended December 31, 2010	United States	Australia	New Zealand	Total
Live theater rental and ancillary income	$3,082	$--	$--	$3,082
Property rental income	1,732	13,922	6,776	22,430
Total revenue	4,814	13,922	6,776	25,512
Live theater costs	2,044	--	--	2,044
Property rental cost	455	4,961	1,761	7,177
Total operating expense	2,499	4,961	1,761	9,221
Depreciation and amortization	321	2,818	1,501	4,640
Impairment expense	--	2,239	--	2,239
General & administrative expense	13	1,134	73	1,220
Segment operating income	$1,981	$2,770	$3,441	$8,192

Year Ended December 31, 2009	United States	Australia	New Zealand	Total
Live theater rental and ancillary income	$2,665	$--	$--	$2,665
Property rental income	1,545	10,853	5,804	18,202
Total revenue	4,210	10,853	5,804	20,867
Live theater costs	1,551	--	--	1,551
Property rental cost	493	3,997	1,550	6,040
Total operating expense	2,044	3,997	1,550	7,591
Depreciation and amortization	334	1,954	1,398	3,686
Impairment expense	--	--	3,217	3,217
Loss on transfer of real estate held for sale to continuing operations	--	549	--	549
Contractual commitment loss	--	--	1,092	1,092
General & administrative expense	18	914	131	1,063
Segment operating income (loss)	$1,814	$3,439	$(1,584)	$3,669

Real Estate Results for 2011 Compared to 2010

- Real estate revenue increased by $1.9 million or 7.4% compared to 2010. The increase in revenue was primarily related to an increase in live theater revenue in the U.S., increased rental income from our Australian and New Zealand ETRCs coupled with fluctuations in currency exchange rates (see below).

- Operating expense for the real estate segment increased by $1.2 million or 13.0% compared to 2010. This increase in expense was primarily related to our efforts to sell various development properties in Australia and New Zealand and with the aforementioned fluctuations in currency exchange rates (see below).

- Depreciation expense for the real estate segment increased by $168,000 or 3.6% compared to 2010 primarily due to the impact of currency fluctuations for our Australian and New Zealand operations (see below) offset by a $208,000 correction of a recorded prior year depreciation expense to the New Zealand results.

- We recorded a real estate impairment loss of $369,000 in 2011 compared to $2.2 million in 2010 related to our Taringa real estate property. We subsequently sold this property on February 21, 2012 for $1.8 million (AUS$1.8

million)

- General and administrative costs decreased by $574,000 or 47.0% compared to 2010 primarily due 2010 litigation costs for the Mackie case in Australia not repeated in 2011.

Table of Contents

- Australian and New Zealand monthly average exchange rates for 2011 increased by 12.2% and 9.7%, respectively, from those in 2010, which had an overall positive impact on the income statement.

  - As a result of the above, real estate segment income increased by $3.0 million or 36.1% compared to 2010.

Real Estate Results for 2010 Compared to 2009

- Real estate revenue increased by $4.6 million or 22.3% compared to 2009. The increase in revenue was primarily related to increased rental income from our Australian properties, primarily related to a full year of rent from our Indooroopilly building, and an increase in live theater revenue in the U.S. coupled with fluctuations in currency exchange rates (see below).

- Operating expense for the real estate segment increased by $1.6 million or 21.5% compared to 2009. This increase in expense was primarily related to increased live theater costs of $493,000, which corresponds with the aforementioned increase in live theater revenue, and with the aforementioned fluctuations in currency exchange rates (see below).

- Depreciation expense for the real estate segment increased by $954,000 or 25.9% compared to 2009 primarily due to the impact of currency fluctuations (see below).

- We recorded a decrease in real estate impairment losses of $978,000. In 2010, we recorded a $2.2 million impairment charge related to our Taringa real estate property primarily associated with the development costs of the project. In 2009, we recorded a $3.2 million impairment loss due to weak property values in New Zealand and a contractual commitment loss of $1.1 million associated with a property that we were under an unconditional contract to purchase in April 2010.

- We recorded a loss, in effect catch up depreciation, during 2009, on transfer of real estate held for sale to continuing operations of $549,000 related to our Auburn property.

- General and administrative costs increased by $157,000 or 14.8% compared to 2009 primarily due to the impact of currency fluctuations (see below) offset by our continuing cost cutting measures associated with our U.S. and New Zealand operations.

- Australian and New Zealand monthly average exchange rates for 2010 increased by 16.2% and 13.6%, respectively, from those in 2009, which had an overall positive impact on the income statement.

  - As a result of the above, real estate segment income increased by $4.5 million or 123.3% compared to 2009.

Non-Segment Activity

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

2011 Compared to 2010

During 2011, the increase of $362,000 in corporate General and Administrative expense was primarily made up of:

- $1.2 million increase in corporate payroll expense primarily related to one-time severance and temporarily duplicated labor costs associated with our transfer of our accounting functions from the U.S. and Australia to New

Zealand;

- $362,000 increase in consulting and administrative activities primarily related to the transfer of our accounting functions to New Zealand and to costs associated with the recent move of our Los Angeles corporate office; offset by,

- $1.3 million decrease in legal and professional fees in 2011 associated principally with our tax litigation case which was settled in 2010.

Table of Contents

Also during 2011:

- net interest expense increased by $8.8 million compared to 2010. The increase in interest expense during 2011 was primarily driven by a $5.0 million increase associated with the mark-to-market of our interest rate swaps and cap, an increase to interest expense of $1.1 million associated with increased line of credit fees for our new Australian credit facility, and a decrease in our 2010 interest primarily related to a reduction of interest on our Nationwide notes associated with a purchase price adjustment of the Consolidated Cinemas acquisition.

- the $1.2 million in other income during 2011 was primarily related to insurance proceeds from a partial payment of our business interruption claim for the temporary closure of our cinema in Christchurch, New Zealand due to the February 22, 2011 earthquake (see Note 27 – Casualty Loss to our 2011 Consolidated Financial Statements). The $347,000 other loss in 2010 included offsetting settlements related to our Whitehorse Center litigation and the 2008 sale of our interest in the Botany Downs cinema; a $605,000 loss associated with our Mackie litigation; and a recovery of previously written-off receivables.

- gain (loss) on sale of assets decreased by $419,000 primarily related to a deferred gain on sale of a property in 2010 not recurring in 2011.

- equity earnings from unconsolidated investments decreased by $2.9 million primarily related to a $2.9 million impairment in our interest in Rialto Entertainment.

- the net income tax benefit of $12.3 million during 2011 was primarily relating to a one-time tax provision adjustment of $14.4 million caused by a reduction in the valuation allowance related to our Australian operations compared to an income tax expense of $14.3 million during 2010 primarily relating to additional tax accrual associated with our tax litigation settlement. For more information regarding these tax provision and accrual adjustments, see Note 14 – Income Tax to our 2011 Consolidated Financial Statements.

- gain on the sale for our Elsternwick Cinema of $1.7 million that is included in our income from discontinued operations.

2010 Compared to 2009

During 2010, the decrease of $167,000 in corporate General and Administrative expense was primarily made up of:

- $376,000 decrease in legal fees in 2010 associated principally with the settlement of our Malulani Investments Limited ("MIL") case in 2009 (we anticipate that these legal costs will continue to decrease as we have settled all of our major outstanding cases over the past two years); and

- $332,000 of reduced corporate payroll expense; offset by

- $542,000 of increased professional fees for our 2010 settlement of the tax litigation case and for real estate and administrative activities.

Also during 2010:

- net interest expense decreased by $2.3 million compared to 2009. The decrease in interest expense during 2010 was primarily driven by a $3.7 million decrease in interest from our Nationwide Notes associated with the $16.9 million in note reductions during 2010 and a $705,000 decrease in interest associated with the 2009 paydown of our Trust Preferred Securities offset by a net $1.1 million increase to interest associated with the mark-to-market of our interest swaps and cap and an increase to interest expense of $1.4 million associated with an increase to Australian interest rates.

- the $347,000 other loss included offsetting settlements related to our Whitehorse Center litigation and the 2008 sale of our interest in the Botany Downs cinema; a $605,000 loss associated with our Mackie litigation; and a recovery of previously written-off receivables. The $2.0 million other loss in 2009 included a $1.0 million other-than-temporary loss on marketable securities; a $2.3 million loss on foreign currency transactions; $848,000 in litigation loss accruals; offset by a $1.5 million gain from fees associated with a terminated option and $481,000 in gains from legal settlements.

Table of Contents

- the $352,000 gain on sale of assets primarily related to a deferred gain on sale of a property.
- income tax expense increased by $12.3 million primarily relating to our July 2010 settlement with the IRS on our Tax Audit/Litigation case.

- equity earnings from unconsolidated investments increased by $1.2 million in primarily related to distributions from Rialto Distributions of $286,000 after recording losses of $1.1 million in 2009.

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.

Net Income Attributable to Reading International, Inc. Common Shareholders

For the years ending 2011, 2010, and 2009, our consolidated business units produced a net income of $10.0 million (primarily driven by a decrease in our tax provision of $14.4 million caused by a reduction in the valuation allowance related to our Australian operations), a net loss of $12.7 million (primarily driven by an increase in our accrual for our IRS Tax Audit/Litigation case of $12.0 million), and a net income of $6.1 million, respectively, attributable to Reading International, Inc. common shareholders. For many of the years prior to 2011, 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 2011, 2010, and 2009, that in years past has 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.

Table of Contents

In summary, while we do have operating company attributes, we see ourselves principally as a geographically diversified real estate company and intend to add to stockholder value by building the value of our portfolio of tangible assets including both entertainment and other types of land and brick and mortar assets. We endeavor 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 operation with the investment and development opportunities of our real estate development operation, our business strategy is unique among public companies.

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 digitalization of our worldwide cinema circuit; and
- debt servicing requirements.

With the 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 digitize our cinema circuit and make strategic acquisitions but also to service the associated debt.

Discussion of Our Statement of Cash Flows

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

Operating Activities

2011 Compared to 2010. Cash provided by operations was $24.3 million in 2011 compared to $22.8 million in the 2010. The increase in cash provided by operations of $1.5 was due primarily to $4.5 million from changes in operating assets and liabilities (excluding a $12.7 million change in accrual for our tax litigation settlement) offset by a $3.1 million decrease in operational cash flows.

2010 Compared to 2009. Cash provided by operations was $22.8 million in 2010 compared to $18.0 million in the 2009. The increase in cash provided by operations of $4.8 million was due primarily to $2.0 million from changes in operating assets and liabilities (excluding a $12.7 million change in accrual for our tax litigation settlement) and $2.8 million from an increase in operational cash flows.

Investing Activities

Cash used in investing activities for 2011 was $3.8 million compared to $21.0 million in 2010 and $12.9 million in 2009. The following summarizes our discretionary investing activities for each of the three years ending December

31, 2011:

Table of Contents

The $3.8 million cash used in 2011 was primarily related to:

- $3.9 million for the purchase of the CalOaks cinema;
- $200,000 as a deposit for the purchase of remaining 50% membership interest in the Angelika Film Centers LLC;
- $5.5 million in property enhancements to our existing properties;
- $168,000 of a change in restricted cash; and
- $2.8 million for the purchase of mortgage notes receivable;

offset by

- $1.9 million of net proceeds from the sale of our 66.7% share of the 5-screen Elsternwick Classic cinema located in Melbourne, Australia;
- $143,000 of proceeds from the sale of marketable securities; and
- $6.8 million of proceeds from the pay off of a long-term other receivable associated with our Malulani investment.

The $21.0 million cash used in 2010 was primarily related to:

- $14.1 million in property enhancements to our existing properties;
- $5.3 million in acquisitions; and
- $1.8 million of change in restricted cash

offset by

- $229,000 in return of investment of unconsolidated entities.

The $12.9 million cash used in 2009 was primarily related to:

- $5.7 million in property enhancements to our existing properties;
- $706,000 deposit to purchase a property adjacent to our Manukau property; and
- $11.5 million to purchase marketable securities to exchange for our Reading International Trust I securities;

offset by

- $1.3 million in restricted cash primarily related to the use of construction deposits made in 2008 for repair work to one of our cinemas;
- $3.3 million in return of investment of unconsolidated entities; and
- $285,000 of sale option proceeds for our Auburn property.

Financing Activities

Cash used in financing activities for 2011 was $23.4 million compared to cash provided by financing activities of $5.5 million in 2010 and cash used in financing activities of $14.4 million in 2009. The following summarizes our financing activities for each of the three years ending December 31, 2011:

The $23.4 million cash used in 2011 was primarily related to:

- $126.8 million of loan repayments including the $105.8 million payoff of our Australian BOSI loan, $5.3 million in loan repayment on our GE Capital Loan, $9.7 million payoff of our NAB revolver, $3.4 million loan repayment of our NAB term debt, and $2.0 million pay down of our Nationwide Notes;

- $747,000 to repurchase our Class A Nonvoting Common Stock; and

- $654,000 in noncontrolling interests' distributions.

offset by

- $105.3 million of new borrowing including $104.2 million of loan proceeds from our new NAB loan net of $774,000 of capitalized borrowing costs and $1.1 million of borrowing from our New Zealand credit facility; and
- $233,000 in noncontrolling interests' contributions.

The $5.5 million cash provided in 2010 was primarily related to:

- $8.0 million of borrowing on our New Zealand credit facility;
- $7.2 million of borrowing proceeds from our new Union Square Theater Term Loan net of capitalized borrowing costs;
- $7.0 million of new borrowings from our recently renegotiated GE capital loan net of capitalized borrowing costs;
- $225,000 of contributions from noncontrolling interests; and
- $248,000 of proceeds from the exercise of employee stock options;

offset by

- $15.5 million of loan repayments including $6.9 million for the pay off of our Union Square Term Loan, $5.0 million for the pay off of our SHC Loan, and $3.2 million pay down of our GE Capital Loan;
- $251,000 of repurchase of Class A Nonvoting Common Stock; and
- $1.4 million in noncontrolling interest distributions.

The $14.4 million cash used in 2009 was primarily related to:

- $1.5 million of borrowing on our Australian Construction facility; and
- $175,000 of noncontrolling interest contributions;

offset by

- $14.9 million of loan repayments including $8.3 million to pay down on our GE Capital loan and $6.1 million to pay off our Australian Construction facility; and
- $1.1 million in noncontrolling interest distributions.

Future Liquidity and Capital Resources

We believe that we have sufficient borrowing capacity to meet our short-term working capital requirements.

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

- receiving on February 8, 2012, an approved amendment from Westpac renewing our existing $35.1 million (NZ$45.0 million) New Zealand credit facility with a 3-year $31.2 million (NZ$40.0 million) credit facility.

- replacing our Australia Corporate Credit Facility with a new facility from National Australia Bank comprising at December 31, 2011 an $88.7 million (AUS$86.5 million) term loan; a $10.3 million (AUS$10.0 million) revolving facility which was unused at December 31, 2011; and a $5.1 million (AUS$5.0 million) guarantee facility.

Table of Contents

- renegotiating our GE Capital loan resulting in an increase in the loan balance by $8.0 million and the ability to use a larger portion of cash flows from our Consolidated Entertainment Inc. subsidiary.
- signing a new 5-year term loan on our Union Square theatre with a loan balance of $7.4 million.
- renegotiating our Sutton Hill Capital loan, by paying off the $5.0 million loan and extending the $9.0 million loan along with an option to purchase the Village East building lease.

To meet our current and future liquidity requirements, we have the following external sources of unused liquidity:

- $9.4 million (NZ$12.0 million) is available on our renewed New Zealand Corporate Credit facility;
- $10.3 million (AUS$10.0 million) is available on our new NAB revolver facility; and
- $500,000 is available on our Bank of America Line of Credit.

Potential uses for funds during 2012 that would reduce our liquidity, other than those relating to working capital needs and debt service requirements include:

- Securing digital and digital 3D projectors for our cinema worldwide circuit;
- payment of our legal settlement obligation for the Tax/Audit Litigation based on a recently negotiated schedule;
- the selective development of our currently held for development projects; and
- the acquisition of assets with proven cash flow that we believe to be resistant to the current recessionary trends.

Our cash position at December 31, 2011 was $31.6 million compared to $34.6 million at December 31, 2010. Of the $31.6 million, $16.5 million was in Australia, $11.8 million was in the U.S., and $3.3 million was in New Zealand. Of the $16.5 million in Australia, pursuant to our new NAB credit agreement, we are only able to transfer $4.1 million (AUS$4.0 million) per year outside of Australia without the prior approval of NAB. This transfer from Australia (into the U.S.) was made earlier in 2011. Of the $11.8 million in the U.S., $8.7 million is included in our Consolidated Entertainment subsidiary and is subject to certain debt covenants with GE Capital that limit the use of this cash outside of the subsidiary without the prior approval of GE. Therefore, at December 31, 2011, we had approximately $6.4 million of cash worldwide that is not restricted by covenants.

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 estimated cost of $600.0 million included approximately $1.8 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, 2011, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $12.5 million (AUS$12.2 million) and as of that date we had incurred a total of $8.5 million (AUS$8.3 million) of these costs. In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 410-30-25 – Environmental Obligations contamination clean up costs that improve the property from its original acquisition state are capitalized as part of the property's overall development costs.

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 principal repayments, interest payments, and short-term debt maturities plus any other debt service obligations, working capital, capital expenditures and other operating needs.

Table of Contents

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 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, 2011 (in thousands):

	2012	2013	2014	2015	2016	Thereafter	Total
Debt	$ 29,630	$ 31,216	$ 69,159	$ 42,696	$ --	$ --	$ 172,701
Notes payable to related parties	--	9,000	--	--	--	--	9,000
Subordinated notes (trust preferred securities)	--	--	--	--	--	27,913	27,913
Pension liability	10	20	30	40	50	4,139	4,289
Lease obligations	31,117	28,412	25,060	21,045	19,578	76,942	202,154
Estimated interest on debt	13,014	11,033	6,778	2,591	1,568	16,460	51,444
Total	$ 73,771	$ 79,681	$ 101,027	$ 66,372	$ 21,196	$ 125,454	$ 467,501

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 ASC 740-10-25 – Income Taxes - Uncertain Tax Positions 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, to $14.5 million, and to $15.3 million as of December 31, 2007, 2008, and 2009, respectively. As of December 31 2010, the gross unrecognized tax benefit increased to $20.6 million, substantially as a result of having settled our Tax Audit/Litigation case (see Note 19 – Commitments and Contingencies to our 2011 Consolidated Financial Statements). As of December 31 2011, the gross unrecognized tax benefit decreased to $4.4 million largely because the Tax Audit/Litigation matter is no longer in the nature of an uncertain tax position governed by FASB ASC 740-10-25, but is a fixed and determinable tax liability. We do not expect a significant tax payment related to the $4.4 million in uncertain tax positions within the next 12 months.

Unconsolidated Joint Venture Debt

Total debt of unconsolidated joint ventures was $663,000 and $653,000 as of December 31, 2011 and December 31, 2010, respectively. Our share of unconsolidated debt, based on our ownership percentage, was $221,000 and $218,000 as of December 31, 2011 and December 31, 2010, respectively. This loan is guaranteed by one of our subsidiaries to the extent of our ownership percentage.

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, revenue or expense, results of operations, liquidity, capital expenditures or capital resources.

Table of Contents

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.

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 Australian debt with the proceeds of our TPS, 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.

In the first quarter 2009, we took advantage of current market illiquidity for securities such as our TPS 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 TPS for a period of nine years (through December 2017), in consideration of the payment of $1.6 million, consisting of an initial payment of $1.1 million, a payment of $270,000 made in December 2011, and a contractual obligation to pay $270,000 in December 2014. In the event that the remaining payment is 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 75% of the loan be swapped into fixed rate obligations but we have elected to swap 100% of the balance. Additionally, under our GE Capital Term Loan, we are required to swap no less than 50% of the December 1, 2010 balance of $37.5 million for the first three years of the revised loan agreement (see Note 12 – Notes Payable to our 2011 Consolidated Financial Statements), but we have elected to swap 100% of the balance for the first three years.

In accordance with FASB ASC 815-20 – Derivatives and Hedging, we marked our interest swap instruments to market on the consolidated balance sheet resulting in a $5.0 million increase to interest expense during 2011, $284,000 decrease to interest expense during 2010, and a $1.4 million decrease to interest expense during 2009.

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.

Accounting Pronouncements Adopted During 2011

Please see Note 2 – Summary of Significant Accounting Policies to our 2011 Consolidated Financial Statements.

Table of Contents

New Accounting Pronouncements

Please see Note 2 – Summary of Significant Accounting Policies to our 2011 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:

  o the number and attractiveness to movie goers of the films released in future periods;

  o the amount of money spent by film distributors to promote their motion pictures;

  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, cable, satellite broadcast, DVD and VHS rentals and sales, and so called "movies on demand;"

  o the extent to which we can digitalize our cinema circuit compared to our competitors; 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.

Table of Contents

- 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);

o 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;

o 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

o 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.

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, 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.

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, 2011, approximately 57% and 16% 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 $19.8 million in cash and cash equivalents. At December 31, 2010, approximately 55% and 16% of our assets were invested in assets denominated in Australian and New Zealand dollars, respectively, including approximately $18.1 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 56% and 50% 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 $13.8 million and $3.6 million, respectively, and the change in annual net income would be $1.9 million and $410,000, respectively. At the present time, we have no plan to hedge such exposure. We believe that this currency risk is mitigated by the long-term nature of the fully subordinated notes.

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 $60.1 million and $59.1 million as of December 31, 2011 and 2010, 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 loans have fixed interest rates; however, one of our international loans has a variable interest rate and a change of approximately 1% in short-term interest rates would have resulted in approximately $280,000 increase or decrease in our 2011 interest expense.

Item 8 – Financial Statements and Supplementary Data

TABLE OF CONTENTS

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheet of Reading International, Inc. and subsidiaries (the "Company") as of December 31, 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year ended December 31, 2011. Our audit of the consolidated financial statements also included the financial statement schedule listed in the Index at Item 15 for the year ended December 31, 2011. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reading International, Inc. and subsidiaries at December 31, 2011, and the results of their operations and their cash flows for the year ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule for the year ended December 31, 2011, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

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, 2011, 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 15, 2012 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Los Angeles, California
March 15, 2012

Table of Contents

Report of Independent Registered Public Accounting Firm

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, 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2010. 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, 2010, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010, 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, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company's Australian Credit Facility with an outstanding balance of $101.7 million as of December 31, 2010 matures on June 30, 2011 and the Company is currently in negotiations to obtain a new credit facility. Management's plans concerning this matter are discussed in Note 2 to the financial statements.

As discussed in Note 9 to the consolidated financial statements, the accompanying 2010 and 2009 consolidated financial statements have been retrospectively adjusted for the reversal of discontinued operations.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

March 15, 2011

(March 15, 2012 as to the effects of the retrospective adjustments for the reversal of discontinued operations discussed in Note 9)

Table of Contents

Reading International, Inc. and Subsidiaries
Consolidated Balance Sheets as of December 31, 2011 and 2010
(U.S. dollars in thousands)

	December 31, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$31,597	$34,568
Receivables	6,973	5,470
Inventory	1,035	989
Investment in marketable securities	2,874	2,985
Restricted cash	2,379	2,159
Deferred tax asset	1,985	--
Prepaid and other current assets	3,781	3,536
Assets held for sale	1,848	55,210
Total current assets	52,472	104,917
Property held for and under development	91,698	35,702
Property & equipment, net	215,428	220,250
Investment in unconsolidated joint ventures and entities	7,839	10,415
Investment in Reading International Trust I	838	838
Goodwill	22,277	21,535
Intangible assets, net	17,999	20,156
Deferred tax asset, net	12,399	--
Other assets	9,814	16,536
Total assets	$430,764	$430,349
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$16,905	$15,930
Film rent payable	6,162	5,757
Notes payable – current portion	29,630	108,124
Taxes payable	14,858	23,872
Deferred current revenue	10,271	8,727
Other current liabilities	137	141
Total current liabilities	77,963	162,551
Notes payable – long-term portion	143,071	83,784
Notes payable to related party	9,000	9,000
Subordinated debt	27,913	27,913
Noncurrent tax liabilities	12,191	2,267
Other liabilities	35,639	32,195
Total liabilities	305,777	317,710
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Class A non-voting common stock, par value $0.01, 100,000,000 shares authorized, 35,675,518 issued and 21,311,348 outstanding at December 31, 2011 and 31,500,693 issued and 21,308,823 outstanding at December 31, 2010	220	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, 2011 and at December 31, 2010	15	15
Nonvoting preferred stock, par value $0.01, 12,000 shares authorized and no issued		

Additional paid-in capital	135,171	134,236
Accumulated deficit	(66,079)	(76,035)
Treasury shares	(4,512)	(3,765)
Accumulated other comprehensive income	58,937	57,120
Total Reading International, Inc. stockholders' equity	123,752	111,787
Noncontrolling interests	1,235	852
Total stockholders' equity	124,987	112,639
Total liabilities and stockholders' equity	$430,764	$430,349

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, 2011
(U.S. dollars in thousands, except per share amounts)

	Year Ended December 31, 2011	2010	2009
Operating revenue			
Cinema	$225,849	$211,073	$201,388
Real estate	19,956	19,046	15,626
Total operating revenue	245,805	230,119	217,014
Operating expense			
Cinema	182,215	171,795	160,467
Real estate	10,419	9,221	7,591
Depreciation and amortization	16,960	15,914	15,168
Loss on transfer of real estate held for sale to continuing operations	--	--	549
Impairment expense	369	2,239	3,217
Contractual commitment loss	--	--	1,092
General and administrative	17,432	17,784	17,559
Other operating income	--	--	(2,551)
Total operating expense	227,395	216,953	203,092
Operating income	18,410	13,166	13,922
Interest income	1,482	1,351	1,154
Interest expense	(22,520)	(13,637)	(15,726)
Gain on extinguishment of debt	--	--	10,714
Net gain (loss) on sale of assets	(67)	352	(2)
Other income (expense)	1,157	(347)	(2,013)
Income (loss) before income tax benefit (expense), equity earnings (loss) of unconsolidated joint ventures and entities, and discontinued operations	(1,538)	885	8,049
Income tax benefit (expense)	12,330	(14,264)	(1,952)
Income (loss) before equity earnings (loss) of unconsolidated joint ventures and entities and discontinued operations	10,792	(13,379)	6,097
Equity earnings (loss) of unconsolidated joint ventures and entities	(1,552)	1,345	117
Gain on sale of unconsolidated joint venture	--	--	268
Income (loss) before discontinued operations	9,240	(12,034)	6,482
Gain on sale of discontinued operation	1,656	--	--
Net income (loss)	$10,896	$(12,034)	$6,482
Net income attributable to noncontrolling interests	(940)	(616)	(388)
Net income (loss) attributable to Reading International, Inc. common shareholders	$9,956	$(12,650)	$6,094
Earnings (loss) per common share attributable to Reading International, Inc. shareholders – basic:			
Earnings (loss) from continuing operations	$0.37	$(0.56)	$0.27
Earnings from discontinued operations, net	0.07	--	--

Basic earnings (loss) per share attributable to Reading International, Inc. shareholders	$0.44	$(0.56)	$0.27
Earnings (loss) per common share attributable to Reading International, Inc. shareholders – diluted:			
Earnings (loss) from continuing operations	$0.36	$(0.56)	$0.27
Earnings from discontinued operations, net	0.07	--	--
Diluted earnings (loss) per share attributable to Reading International, Inc. shareholders	$0.43	$(0.56)	$0.27
Weighted average number of shares outstanding – basic	22,764,666	22,781,392	22,580,942
Weighted average number of shares outstanding – diluted	22,993,135	22,781,392	22,767,735

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, 2011
(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 Reading International, Inc. Stockholders' Equity	Noncontrolling Interests	Total Stockholders' Equity
At January 1, 2009	20,987	$216	1,495	$15	$133,906	$(4,306)	$(69,479)	$7,278	$67,630	$1,817	$69,447
Net income	--	--	--	--	--	--	6,094	--	6,094	388	6,482
Other comprehensive income:											
Cumulative foreign exchange rate adjustment	--	--	--	--	--	--	--	34,130	34,130	141	34,271
Accrued pension service costs	--	--	--	--	--	--	--	(418)	(418)	--	(418)
Unrealized gain on securities	--	--	--	--	--	--	--	524	524	--	524
Total comprehensive income	--	--	--	--	--	--	--	--	40,330	529	40,859
Stock option and restricted stock compensation expense	--	--	--	--	916	--	--	--	916	--	916
Cancelation of treasury shares	--	(1)	--	--	(791)	792	--	--	--	--	--
Class A common stock issued for stock bonuses and options exercised	146	--	--	--	13	--	--	--	13	--	13
Contributions from noncontrolling shareholders	--	--	--	--	--	--	--	--	--	175	175
Distributions to noncontrolling	--	--	--	--	--	--	--	--	--	(1,147)	(1,147)

shareholders											
At December 31, 2009	21,133	$215	1,495	$15	$134,044	$(3,514)	$(63,385)	$41,514	$108,889	$1,374	$110,263
Net loss	--	--	--	--	--	--	(12,650)	--	(12,650)	616	(12,034)
Other comprehensive income:											
Cumulative foreign exchange rate adjustment	--	--	--	--	--	--	--	15,972	15,972	43	16,015
Accrued pension service costs	--	--	--	--	--	--	--	112	112	--	112
Unrealized loss on securities	--	--	--	--	--	--	--	(478)	(478)	--	(478)
Total comprehensive loss	--	--	--	--	--	--	--	--	2,956	659	3,615
Stock option and restricted stock compensation expense	--	--	--	--	821	--	--	--	821	--	821
Purchase of treasury shares	(63)	--	--	--	--	(251)	--	--	(251)	--	(251)
Class A common stock issued for stock bonuses and options exercised	239	1	--	--	248	--	--	--	249	--	249
Deemed distribution from capital lease	--	--	--	--	(877)	--	--	--	(877)	--	(877)
Contributions from noncontrolling shareholders	--	--	--	--	--	--	--	--	--	225	225
Distributions to noncontrolling shareholders	--	--	--	--	--	--	--	--	--	(1,406)	(1,406)
At December 31, 2010	21,309	$216	1,495	$15	$134,236	$(3,765)	$(76,035)	$57,120	$111,787	$852	$112,639
Net income	--	--	--	--	--	--	9,956	--	9,956	940	10,896
Other comprehensive income:											

Cumulative foreign exchange rate adjustment	--	--	--	--	--	--	--	1,017	1,017	11	1,028
Accrued pension service costs	--	--	--	--	--	--	--	832	832	--	832
Unrealized loss on securities	--	--	--	--	--	--	--	(32)	(32)	--	(32)
Total comprehensive income	--	--	--	--	--	--	--	--	11,773	951	12,724
Stock option and restricted stock compensation expense	--	4	--	--	935	--	--	--	939	--	939
Purchase of treasury shares	(172)	--	--	--	--	(747)	--	--	(747)	--	(747)
Class A common stock issued for stock bonuses and options exercised	174	--	--	--	--	--	--	--	--	--	--
Cinema sale to noncontrolling shareholder	--	--	--	--	--	--	--	--	--	(147)	(147)
Contributions from noncontrolling shareholders	--	--	--	--	--	--	--	--	--	233	233
Distributions to noncontrolling shareholders	--	--	--	--	--	--	--	--	--	(654)	(654)
At December 31, 2011	21,311	$220	1,495	$15	$135,171	$(4,512)	$(66,079)	$58,937	$123,752	$1,235	$124,987

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, 2011
(U.S. dollars in thousands)

	Year Ended December 31, 2011	2010	2009
Operating Activities			
Net income (loss)	$10,896	$(12,034)	$6,482
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
(Income) loss recognized on foreign currency transactions	16	(59)	2,257
Equity (earnings) loss of unconsolidated joint ventures and entities	1,552	(1,345)	(117)
Distributions of earnings from unconsolidated joint ventures and entities	1,119	1,352	1,167
Loss provision on impairment of asset	369	2,239	3,217
(Gain) loss on sale of assets	(1,589)	(352)	549
Deferred tax benefit	(15,028)	--	--
(Gain) loss on marketable securities	(25)	--	1,047
Gain in other operating income	--	--	(2,551)
Loss associated with contractual commitment	--	--	1,092
Gain on the sale of an unconsolidated entity	--	--	(268)
Gain on option termination	--	--	(1,530)
Gain on retirement of subordinated debt (trust preferred securities)	--	--	(10,714)
Depreciation and amortization	16,960	15,914	15,168
Amortization of prior service costs	832	112	(418)
Amortization of above and below market leases	427	924	772
Amortization of deferred financing costs	1,276	1,402	775
Amortization of straight-line rent	782	(93)	977
Stock based compensation expense	939	821	916
Changes in assets and liabilities:			
(Increase) decrease in receivables	(1,468)	4,363	(494)
Increase in prepaid and other assets	(7)	(162)	(1,712)
Increase in accounts payable and accrued expenses	833	115	238
Increase (decrease) in film rent payable	361	(1,841)	(942)
Increase in taxes payable	908	13,009	1,762
Increase (decrease) in deferred revenue and other liabilities	5,100	(1,581)	305
Net cash provided by operating activities	24,253	22,784	17,978
Investing Activities			
Acquisitions	(3,917)	(5,313)	--
Acquisition deposit paid	(200)	--	(706)
Purchases of and additions to property and equipment	(5,459)	(14,058)	(5,686)
Change in restricted cash	(168)	(1,838)	1,335
Cinema sale proceeds from noncontrolling shareholder	1,867	--	--
Purchase of marketable securities	--	(42)	(11,463)
Sale of marketable securities	143	30	--
Proceeds from note receivable	6,750	--	--
Option proceeds	--	--	285
Distributions of investment in unconsolidated joint ventures and entities	--	229	3,336
Purchase of notes receivable	(2,784)	--	--
Net cash used in investing activities	(3,768)	(20,992)	(12,899)
Financing Activities			

Repayment of long-term borrowings	(126,780)	(15,450)	(14,888)
Proceeds from borrowings	105,311	23,525	1,455
Capitalized borrowing costs	(774)	(1,347)	--
Repurchase of Class A Nonvoting Common	(747)	(251)	--
Proceeds from stock options	--	248	11
Noncontrolling interest contributions	233	225	175
Noncontrolling interest distributions	(654)	(1,406)	(1,147)
Net cash provided by (used in) financing activities	(23,411)	5,544	(14,394)
Effect of exchange rate on cash	(45)	2,620	3,053
Increase (decrease) in cash and cash equivalents	(2,971)	9,956	(6,262)
Cash and cash equivalents at beginning of year	34,568	24,612	30,874
Cash and cash equivalents at end of year	$31,597	$34,568	$24,612
Supplemental Disclosures			
Cash paid during the period for:			
Interest on borrowings, net of amounts capitalized (see Note 6)	$16,957	$15,133	$14,347
Income taxes	$2,688	$792	$774
Non-Cash Transactions			
Foreclosure of a mortgage note to obtain title of the underlying property	1,984	--	--
Reduction in note payable associated with acquisition purchase price adjustment	--	4,381	--
Deemed distribution	--	877	--
Capital lease asset addition	--	4,697	--
Capital lease obligation	--	5,573	--
Exchange of marketable securities for Reading International Trust I securities	--	--	(11,463)
Retirement of subordinated debt (trust preferred securities)	--	--	(23,634)
Retirement of Reading International Trust I securities	--	--	11,463
Retirement of investment in Reading International Trust I securities	--	--	709

See accompanying notes to consolidated financial statements.

Reading International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2011

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 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 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.

Our investment interests are 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

- 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;

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

- 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

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

Refinancing Long-Term Debt

Australian Credit Facility

On June 24, 2011, we replaced our Australian Corporate Credit Facility with BOS International ("BOSI") of $115.8 million (AUS$110.0 million) with the proceeds from a new credit facility from National Australia Bank ("NAB") of $110.5 million (AUS$105.0 million). The outstanding balance of this loan of $101.7 million (AUS$100.5 million) was classified as a current liability at December 31, 2010 on our 2010 Consolidated Balance Sheet as we had not refinanced the then currently maturing facility prior to the annual report issuance date. See Note 12 – Notes Payable.

Table of Contents

New Zealand Credit Facility

The term of our New Zealand Credit Facility with Westpac matures on March 31, 2012. On February 8, 2012, we received an approved amendment from Westpac renewing our existing $35.1 million (NZ$45.0 million) New Zealand credit facility with a 3-year $31.2 million (NZ$40.0 million) credit facility (see Note 28 – Subsequent Events). Accordingly, the December 31, 2011 outstanding balance of this debt of $21.9 million (NZ$28.0 million) is classified as long-term on our balance sheet.

Cinemas 1, 2, 3 Loan

As the loan is due to mature on July 1, 2012, the December 31, 2011 outstanding balance of this debt of $15.0 million is classified as current on our balance sheet. We intend to either refinance the property's debt with similar financing or sell the property and use the proceeds to pay off the loan.

Cash Position

Our cash position at December 31, 2011 was $31.6 million. Of the $31.6 million, $16.5 million was in Australia, $11.8 million was in the U.S., and $3.3 million was in New Zealand. Of the $16.5 million in Australia, pursuant to our new NAB Credit Facility, we are only able to transfer $4.1 million (AUS$4.0 million) per year outside of Australia without the prior approval of NAB. Of the $11.8 million in the U.S., $8.7 million is included in our Consolidated Entertainment subsidiary and is subject to certain debt covenants with GE Capital as discussed in Note 12 that limit the use of this cash outside of the subsidiary without the prior approval of GE. Therefore, at December 31, 2011, we have approximately $6.4 million of cash worldwide that is not restricted by covenants.

At December 31, 2011, we had undrawn funds of $10.3 million (AU$10.0 million) available under our NAB line of credit in Australia, effectively $9.4 million (NZ$12.0 million) available under our renewed New Zealand Corporate Credit facility, $5.0 million available under our GE Capital revolving loan credit facility in the U.S., and $500,000 available under our Bank of America line of credit in the U.S. Accordingly, we believe that we have sufficient borrowing capacity under our various credit facilities, together with our $31.6 million cash balance, to meet our anticipated short-term working capital requirements.

Accounting Principles

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

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, concessions, 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 have established 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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 320-10 - Investments—Debt and Equity Securities ("ASC 320-10"). 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 ASC 320-10, 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 any 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 2009, we realized a loss of $2.1 million on certain marketable securities due to an other than temporary decline in market price. This loss was later offset by a $1.1 million realized gain on exchange of marketable securities. Additionally, these investments have a cumulative unrealized loss of $11,000 included in other comprehensive income at December 31, 2011. For the twelve months ended December 31, 2011, 2010, and 2009, our net unrealized gain (loss) was ($32,000), ($478,000), and $524,000, respectively. 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.

Table of Contents

Variable Interest Entity

Our determination of the appropriate accounting method with respect to our investment in Reading International Trust I, which is considered a Variable Interest Entity ("VIE"), is based on FASB ASC 810-10. We account for this VIE, of which we are not the primary beneficiary, under the equity method of accounting.

We determine if an entity is a VIE under FASB ASC 810-10 based on several factors, including whether the entity's total equity investment at risk upon inception is sufficient to finance the entity's activities without additional subordinated financial support. We make judgments regarding the sufficiency of the equity at risk based first on a qualitative analysis, then a quantitative analysis, if necessary. In a quantitative analysis, we incorporate various estimates, including estimated future cash flows, asset hold periods and discount rates, as well as estimates of the probabilities of various scenarios occurring. If the entity is a VIE, we then determine whether we consolidate the entity as the primary beneficiary. We determine whether an entity is a VIE and, if so, whether it should be consolidated by utilizing judgments and estimates that are inherently subjective. If we made different judgments or utilized different estimates in these evaluations, it could result in differing conclusions as to whether or not an entity is a VIE and whether or not to consolidate such entity. Our investments in unconsolidated entities in which we have the ability to exercise significant influence over operating and financial policies, but do not control, or entities which are variable interest entities in which we are not the primary beneficiary are accounted for under the equity method.

We carry our investment in the Reading International Trust I using the equity method of accounting because we have the ability to exercise significant influence (but not control) over operating and financial policies of the entity. We eliminate transactions with an equity method entity to the extent of our ownership in such an entity. Accordingly, our share of net income (loss) of this equity method entity is included in consolidated net income (loss). We have no implicit or explicit obligation to further fund our investment in Reading International Trust I.

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, 2011 and 2010, our restricted cash balance was $2.4 million and $2.2 million, respectively, which was primarily funds held in escrow for our Mackie litigation settlement.

Fair Value of Financial Instruments

The carrying amounts of our cash and cash equivalents, accounts receivable, 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 FASB ASC 815-20 – Derivatives and Hedging ("ASC 815-20"), 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 ASC 815-20. Therefore, changes in market values are recognized in current earnings.

Property Held for and Under Development

Property held for development is carried at the lower of cost or fair market value. 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 entertainment themed retail centers ("ETRCs"), or other improvements to real property. As incurred, we expense 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. 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 substantially curtailed. During the year-ended December 31, 2009, we decided to curtail our current development progress on certain Australian and New Zealand land development projects. As a result, these properties are considered held for development and we have not capitalized interest for these projects and will not do so, until the development work recommences.

Table of Contents

Incident to the development of our Burwood property, in late 2006, we began various fill and earth moving operations. In late February 2007, it became apparent that our cost estimates with respect to site preparation were low, as the extent of the contaminated soil present at the site, a former brickworks site, 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, 2011, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $12.5 million (AUS$12.2 million) and as of that date we had incurred a total of $8.5 million (AUS$8.3 million) of these costs. In accordance with FASB ASC 410-30-25 – Environmental Obligations, 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 the lower of cost or fair market value 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 $369,000, $2.2 million, and $3.2 million, relating to certain of our property under development, property held for development, and cinema locations for the years ended December 31, 2011, 2010, and 2009, respectively. The impairments reflect our estimates of fair value which were based on appraisals or a discounted income approach with market based assumptions. 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 our joint venture investments for other than temporary impairments in accordance with FASB ASC 318-10 – Investments—Equity Method and Joint Ventures.

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 FASB ASC 360-15 - Impairment or Disposal of Long-Lived Assets ("ASC 360-15"). 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 FASB ASC 350-35 – Goodwill Subsequent Measurement ("ASC 350-35"). 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 current 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). For the years ended December 31, 2010 and 2009, in accordance with the sale agreement of Consolidated Entertainment, the initial aggregate purchase price of the cinemas was adjusted down by $16.9 million and $226,000, respectively, resulting in a corresponding decrease in goodwill associated with the purchased cinemas. No further adjustments are anticipated for this transaction. The resulting net goodwill balance associated with this transaction is $1.7 million at December 31, 2011 and 2010.

Table of Contents

Discontinued Operations and Properties Held for Sale

In accordance with ASC 360-15, the revenue, expenses and net gain on dispositions of operating properties and the revenue 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 FASB ASC 205-20 – Presentation of Financial Statements – Discontinued Operations ("ASC 205-20"). 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 ASC 360-15, 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 cease 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. For a description of the properties previously held for sale see Note 9 – Transfer of Held for Sale Real Estate to Continuing Operations and Related Items. The reclassified results for these transfers of held for sale to operating are reflected in our December 31, 2011, 2010, and 2009 Statement of Operations.

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 FASB ASC 840-20-25 – Leases Having Both Scheduled Rent Increases and Contingent Rents ("ASC 840-20-25").

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.

Advertising Expense

We expense our advertising as incurred. The amount of our advertising expense was $3.8 million, $3.8 million, and $3.4 million for the years ended December 2011, 2010, and 2009, respectively.

Other Income/Expense

For the years ended December 31, 2011, 2010, and 2009, we recorded gains/(losses) on the settlement of litigation of $0, ($808,000), and $3.3 million, respectively, included in other income, as a recovery of legal expenses previously included in general and administrative expenses.

Table of Contents

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

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. Revenue 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 $1.0251 and $1.0122 as of December 31, 2011 and 2010, respectively. The exchange rates of the U.S. dollar to the New Zealand dollar were $0.7805 and $0.7687 as of December 31, 2011 and 2010, respectively.

Income Taxes

We account for income taxes under FASB ASC 740-10 – Income Taxes (“ASC 740-10”), which prescribes an asset and liability approach. Under the asset and liability method, deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense (benefit) is the tax payable (refundable) for the period and the change during the period in deferred tax assets and liabilities.

In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial operations. In projecting future taxable income, we begin with historical results adjusted for the results of discontinued operations and changes in accounting policies. We then include assumptions about the amount of projected future state, federal and foreign pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates we use to manage the underlying businesses. In evaluating the objective evidence that historical results provide, we consider three years of cumulative operating income (loss). In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

ASC 740-10 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

We recognize tax liabilities in accordance with ASC 740-10 and we adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined.

Table of Contents

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, 2011, 2010, and 2009, 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 issued stock options to purchase 622,350, 622,350, and 589,750 shares of Class A Common Stock at December 31, 2011, 2010, and 2009, respectively, at a weighted average exercise price of $5.65, $5.65, and $5.51 per share, respectively. Stock options to purchase 185,100, 185,100, and 150,000 shares of Class B Common Stock were outstanding at the years ended December 31, 2011, 2010, and 2009, respectively, at a weighted average exercise price of $9.90, $9.90, and $10.24 per share, respectively. In accordance with FASB ASC 260-10 – Earnings Per Share ("ASC 260-10"), as we had recorded a loss from continuing operations before discontinued operations for the year ended December 31, 2010, the effect of the stock options and restricted stock was anti-dilutive and accordingly excluded from the diluted 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.

Table of Contents

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 revenue. 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 revenue and ultimately reduce the amount of net income.

Business Acquisition Valuations

The assets and liabilities of businesses acquired are recorded at their respective preliminary fair values as of the acquisition date in accordance with FASB ASC 805-10 – Business Combinations ("ASC 805-10"). Upon the acquisition of real properties, we allocate the purchase price of such properties to acquired tangible assets, consisting of land and building, and identified intangible assets and liabilities, consisting of the value of above market and below market leases and the value of in-place leases, based in each case on their fair values. We use independent appraisals to assist in the determination of the fair values of the tangible assets of an acquired property (which includes land and building). 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 are 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 FASB ASC 820-10 – Fair Value Measurements and Disclosures ("ASC 820-10"). ASC 820-10 defines fair value, establishes a framework for measuring fair value in GAAP and provides for expanded disclosure about fair value measurements. ASC 820-10 applies prospectively to all other accounting pronouncements that require or permit fair value measurements. The adoption of ASC 820-10 did not have a material impact on our consolidated financial statements since it only applies to our fair value measurement of our interest rate swaps and cap and we generally do not record our other financial assets and liabilities in our consolidated financial statements at fair value.

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/cap. 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 that are only disclosed at fair value are comprised of notes payable, TPS, and other debt instruments. We estimated the fair value of our secured mortgage notes payable, our unsecured notes payable, TPS 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.

Table of Contents

We adopted ASC 820-10 for our non-financial assets and non-financial liabilities on January 1, 2009. The adoption of ASC 820-10 did 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 ASC 820-10 applies 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 ASC 360-15; and
- Asset retirement obligations initially measured under FASB ASC 410-20 – Asset Retirement Obligations ("ASC 410-20").

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 revenue and expenses during the reported period. Actual results could differ from those estimates.

Accounting Pronouncements Adopted During 2011

FASB Accounting Standards Update ("ASU") 2010-06 – Fair Value Measurements

ASU 2010-06 requires additional disclosures about the transfers of classifications among the fair value classification levels and the reasons for those changes and separate presentation of purchases, sales, issuances, and settlements in the presentation of the roll forward of Level 3 assets and liabilities. Those disclosures are effective for interim and annual reporting periods for fiscal years beginning after December 15, 2010. The adoption of this portion of the ASU did not have a material effect on the Company's financial statements.

New Accounting Pronouncements

FASB ASU No. 2011-05 - Comprehensive Income (Topic 220): Presentation of Comprehensive Income and FASB ASU No. 2011-12—Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05

ASU No. 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. This amendment will be effective for our Company in 2013 and will be applied retrospectively. This amendment will change the manner in which the Company presents comprehensive income but will not change any of the balances or activity.

FASB ASU No. 2011-08 - Intangibles—Goodwill and Other

ASU No. 2011-08 relates to a change in the annual test of goodwill for impairment. The statement permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This amendment will change the manner in which the Company performs its goodwill impairment test.

Table of Contents

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 $750,000, $750,000, and $500,000, respectively, of restricted class A non-voting common stock ("Class A Stock") for each of the years ending December 31, 2011, 2010, and 2009. The 2011, 2010, and 2009 stock grants of 155,925, 174,825, and 125,945 shares, respectively, were granted fully vested with a stock grant prices of $4.81, $4.29, and $3.97, respectively. Mr. Cotter's stock compensation is granted fully vested with a five-year restriction on sale. As of December 31, 2011, the 2011 stock grant had not yet been issued to Mr. Cotter. During 2011, we issued to Mr. Cotter 174,825 of Class A Stock for his 2010 vested stock grants which had a stock grant price of $4.29 and a grant date fair value of $750,000.

On August 21, 2008, as part of their executive compensation, 37,388 shares of fully vested restricted Class A Stock were granted to three of our executives as stock bonuses having a grant date fair value of $340,000. During 2009, these shares were issued to these executives.

On February 11, 2010, $100,000 of restricted Class A Stock vested, related to Mr. Hunter's 2009 and 2008 stock grants. During 2010, we issued to Mr. Hunter 5,154 shares related to his 2009 vested stock compensation. 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 Stock or 10,638 shares with stock grant price of $9.40 upon acceptance of his employment agreement. This stock grant had an employment-vesting period of two years. Upon his departure from our company during 2009, Mr. Laifman forfeited the unvested portion of this grant in the amount of 5,319 shares.

During the years ended December 31, 2011, 2010, and 2009, we recorded compensation expense of $750,000, $754,000, and $725,000, 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, 2009	33,621	$ 574
Granted	125,945	500
Vested	(159,566)	(1,074)
Outstanding – December 31, 2009	--	$ --
Granted	174,825	750
Vested	(174,825)	(750)
Outstanding – December 31, 2010	--	$ --
Granted	155,925	750
Vested	(155,925)	(750)
Outstanding – December 31, 2011	--	$ --

On April 1, 2010, we terminated our then existing contractual relationship with Doug Osborne, at that time the chief executive officer of our Landplan real estate operations. Mr. Osborne's incentive interest in our various Landplan projects, which was valued at $0, was revoked at that time. Mr. Osborne continues to provide services to us on a non-exclusive independent contractor basis. During the year ended December 31, 2009, we expensed $157,000 associated with Mr. Osborne's previous contractual interest in the properties associated with Landplan Property Partners, Pty Ltd.

Employee Stock Option Plan

We have a long-term incentive stock option plan that provides for the grant to eligible employees, directors, and consultants of incentive or nonstatutory options to purchase shares of our Class A Nonvoting Common Stock. Our 1999 Stock Option Plan expired in November 2009, and was replaced by our new 2010 Stock Incentive Plan, which was approved by the holders of our Class B Voting Common Stock in May 2010. For the stock options exercised during the years ended December 31, 2010 and 2009, we issued 90,000 and 3,000 shares of Class A Stock for cash to employees of the corporation under this stock based compensation plan at exercise prices of $2.76 and $3.80, respectively. During the year ended December 31, 2011, we did not issue any shares under this stock based compensation plan.

Effective January 1, 2006, we adopted FASB ASC 718-10 – Stock Compensation ("ASC 718-10"). ASC 718-10 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 had been included in pro-forma disclosures in prior periods. We estimate the valuation of stock based compensation using a Black-Scholes option-pricing model.

When our tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. ASC 718-10 requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the years ended December 31, 2011, 2010, and 2009, there was also no impact to the consolidated statements of cash flows because there were no recognized tax benefits during these periods.

ASC 718-10 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, 2011, 2010, and 2009.

In accordance with ASC 718-10, 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 their vesting periods.

No options were granted during 2011. For the 157,700 and 50,000 options granted during 2010 and 2009, 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:

	2010	2009
Stock option exercise price	$5.07	$4.01
Risk-free interest rate	2.736%	3.309%
Expected dividend yield	--	--
Expected option life	7.23 yrs	9.60 yrs
Expected volatility	33.01%	33.74%

Weighted average fair value	$1.88	$1.98

Table of Contents

Using the above assumptions and based on our use of the modified prospective method, we recorded $189,000, $67,000, and $241,000 in compensation expense for the total estimated grant date fair value of stock options that vested during the years ended December 31, 2011, 2010, and 2009, respectively. The effect on earnings per share of the compensation charge was $0.01, $0.00, and $0.01 per share for the years ended December 31, 2011, 2010, and 2009, respectively. At December 31, 2011 and 2010, the total unrecognized estimated compensation cost related to non-vested stock options granted was $109,000 and $247,000, respectively, which is expected to be recognized over a weighted average vesting period of 0.67 and 1.37 years, respectively. No options were exercised in 2011. The total realized value of stock options exercised during the years ended December 31, 2010 and 2009 was $138,000 and $1,000, respectively. The grant date fair value of options that vested during the years ending December 31, 2011, 2010, and 2009 was $189,000, $67,000, and $241,000, respectively. We recorded cash received from stock options exercised of $248,000 and $11,000 during the years ended December 31, 2010 and 2009, respectively. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at December 31, 2011 and 2010 was $175,000 and $280,000, respectively, of which 88.6% and 70.1%, respectively, were currently exercisable.

Pursuant to both our 1999 Stock Option Plan and our 2010 Stock Incentive Plan, all stock options expire within ten years of their grant date. The aggregate total number of shares of Class A Stock and class B voting common stock authorized for issuance under our 2010 Stock Option Plan is 1,250,000. At the time that options are exercised, at the discretion of management, we will either issue treasury shares or make a new issuance of shares to the employee or board member. Dependent on the grant letter to the employee or board member, the required service period for option vesting is between zero and four years.

We had the following stock options outstanding and exercisable:

	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, 2009	577,850	185,100	$ 5.60	$ 9.90	525,350	110,100	$ 5.19	$ 9.67
Granted	50,000	--	$ 4.01	$ --				
Exercised	(3,000)	--	$ 3.80	$ --				
Expired	(35,100)	(35,100)	$ 5.13	$ 8.47				
Outstanding- December 31, 2009	589,750	150,000	$ 5.51	$ 10.24	534,750	150,000	$ 5.62	$ 10.24
Granted	122,600	35,100	$ 4.23	$ 8.47				
Exercised	(90,000)	--	$ 2.76	$ --				
Outstanding-December 31, 2010	622,350	185,100	$ 5.65	$ 9.90	449,750	150,000	$ 6.22	$ 10.24
No activity during the period	--	--	$ --	$ --				
Outstanding-December 31, 2011	622,350	185,100	$ 5.65	$ 9.90	544,383	167,550	$ 5.86	$ 10.05

The weighted average remaining contractual life of all options outstanding, vested and expected to vest, at December 31, 2011 and 2010 were approximately 4.13 and 5.13 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at December 31, 2011 and 2010 was approximately 3.85 and 4.38 years, respectively.

Table of Contents

Note 4 – Earnings (Loss) Per Share

For the three years ended December 31, 2011, we calculated the following earnings (loss) per share (dollars in thousands, except per share amounts):

	2011	2010	2009
Income (loss) from continuing operations	$8,300	$(12,650)	$6,094
Income from discontinued operations	1,656	--	--
Net income (loss) attributable to Reading International, Inc. common shareholders	9,956	(12,650)	6,094
Weighted average shares of common stock – basic	22,764,666	22,781,392	22,580,942
Weighted average shares of common stock – diluted	22,993,135	22,781,392	22,767,735
Basic earnings (loss) per share:			
Earnings (loss) from continuing operations	$0.37	$(0.56)	$0.27
Earnings from discontinued operations	0.07	--	--
Basic earnings (loss) per share	$0.44	$(0.56)	$0.27
Diluted earnings (loss) per share:			
Earnings (loss) from continuing operations	$0.36	$(0.56)	$0.27
Earnings from discontinued operations	0.07	--	--
Diluted earnings (loss) per share	$0.43	$(0.56)	$0.27

For the year ended December 31, 2011 and 2009, the weighted average common stock – dilutive only included 228,469 and 186,793, respectively, incremental shares of exercisable in-the-money stock options and unissued restricted Class A Stock. For the year ended December 31, 2010, we recorded a loss from continuing operations. As such, the incremental shares of 174,825 shares of restricted Class A Stock and the 60,692 of exercisable in-the-money stock options in 2010 were excluded from the computation of diluted loss per share because they were anti-dilutive in those periods. In addition, 734,906, 746,758, and 696,419 of out-of-the-money stock options were excluded from the computation of diluted earnings (loss) per share for the years ended December 31, 2011, 2010, and 2009, respectively. The total number of in-the-money stock options, out-of-the-money stock options, and unissued restricted Class A Stock that could potentially dilute basic earnings per share was 963,375, 982,275, and 883,212 for the years ended December 31, 2011, 2010, and 2009, respectively.

Table of Contents

Note 5 – Prepaid and Other Assets

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

	December 31, 2011	December 31, 2010
Prepaid and other current assets		
Prepaid expenses	$1,168	$1,145
Prepaid taxes	781	1,044
Deposits	605	151
Other	1,227	1,196
Total prepaid and other current assets	$3,781	$3,536
Other non-current assets		
Other non-cinema and non-rental real estate assets	$1,134	$1,134
Long-term deposits	264	294
Deferred financing costs, net	3,725	3,830
Interest rate swaps at fair value	--	446
Other receivable	--	6,750
Tenant inducement asset	1,064	1,327
Straight-line rent asset	2,776	2,627
Mortgage notes receivable	851	--
Other	--	128
Total non-current assets	$9,814	$16,536

Investment in Notes Receivable

Other Receivable

On June 14, 2011, we received $6.8 million with respect to the principal and interest owed on a note previously received in connection with a settlement agreement. We believe that further amounts are owed under that note, and we have begun litigation to collect such amounts.

Mortgage Notes Receivable

On February 14, 2011, we purchased for $2.8 million mortgage notes secured by certain properties. These mortgage notes were in default on the date of acquisition and were acquired with the intention of acquiring the underlying properties. In February 2011 and in September 2011, we foreclosed on two of these properties valued at $859,000 and $1.1 million, respectively, which are now classified as a part of properties held for development. We are currently pursuing our remedies for the remaining mortgage note, which, at December 31, 2011, remained in default. We anticipate that we will ultimately acquire the remaining property.

Note 6 – Property Held For and Under Development

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

	December 31, 2011	December 31, 2010
Land	$ 86,667	$ 31,689

Construction-in-progress (including capitalized interest)		5,031		4,013
Property Held For and Under Development	$	91,698	$	35,702

Table of Contents

The amount of capitalized interest for our properties under development was $136,000 for the year ending December 31, 2009. During the year-ended December 31, 2009, we decided to curtail our current development progress on certain Australian and New Zealand land development projects. As a result, we did not capitalize interest on these projects during 2011, 2010, and 2009 and we will not capitalize interest for these projects until development work recommences. During 2010, we determined that we would no longer pursue the development of our Taringa properties. As such, we recorded an impairment to our investment in these properties based on the sales comparison valuation approach of $2.2 million, primarily associated with the development costs of the project. During 2009, we recorded a contractual commitment loss of $1.1 million associated with a property for which we purchased in April 2010. The impairments and contractual commitment loss are primarily related to the impact of the economic downturn in the Australian and New Zealand economies and the timing of our purchases of those assets.

Note 7 – Property and Equipment

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

	December 31,	
Property and Equipment	2011	2010
Land	$ 65,281	$ 64,845
Building and improvements	144,155	142,077
Leasehold interests	40,855	37,262
Construction-in-progress	525	408
Fixtures and equipment	104,804	99,399
Total cost	355,620	343,991
Less: accumulated depreciation	(140,192)	(123,741)
Property and equipment, net	$ 215,428	$ 220,250

Depreciation expense for property and equipment was $15.6 million, $13.3 million, and $12.4 million for the three years ending December 31, 2011, 2010, and 2009, respectively.

In 2009, the slower recovery in New Zealand led to a further impairment charge to one of our operating properties of $3.2 million as reported in our segment operating income. Additionally, in 2011, we recorded impairment losses totaling $65,000 on two of our cinema properties. We did not record an impairment charge for our operating assets during 2010.

Note 8 – Acquisitions, Disposals, and Assets Held for Sale

2011 Transactions

Taringa Property - Held for Sale

As of December 31, 2011, we were under contract to sell the three properties in the Taringa area of Brisbane, Australia of approximately 1.1 acres for $1.8 million (AUS$1.8 million). These properties were sold on February 21, 2012 for the agreed upon amount. See Note 28 – Subsequent Events to our 2011 Consolidated Financial Statements. Because the net carrying amounts of these properties were greater than the total sale price, we recorded an impairment expense for these properties of $369,000 (AUS$365,000) for the year ended December 31, 2011.

Cal Oaks Cinema - Acquisition

On August 25, 2011, we purchased a 17-screen multiplex in Murrieta, California (the “CalOaks Cinema”) for $4.2 million made up of $3.9 million of cash and a $250,000 holdback note for certain offset charges to the purchase price (see Note 11 – Notes Payable and Subordinated Debt (Trust Preferred Securities). Pursuant to ASC 805-10-25, we finalized the purchase accounting for this acquisition during 2011.

Table of Contents

On May 15, 2011, in conjunction with a potential purchase of the CalOaks cinema, we lent $2.3 million to the owner of the CalOaks cinema in exchange for a 90-day note receivable. The note was securitized by three cinemas' leases and had an annualized interest of 9.9%. On August 25, 2011, as part of the CalOaks cinema acquisition, this note was repaid.

Elsternwick Classic Cinema - Sale

On April 14, 2011, we sold our 66.7% share of the 5-screen Elsternwick Classic cinema located in Melbourne, Australia to our joint venture partner for $1.9 million (AUS$1.8 million) and recognized a gain on sale of a discontinued operation of $1.7 million (AUS$1.6 million).

2010 Transactions

Manukau Land - Acquisition

On April 30, 2009, we entered into an agreement to purchase for $3.6 million (NZ$5.2 million) a property adjacent to our Manukau property. An initial deposit of $26,000 (NZ$50,000) was paid upon signing of the agreement, a second deposit of $175,000 (NZ$258,000) was paid in the second quarter of 2009 and a third deposit of $531,000 (NZ$773,000) was paid in August 2009. The fourth and final purchase payment of $2.9 million (NZ$4.1 million) was made on March 31, 2010 completing our acquisition of this land parcel.

2009 Transactions

We did not have acquisitions or asset sales in 2009.

Note 9 – Transfer of Held for Sale Real Estate to Continuing Operations and Related Items

2011 Transactions

Lake Taupo Motel

During the fourth quarter of 2010, we listed for sale the residential units of our Lake Taupo property and the adjoining 1.0-acre parcel located in Lake Taupo, New Zealand. A portion of this property was previously improved with a motel in which we recently renovated the property's units to be condominiums and have enhanced the property value with residential apartment entitlements for the adjoining vacant land. At December 31, 2011, we had not yet sold the property. Pursuant to ASC 360-10-45, as twelve months had passed since this announcement and we did not meet the criteria to classify this property as held for sale, we reclassified $5,000 and $58,000 of income from discontinued operations to the components of income from continuing operations for the years ended December 31, 2010 and 2009, respectively. As a result of the transfer of the asset from held for sale to continuing operations, we recorded a loss for 2011 of $37,000 (NZ$48,000) to measure the property at the lower of its carrying amount, adjusted for depreciation and amortization expense that would have been recognized had the asset been continuously classified as a continuing operational asset, or its fair value at the date of the decision not to sell.

Burwood Development Property

In May 2010, we announced our intent to sell and began actively marketing our 50.6-acre Burwood development site in suburban Melbourne. At June 30, 2011, we had not yet achieved that aim. Pursuant to ASC 360-10-45, as twelve months had passed since this announcement and we did not meet the criteria to classify this property as held for sale, we reclassified the current carrying value of this property of $53.4 million (AUS$52.1 million) from assets held for sale to property held for development on our December 31, 2011 consolidated balance sheet. Nevertheless, discussions with qualified buyers continue, and it remains our plan to monetize at least the residential portions of this property. Based on recent valuations, we continue to believe that the fair market value of the property less costs to sell is greater than the current carrying value; therefore, no asset impairment loss was recorded at the time of the reclassification.

Table of Contents

2010 Transactions

There were no transfers of held for sale real estate continuing operations or related items in 2010.

2009 Transactions

On September 16, 2008, we entered into a sale option agreement to sell our Auburn property for $28.5 million (AUS$36.0 million). During 2009, we received notice from the buyer that they intended to withdraw from the option agreement. Because of the termination of the option agreement, we recorded a gain on option termination of $1.5 million (AUS$2.0 million). As of December 31, 2008, we classified our Auburn property as held for sale, and, because of the buyer's withdrawal from the option agreement, we transferred this property to continuing operations during June 2009. As a result of the transfer of the asset from held for sale to continuing operations, we recorded a loss for 2009 of $549,000 (AUS$685,000) to measure the property at the lower of its carrying amount, adjusted for depreciation and amortization expense that would have been recognized had the asset been continuously classified as a continuing operational asset, or its fair value at the date of the decision not to sell.

The real estate held for sale assets were reclassified from assets held for sale to real estate assets and then adjusted for the loss on transfer during 2009 as follows (in thousands):

	December 31, 2008	Loss Adjustment	December 31, 2009
Assets			
Land	$7,395	$--	$7,395
Building	13,131	(286)	12,845
Equipment and fixtures	7,364	(263)	7,101
Less: Accumulated depreciation	(7,771)	--	(7,771)
Total assets held for sale transferred to continuing operations	$20,119	$(549)	$19,570

Note 10 – Goodwill and Intangible Assets

Goodwill associated with our business combinations is tested for impairment at the beginning of the fourth quarter with continued evaluation through the end of the fourth quarter of every year. The fair value estimates of each of our reporting units is based on the projected profits and cash flows of the related assets using each reporting unit's weighted average cost of capital as a discount rate. As a result of this test, whereby the Step 1 Test was passed for all reporting units, it was determined that there is no impairment to our goodwill as of December 31, 2011 or 2010. At December 31, 2011 or 2010, our goodwill consisted of the following (dollars in thousands):

Table of Contents

2011	Cinema	Real Estate	Total
Balance as of January 1, 2011	$16,311	$5,224	$21,535
Goodwill acquired during 2011	539	--	539
Foreign currency translation adjustment	203	--	203
Balance at December 31, 2011	$17,053	$5,224	$22,277

2010	Cinema	Real Estate	Total
Balance as of January 1, 2010	$32,187	$5,224	$37,411
Change in goodwill due to a purchase price adjustment	(16,936)	--	(16,936)
Foreign currency translation adjustment	1,060	--	1,060
Balance at December 31, 2010	$16,311	$5,224	$21,535

For the years ended December 31, 2010 and 2009, in accordance with the sale agreement of Consolidated Entertainment, the initial aggregate purchase price of the cinemas was adjusted down by $16.9 million and $226,000, respectively, resulting in a corresponding decrease in goodwill associated with the purchased cinemas. We do not anticipate any further purchase price adjustments associated with this transaction.

Goodwill is tested for impairment annually or more frequently whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Historically, we have performed our annual goodwill impairment test at the beginning of the fourth quarter for all of our reporting units except for the US Cinemas reporting unit. The goodwill included in the US Cinemas reporting unit, which was created in the first quarter of 2008 as part of the Pacific Theater cinemas acquisition, was tested as of the anniversary date of such acquisition, February 22, 2009, and no impairment was indicated. During the fourth quarter of 2009, we changed the date on which we perform our annual goodwill impairment test for the US Cinemas reporting unit from February 22 to the first day of the fourth quarter to better align the annual goodwill impairment tests for our US Cinemas reporting unit with our other reporting units and our budgeting and forecasting process. We believe this change in accounting principle is to an alternative accounting principle that is preferable under the circumstances. The change in our annual goodwill impairment test date for the US Cinemas reporting unit is not intended to nor does it delay, accelerate or avoid an impairment charge nor does the change have any impact on our financial position, results of operations, or cash flows for any prior periods when applied retrospectively.

We have intangible assets subject to amortization consisting of the following (dollars in thousands):

2011	Beneficial Leases	Trade Name	Other Intangible Assets	Total
Gross carrying amount	$24,471	$7,220	$456	$32,147
Less: Accumulated amortization	11,238	2,553	357	14,148
Total, net	$13,233	$4,667	$99	$17,999

2010	Beneficial Leases	Trade Name	Other Intangible Assets	Total
Gross carrying amount	$24,180	$7,220	$456	$31,856
Less: Accumulated amortization	9,435	1,993	272	11,700
Total, net	$14,745	$5,227	$184	$20,156

After the issuance of the 2010 financial statements, management identified a misclassification of $10.5 million of gross intangible asset value and $1.2 million in accumulated amortization between the trade name and beneficial leases columns within the presentation of the 2010 table of intangible assets subject to amortization. The presentation of the 2010 table of intangible assets subject to amortization presented above has been adjusted to reflect this correction. This correction only affects the presentation of the above table and does not have any effect to the balances or activity presented on our consolidated balance sheets or consolidated statements of operations, respectively.

Table of Contents

We have intangible assets other than goodwill that are subject to amortization which are being amortized over various periods. We amortize our beneficial leases over the lease period, the longest of which is approximately 30 years; our trade name using an accelerated amortization method over its estimated useful life of 45 years; and our option fee and other intangible assets over 10 years. For the years ended December 31, 2011, 2010, and 2009, our amortization expense was $2.4 million, $2.6 million, and $2.7 million, respectively. The estimated amortization expense in the five succeeding years and thereafter is as follows (dollars in thousands):

Year Ending December 31,	
2012	$2,433
2013	2,258
2014	2,000
2015	1,882
2016	1,624
Thereafter	7,802
Total future amortization expense	$17,999

Note 11 – Investments in and Advances to Unconsolidated Joint Ventures and Entities

Investments in and advances to unconsolidated joint ventures and entities are accounted for under the equity method of accounting except for Malulani Investments, Limited and Rialto Distribution as described below. As of December 31, 2011 and 2010, these investments in and advances to unconsolidated joint ventures and entities include the following (dollars in thousands):

		December 31,	
	Interest	2011	2010
Rialto Distribution	33.3%	$--	$--
Rialto Cinemas	50.0%	1,586	4,580
205-209 East 57th Street Associates, LLC	25.0%	33	--
Mt. Gravatt	33.3%	6,220	5,835
Total		$7,839	$10,415

For the years ending December 31, 2011, 2010, and 2009, we recorded our earnings (loss) from our unconsolidated joint ventures and entities as follows (dollars in thousands):

		December 31,	
	2011	2010	2009
Rialto Distribution	$383	$286	$(1,065)
Rialto Cinemas	(72)	64	138
205-209 East 57th Street Associates, LLC	33	89	153
Mt. Gravatt	1,038	906	891
Total investor share of earnings	1,382	1,345	117
Rialto Cinemas impairment recorded at investor level	(2,935)	-	-
Total equity earnings (loss)	$(1,553)	$1,345	$117

Table of Contents

Malulani Investments, Limited

On June 26, 2006, we acquired for $1.8 million, an 18.4% interest in a private real estate company. On July 2, 2009, Magoon Acquisition and Development, LLC ("Magoon LLC") and we entered into a settlement agreement (the "Settlement Terms") with respect to a lawsuit against certain officers and directors of Malulani Investments, Limited ("MIL"). Under the Settlement Terms, Magoon LLC and we received $2.5 million in cash, a $6.75 million three-year 6.25% secured promissory note issued by The Malulani Group ("TMG"), and a ten-year "tail interest" in MIL and TMG in exchange for the transfer of all ownership interests in MIL and TMG held by both Magoon, LLC and RDI and for the release of all claims against the defendants in this matter. A gain on the transfer of our ownership interest in MIL of $268,000 was recognized during 2009 as a result of this transaction. The tail interest allows us to participate in certain distributions made or received by MIL, TMG, and in certain cases, the shareholders of TMG. The tail interest, however, continues only for a period of ten years and we cannot assure that we will receive any distributions from this tail interest. During 2011 and 2010, we received $191,000 and $635,000 in interest on the promissory note and, on June 14, 2011, we received $6.8 million with respect to the principal and interest owed on this note. We believe that further amounts are owed under the note and we have begun litigation to collect such amounts. Any further collections will be recognized when received.

Rialto Distribution

Effective October 1, 2005, we purchased for $694,000 (NZ$1.0 million) a 1/3 interest in Rialto Distribution. Rialto Distribution, an unconsolidated joint venture, is engaged in the business of distributing art film in New Zealand and Australia. We own an undivided 1/3 interest in the assets and liabilities of the joint venture. Prior to January 1, 2010, we treated our interest as an equity method interest in an unconsolidated joint venture. However, during 2009, the reporting company of Rialto Distribution reported a net loss of $2.2 million (NZ$3.2 million). Our share of this loss was $734,000 (NZ$1.1 million). Due to this significant loss, we determined that the goodwill associated with Rialto Distribution's investment in the film distribution business was fully impaired. Therefore, we recorded our share of the impairment loss of $331,000 (NZ$434,000) as a part of our equity losses resulting in a net zero balance at December 31, 2009. As of January 1, 2010, we treat our interest as a cost method interest in an unconsolidated joint venture. For the years ended December 31, 2011 and 2010, we received $383,000 (NZ$500,000) and $286,000 (NZ$400,000), respectively, in distributions from our interest in Rialto Distribution which we recorded as earnings at the time of receipt.

Rialto Cinemas

Effective October 1, 2005, we purchased, indirectly, beneficial ownership of 100% of the stock of Rialto Entertainment for $4.8 million (NZ$6.9 million). Rialto Entertainment was at the time of purchase a 50% joint venture partner with Village and Sky in Rialto Cinemas, the largest art cinema circuit in New Zealand. The Village and Sky ownership interest have subsequently been sold to Greater Union, an Australian based cinema chain operator. We own an undivided 50% interest in the assets and liabilities of the joint venture and treat our interest as an equity method interest in an unconsolidated joint venture. Subsequent to the February 22, 2011 earthquake in Christchurch, the joint venture determined they would seek to terminate the Christchurch cinema lease (see Note 27 – Casualty Loss). As of December 31, 2011, following the closure of three cinemas with 15 screens, the joint venture owned two cinemas with 13 screens in the New Zealand cities of Auckland and Dunedin. As part of our investment impairment analysis for 2011, we determined that the value of our investment was impaired. For this reason, we recorded an impairment charge to our investment in Rialto Cinemas of $2.9 million (NZ$3.8 million) during December 31, 2011 and included it in our equity loss from unconsolidated joint ventures and entities for the year ended December 31, 2011.

205-209 East 57th Street Associates, LLC

We own a non-managing 25% membership interest in 205-209 East 57th Street Associates, LLC a limited liability company formed to redevelop our former cinema site at 205 East 57th Street in Manhattan.

The only retail condominium was sold in February 2009 for approximately $3.8 million. Based on the closing statements of the sale, our share of the sales proceeds was approximately $900,000 and earnings of $304,000. On April 11, 2009, we received $1.2 million relating to our investment in the Place 57 joint venture representing a return of substantially all of our initial investment. During the fourth quarter of 2010, the last residential condominium was sold for $900,000 from which we recorded earnings of $64,000 and received distributions totaling $293,000. No further significant income activity is expected from this investment.

Table of Contents

Mt. Gravatt

We own an undivided 1/3 interest in Mt. Gravatt, an unincorporated joint venture that owns and operates a 16-screen multiplex cinema in Australia. The condensed balance sheets and statements of operations of Mt. Gravatt are as follows (dollars in thousands):

Mt. Gravatt Condensed Balance Sheet Information

	December 31, 2011	December 31, 2010
Current assets	$1,935	$1,850
Noncurrent assets	3,832	3,021
Current liabilities	846	855
Noncurrent liabilities	60	74
Members' equity	4,861	3,942

Mt. Gravatt Condensed Statements of Operations Information

	December 31, 2011	December 31, 2010	December 31, 2009
Total revenue	$14,097	$12,909	$11,244
Net income	3,045	2,711	2,629

Berkeley Cinemas – Botany

We previously had investments in three joint ventures with Everard Entertainment Ltd in New Zealand. On June 6, 2008, we sold our last investment in these joint ventures of the Botany Downs Cinema to our joint venture partner for $3.3 million (NZ$4.3 million) resulting in a net gain on sale of an unconsolidated entity of $2.5 million (NZ$3.2 million). With the sale of the cinema, our unconsolidated joint venture debt decreased by $3.2 million (NZ$4.2 million). During 2010, we finalized our claims regarding the sale of this cinema resulting in an additional gain on sale of $384,000 (NZ$554,000) for the year ended 2010 included in other income on our Consolidated Statement of Operations.

Combined Condensed Financial Information

The combined condensed financial information for all of the above unconsolidated joint ventures and entities accounted for under the equity method is as follows; therefore, these financials only exclude Rialto Distribution (dollars in thousands):

Condensed Balance Sheet Information

	December 31, 2011	December 31, 2010
Current assets	$5,245	$5,081
Noncurrent assets	6,611	6,067
Current liabilities	3,031	2,826
Noncurrent liabilities	723	727
Members' equity	8,102	7,595

Table of Contents

Condensed Statements of Operations Information

	December 31,		
	2011	2010	2009
Total revenue	$28,017	$24,944	$23,512
Net income	4,021	4,779	3,726

Note 12 - Notes Payable

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

	December 31,			December 31,	
Name of Note Payable or Security	2011 Interest Rate	2010 Interest Rate	Maturity Date	2011 Balance	2010 Balance
BOSI Australian Corporate Credit Facility	-	6.31%	June 30, 2011	$ --	$ 101,726
NAB Australian Corporate Term Loan	7.20%	-	June 30, 2014	88,671	--
NAB Australian Corporate Revolver	7.20%	-	June 30, 2014	--	--
Australian Shopping Center Loans	-	-	2011-2014	384	633
New Zealand Corporate Credit Facility	4.15%	4.75%	March 31, 2015	21,854	20,370
Trust Preferred Securities	9.22%	9.22%	April 30, 2027	27,913	27,913
US Cinema 1, 2, 3 Term Loan	6.73%	6.73%	July 01, 2012	15,000	15,000
US GE Capital Term Loan	5.50%	5.50%	December 01, 2015	32,188	37,500
US Liberty Theaters Term Loans	6.20%	6.20%	April 01, 2013	6,583	6,727
US Nationwide Loan 1	8.50%	8.50%	February 21, 2013	597	730
US Nationwide Loan 2	-	8.50%	February 21, 2011	--	1,839
US Sanborn Note	7.00%	-	January 31, 2012	250	--
US Sutton Hill Capital Note – Related Party	8.25%	8.25%	December 31, 2013	9,000	9,000
US Union Square Theatre Term Loan	5.92%	5.92%	May 01, 2015	7,174	7,383
Total				$ 209,614	$ 228,821

Australia

NAB Australian Corporate Term Loan

On June 24, 2011, we replaced our Australian Corporate Credit Facility of $115.8 million (AUS$110.0 million) with BOS International ("BOSI") with a new credit facility from National Australia Bank ("NAB") of $110.5 million (AUS$105.0 million). NAB provided us term debt of $94.7 million (AUS$90.0 million) and $9.5 million (AUS$9.0 million) in line of credit which we used combined with our cash of $1.6 million (AUS$1.5 million) to pay down our $105.8 million (AUS$100.5 million) of outstanding BOSI debt.

The new three-tiered credit facility from NAB (the "NAB Credit Facility") has a term of three years, due and payable June 30, 2014, and comprised of a term loan with a December 31, 2011 balance of $88.7 million (AUS$86.5 million); a $10.3 million (AUS$10.0 million) revolving facility for which we do not have a balance at December 31, 2011; and a $5.1 million (AUS$5.0 million) guarantee facility. This loan to Reading Entertainment Australia commenced on June 24, 2011 with an interest rate of between 2.90% and 2.15% above the BBSY bid rate. This credit facility is secured by substantially all of our cinema assets in Australia and is only guaranteed by several of our wholly owned Australian subsidiaries. The NAB Credit Facility requires annual principal payments of between $7.2 million (AUS$7.0 million) and $9.2 million (AUS$9.0 million) which we anticipate will be paid from Reading Entertainment Australia operating cash flows. The covenants of the NAB Credit Facility include a fixed charge coverage ratio, a debt service cover ratio, an operating leverage ratio, a loan to value ratio, and other financial covenants. Additionally, the NAB Credit Facility allows us to transfer only $4.1 million (AUS$4.0 million) per year outside of Australia. On August 2, 2011, we paid down our NAB revolver by $9.7 million (AUS$9.0 million) resulting in a zero balance on that date.

Table of Contents

In conjunction with this NAB Credit Facility, we entered into a five-year interest swap agreement which swaps 100% of our $88.7 million (AUS$86.5 million) variable rate term loan (decreasing in line with scheduled principal repayments) based on BBSY, for a 5.50% fixed rate. For further information regarding our swap agreements, see Note 13 – Derivative Instruments.

Australian Shopping Center Loans

As part of the acquisition of the Anderson Circuit, in July 2004, we assumed the three loans on the properties of Epping, Rhodes, and West Lakes. The total amount assumed on the transaction date was $1.5 million (AUS$2.1 million) and the loans carry no interest as long as we make timely principal payments of approximately $256,000 (AUS$250,000) per year. The balance of these loans at December 31, 2011 and 2010 was $384,000 (AUS$375,000) and $633,000 (AUS$625,000), respectively. Early repayment is possible without penalty. The only recourse on default of these loans is the security on the properties. In 2009, we did not pay $22,000 (AUS$25,000) of principal payments on the West Lakes loan due to a dispute that we had with the landlord. During 2010, we resolved the dispute and paid $51,000 (AUS$51,000) in principal payments on this loan. During 2011, we paid $256,000 (AUS$200,000) in principal payments on this loan.

New Zealand

New Zealand Corporate Credit Facility

During May 2009, we extended the term of our New Zealand facility to March 31, 2012 and reduced the available borrowing amount to $35.6 million (NZ$45.0 million). The drawn balance of this loan was $21.9 million (NZ$28.0 million) at December 31, 2011. We recorded $33,000 (NZ$45,000) in deferred financing costs associated with this term extension which we amortize over the remaining life of the loan. The margin on the facility was increased to 1.45% from 1.00% and the line of credit charge increased to 0.30% from 0.20%. The loan comes due on March 31, 2012. The facility is secured by substantially all of our New Zealand assets, but has not been guaranteed by any entity other than several of our New Zealand subsidiaries. The facility includes various affirmative and negative financial covenants designed to protect the bank’s security regarding capital expenditures and the repatriation of funds out of New Zealand. Also included in the restrictive covenants of the facility is the restriction of transferring funds from subsidiary to parent.

As indicated above, the term of this facility with Westpac Bank was due to mature on March 31, 2012. On February 8, 2012, we received an approved amendment from Westpac renewing our existing $35.1 million (NZ$45.0 million) New Zealand credit facility with a 3-year credit facility. The renewed facility calls for a decrease in the overall facility by $3.9 million ($5.0 million) to $31.2 million (NZ$40.0 million), an increase in the facility margin of 0.55% to 2.0%, and the line of credit charge increase from 0.30% to 0.40%. No other significant changes to the facility were made (see Note 28 – Subsequent Events). Accordingly, the December 31, 2011 outstanding balance of this debt of $21.9 million (NZ$28.0 million) is classified as long-term on our balance sheet.

Domestic

Trust Preferred Securities

On February 5, 2007, we issued $51.5 million in 20-year fully subordinated notes to a trust that we control, which in turn issued $51.5 million in securities. Of the $51.5 million, $50.0 million in TPS were issued to unrelated investors in a private placement and $1.5 million of common trust securities were issued by the trust to Reading called “Investment in Reading International Trust I” on our balance sheet. The interest on the notes and preferred dividends on the trust securities carry a fixed rate for five years of 9.22% after which the interest will be based on an adjustable rate of LIBOR plus 4.00% unless we exercise our right to refix the rate at the current market rate at that time. There are no principal payments due until maturity in 2027 when the notes and the trust securities are scheduled to be paid in full. We may pay off the debt after the first five years at 100.0% of the principal amount without any penalty. The trust is essentially a pass through, and the transaction is accounted for on our books as the issuance of fully subordinated notes. The credit facility includes a number of affirmative and negative covenants designed to monitor our ability to service the debt. The most restrictive covenant of the facility requires that we must maintain a fixed charge coverage ratio at a certain level. However, on December 31, 2008, we secured a waiver of all financial covenants with respect to our TPS for a period of nine years (through December 2017), in consideration of the payment of $1.6 million, consisting of an initial payment of $1.1 million, a payment of $270,000 made in December 2011, and a contractual obligation to pay $270,000 in December 2014.

Table of Contents

The private placement generated $49.9 million in net proceeds, which were used principally to make our investment in the common trust securities of $1.5 million, to retire all of our bank indebtedness in New Zealand of $34.4 million (NZ$50.0 million) and to retire a portion of our bank indebtedness in Australia of $5.8 million (AUS$7.4 million). During the years ended December 31, 2011, 2010, and 2009, we paid $2.5 million, $2.5 million, and $3.6 million, respectively, in preferred dividends to the unrelated investors that are included in interest expense. At December 31, 2011 and 2010, we had preferred dividends payable of $416,000 in each of the two years. Interest payments for this loan are required every three months.

During the first quarter of 2009, we took advantage of the then current market illiquidity for securities such as our TPS to repurchase $22.9 million in face value of those securities through an exchange of $11.5 million worth of marketable securities purchased during the period for the express purpose of executing this exchange transaction with the third party holder of these TPS. During the twelve months ended 2009, we amortized $106,000 of discount to interest income associated with the holding of these securities prior to their extinguishment. On April 30, 2009, we extinguished $22.9 million of these TPS, which resulted in a gain on retirement of subordinated debt (TPS) of $10.7 million net of loss on the associated write-off of deferred loan costs of $749,000 and a reduction in our Investment in Reading International Trust I from $1.5 million to $838,000.

Cinemas 1, 2, 3 Term Loan

On June 28, 2007, Sutton Hill Properties LLC ("SHP"), one of our consolidated subsidiaries, entered into a $15.0 million loan that is secured by SHP's interest in the Cinemas 1, 2 & 3 land and building. SHP is owned 75% by Reading and 25% by Sutton Hill Capital, LLC ("SHC"), a joint venture indirectly wholly owned by Mr. James J. Cotter, our Chairman and Chief Executive Officer, and Mr. Michael Forman. Under the terms of the credit agreement, this loan bears a fixed interest rate of 6.73% per annum payable monthly. The loan matures on July 1, 2012. No principal payments are due until maturity. SHP distributed the proceeds of the loan to Reading and to SHC in the amount of $10.6 million and $3.5 million, respectively. Because the cash flows from SHP are currently insufficient to cover its obligations, Reading and Sutton Hill Capital, LLC, have agreed to contribute the capital required to service the debt. Reading will be responsible for 75% and SHC will be responsible for 25% of such capital payments. Interest payments for this loan are required on a monthly basis.

As the loan is due to mature on July 1, 2012, the December 31, 2011 outstanding balance of this debt of $15.0 million is classified as current on our balance sheet. We intend to either refinance the property's debt with similar financing or sell the property and use the proceeds to pay off the loan.

GE Capital Term Loan

In connection with the Consolidated Entertainment acquisition, on February 21, 2008, our wholly-owned subsidiary, Consolidated Amusement Theatres, Inc., (now renamed Consolidated Entertainment, Inc.) as borrower ("Borrower"), and Consolidated Amusement Holdings, Inc. ("Holdings") entered into a Credit Agreement with General Electric Capital Corporation ("GE") as lender and administrative agent, and GE Capital Markets, Inc. as lead arranger, which provides Borrower with a senior secured credit facility of up to $55.0 million in the aggregate, including a revolving credit facility of up to $5.0 million including a $1.0 million sub-limit for letters of credit (the "Credit Facility"). The initial borrowings under the Credit Facility were used to finance, in part, our acquisition of the theaters and other assets. We were able to borrow additional amounts under the Credit Facility for other acquisitions as permitted under the Credit Facility (and to pay any related transaction expenses), and for ordinary working capital and general corporate needs of Borrower, subject to the terms of the Credit Facility. At that time, we incurred deferred financing costs of $2.6 million related to our borrowings under this Credit Facility. The Credit Facility was due to expire on February 21, 2013 and was secured by substantially all the assets of Borrower and Holdings. During 2010 and 2009, Borrower voluntarily paid down on the loan balance by $3.2 million and $8.3 million, respectively. On December 1, 2010, GE Capital amended and restated our GE Capital Term Loan agreement (the "revised Credit Facility"), lending to Borrower an additional $8.0 million and extending the loan expiration date to December 1, 2015. We incurred deferred financing costs of $1.1 million related to our additional borrowings under the revised Credit Facility.

Table of Contents

Borrowings under the revised Credit Facility bear interest at a rate equal to either (i) the Index Rate (defined as the higher of the Wall Street Journal prime rate and the federal funds rate plus 50 basis points), or (ii) LIBOR (as defined in the Credit Facility) with a 1.00% floor, at the election of Borrower, plus, in each case, a margin determined by reference to Borrower's Leverage Ratio (as defined in the Credit Facility) that ranges between prime rate plus 3.00% and prime rate plus 3.50%, and between LIBOR plus 4.00% and LIBOR plus 4.50%, respectively. At present, Borrower has elected to use the LIBOR plus 4.50% as our interest-borrowing rate. Borrower is required to swap no less than 50% of the original loan balance of $37.5 million for the first three years of the revised Credit Facility. Borrower elected to swap 100% of the original loan balance and contracted for swap balance step-downs that correspond with the loan's principal payments through December 31, 2013. For further information regarding our swap agreements, see Note 13 – Derivative Instruments.

Borrowings under the revised Credit Facility are to be repaid in twenty consecutive installments at the end of each calendar quarter in total annual amounts ranging from 10.0% to 17.5% of the original loan balance of $37.5 million at December 1, 2010. Additionally, borrowings under the revised Credit Facility may be prepaid at any time without penalty, subject to certain minimums and payment of any LIBOR funding breakage costs. Borrower is required to pay an unused commitment fee equal to 0.75% per annum on the actual daily-unused portion of the $5.0 million revolving loan facility, payable quarterly in arrears. Outstanding letters of credit under the revised Credit Facility are subject to a fee of the applicable LIBOR rate in effect per annum on the face amount of such letters of credit, payable quarterly in arrears. Borrower is required to pay standard fees with respect to the issuance, negotiation, and amendment of letters of credit issued under the letter of credit facility.

The revised Credit Facility contains other customary terms and conditions, including representations and warranties, affirmative and negative covenants, events of default and indemnity provisions. Such covenants, among other things, limit Borrower's ability to incur indebtedness, incur liens or other encumbrances, make capital expenditures, enter into mergers, consolidations and asset sales, engage in transactions with affiliates, pay dividends or other distributions and change the nature of the business conducted by Borrower. Additionally, the Credit Facility limits the use of our cash outside of the subsidiary without the prior approval of GE.

The revised Credit Agreement contains financial covenants requiring the Borrower to maintain minimum fixed charge and interest coverage ratios and not to exceed specified maximum leverage ratios. The revised levels for the maximum leverage and minimum interest coverage covenants become stricter over the term of the Credit Facility.

The revised Credit Facility provides for customary events of default, including payment defaults, covenant defaults, cross-defaults to certain other indebtedness, certain bankruptcy events, judgment defaults, invalidity of any loan documents or liens created under the Credit Agreement, change of control of Borrower, termination of certain theater leases and material inaccuracies in representations and warranties.

Liberty Theaters Term Loan

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 Lane Theatre and Orpheum Theatre in New York. The loan has a 5-year term loan that accrues a 6.20% interest rate payable monthly in arrears. We incurred deferred financing costs of $527,000 related to our borrowings of this loan. The loan agreement requires only monthly principal and interest payments along with self-reported annual financial statements.

US Nationwide Loan 1

On February 22, 2008, we acquired 15 motion picture theaters and theater-related assets from Pacific Theatres Exhibition Corp. and its affiliates (collectively, the "Sellers") for $70.2 million a transaction referred to as the "Pacific

Theaters Acquisition." The Seller's affiliate, Nationwide Theatres Corp ("Nationwide"), provided $21.0 million of acquisition financing evidenced by a five-year promissory note (the "Nationwide Note 1") of Reading Consolidated Holdings, Inc., our wholly owned subsidiary ("RCHI"), maturing on February 21, 2013.

Table of Contents

The Nationwide Note 1 bears interest (i) as to $4.5 million of principal at the annual rates of 7.50% for the first three years and 8.50% thereafter and (ii) as to $13.0 million of principal at the annual rates of 6.50% through July 31, 2009 and 8.50% thereafter. Accrued interest is due and payable on February 21, 2011 and thereafter on the last day of each calendar quarter, commencing on June 30, 2011. The entire principal amount is due and payable upon maturity, subject to our right to prepay at any time without premium or penalty and to the requirement that, under certain circumstances, we make mandatory prepayments equal to a portion of free cash flow generated by the acquired theaters. The loan is recourse only to RCHI and its assets, which include all of the Hawaii theaters and certain of the California theaters acquired from the Sellers and our Manville and Dallas Angelika Theaters.

The Nationwide Note 1 was subject to certain purchase price related adjustments. At December 31, 2011, these adjustments have resulted in a net reduction in principal of $20.4 million comprised of a reduction in the amount of $6.3 million in 2008, a further reduction of $226,000 during the first quarter of 2009, an additional advance of $3.0 million in 2009 (such advance was used to pay down a portion of the GE Capital Term Loan discussed above), a $4.4 million reduction during the first quarter of 2010 in which Nationwide Theaters Corp. and Reading agreed to reduce the seller's note, and finally a $12.5 million reduction in September 2010. As a result of these reductions, the principal balance of the notes at December 31, 2011 was $597,000.

US Nationwide Loan 2

In connection with the Pacific Theaters Acquisition, the Sellers also committed to loan to RDI up to $3.0 million in two draws of $1.5 million each, one of which was drawn on July 21, 2008 and the other of which may have been drawn on or before July 31, 2009. During 2010, as part of the $4.4 million note reduction of the US Nationwide Loan 1, we waived our right to draw on the second $1.5 million. The existing $1.5 million loan bore an interest rate of 8.50%, compounded annually. The loan and accrued interest were due and payable, in full, on February 21, 2011, subject to our right to prepay the loan without premium or penalty. Pursuant to the terms of this note, we paid off this loan of $1.5 million with its $359,000 of accrued interest on February 21, 2011.

Sutton Hill Capital Notes 1 & 2

As part of the negotiation of the Village East Lease (see Note 26 – Related Parties and Transactions), we paid off the Sutton Hill Capital ("SHC") Note 1 of $5.0 million on June 30, 2010 and renegotiated the SHC Note 2 for $9.0 million. Under the new terms of the SHC Note 2, the loan has a variable annual rate equal to a Five-Year Constant Maturity United States Treasury Note rate plus 575 basis points, subject to a minimum rate of 8.25% and a maximum rate of 10% and the note matures on December 31, 2013. No interim principal payments are required and the balance of the note is payable upon maturity. No other covenants are required for this loan. This loan is unsecured.

Union Square Theatre Term Loan

On April 30, 2010, we refinanced the loan secured by our Union Square property with another lender. The new loan for $7.5 million has a five-year term with a fixed interest rate of 5.92% per annum and an amortization payment schedule of 20 years with a balloon payment of approximately $6.4 million at the end of the loan term.

Bank of America Line of Credit

On August 18, 2011, Bank of America renewed its $3.0 million line of credit ("LOC") to RDI. The agreement is in effect till August 31, 2012 and is potentially renewable at that date. The LOC carries an interest rate equal to BBA LIBOR floating plus 350 basis points margin. During 2011, we used $2.5 million of this LOC as a construction loan guarantee for our Mosaic cinema project in the greater Washington D.C. metropolitan area. The remaining balance of $500,000 is undrawn at December 31, 2011.

Table of Contents

Summary of Notes Payable

Our aggregate future principal loan payments are as follows (dollars in thousands):

Year Ending December 31,	
2012	$29,630
2013	40,216
2014	69,159
2015	42,696
2016	--
Thereafter	27,913
Total future principal loan payments	$209,614

Since approximately $110.9 million of our total debt of $209.6 million at December 31, 2011 consisted of debt denominated in Australian and New Zealand dollars, the U.S dollar amounts of these repayments will fluctuate in accordance with the relative values of these currencies.

Note 13 – Derivative Instruments

We are exposed to interest rate changes from our outstanding floating rate borrowings. We manage our fixed to floating rate debt mix to mitigate the impact of adverse changes in interest rates on earnings and cash flows and on the market value of our borrowings. From time to time, we may enter into interest rate hedging contracts, which effectively convert a portion of our variable rate debt to a fixed rate over the term of the interest rate swap. In the case of our Australian borrowings, we are presently required to swap no less than 75% of our drawdowns under our Australian Corporate Credit Facility into fixed interest rate obligations. In conjunction with this NAB Credit Facility, we entered into a five-year interest swap agreement, which swaps 100% of our variable rate term loan based on BBSY for a 5.50% fixed rate loan which steps down commensurate with the payments of the loan balance. At the time of entering into this NAB swap, our existing BOSI swap was "in-the-money" by $160,000. In lieu of a cash payment for the in-the-money BOSI swap, we negotiated a slightly lower fixed swap rate by 0.05% for our new NAB fixed rate swap. As of December 1, 2010, under the amended GE Capital Term Loan, we are required to swap no less than 50% of the original loan balance on that date of $37.5 million for the first three years of the loan. We elected to swap 100% of the original loan balance and have contracted for balance step-downs that correspond with the loan's principal payments through December 31, 2013. On December 3, 2010, as part of amending our GE Capital loan, we were required to cancel the existing $29.5 million hedge and replace it for a cost of $368,000.

The following table sets forth the terms of our interest rate swap derivative instruments at December 31, 2011:

Type of Instrument	Notional Amount	Pay Fixed Rate	Receive Variable Rate	Maturity Date
Interest rate swap	$ 33,750,000	1.340%	0.580%	December 31, 2013
Interest rate swap	$ 88,671,000	5.500%	4.550%	June 30, 2016

In accordance with FASB ASC 815-20 – Derivatives and Hedging, we marked our interest swap instruments to market on the consolidated balance sheet resulting in a $5.0 million increase to interest expense during 2011, a $284,000 decrease to interest expense during 2010, and a $1.4 million decrease to interest expense during 2009. At December 31, 2011, we recorded the fair market value of an interest rate swap of $4.7 million as an other long-term liability. At December 31, 2010, we recorded the fair market value of an interest rate swap and a cap of $446,000 as other long-term assets and an interest rate swap of $181,000 as an other long-term liability. In accordance with FASB ASC

815-20, we have not designated any of our current interest rate swap positions as financial reporting hedges.

Table of Contents

Note 14 - Income Taxes

Income (loss) before income tax expense includes the following (dollars in thousands):

	Year Ended December 31,		
	2011	2010	2009
United States	$(1,391)	$(1,566)	$10,870
Foreign	(147)	2,451	(2,821)
Income (loss) before income tax benefit (expense), equity earnings (loss) of unconsolidated joint ventures and entities, and discontinued operations	$(1,538)	$885	$8,049
Net income attributable to noncontrolling interests:			
United States	(604)	(309)	(359)
Foreign	(336)	(307)	(29)
Equity earnings and gain on sale of unconsolidated subsidiary:			
United States	33	86	421
Foreign	(1,585)	1,259	(36)
Gain on sale of discontinued operation:			
United States	-	-	-
Foreign	1,656	-	-
Income (loss) before income tax expense	$(2,374)	$1,614	$8,046

Significant components of the provision for income taxes are as follows (dollars in thousands):

	Year Ended December 31,		
	2011	2010	2009
Current income tax expense (benefit)			
Federal	$1,332	$7,730	$690
State	531	5,239	320
Foreign	1,067	1,295	942
Total	2,930	14,264	1,952
Deferred income tax expense (benefit)			
Federal	--	--	--
State	--	--	--
Foreign	--	--	--
Total	--	--	--
Increase (decrease) in valuation allowance			
Federal	--	--	--
State	--	--	--
Foreign	(15,260)	--	--
Total	(15,260)	--	--
Total income tax expense (benefit)	$(12,330)	$14,264	$1,952

Deferred income taxes reflect the “temporary differences” between the financial statement carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, adjusted by the relevant tax rate. The components of the deferred tax assets and liabilities are as follows (dollars in thousands):

	December 31,	
Components of Deferred Tax Assets and Liabilities	2011	2010
Deferred Tax Assets:		
Net operating loss carry forwards	$35,455	$37,824
Impairment reserves	1,764	961
Alternative minimum tax carry forwards	2,993	2,993
Installment sale of cinema property	2,929	5,070
Deferred revenue and expense	6,378	3,806
Acquired and option properties	2,924	1,555
Other	402	2,304
Net deferred tax assets before valuation allowance	52,845	54,513
Valuation allowance	(38,461)	(54,513)
Net deferred tax asset	$14,384	$--

In accordance with FASB ASC 740-10 – Income Taxes ("ASC 740-10"), we record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. ASC 740-10 presumes that a valuation allowance is required when there is substantial negative evidence about realization of deferred tax assets, such as a pattern of losses in recent years, coupled with facts that suggest such losses may continue. Because of such negative evidence available for the U.S., Puerto Rico, and New Zealand, as of December 31, 2011, we recorded a valuation allowance of $38.7 million. After consideration of a number of factors for the Reading Australia group, including its recent history of financial income, its expected future earnings, the increase in market value of its real estate assets, and having executed a credit facility of over $100 million to resolve potential liquidity issues, the Company determined as of July 1, 2011 that it is more likely than not that deferred tax assets in Reading Australia group will be realized. Accordingly, we reversed the full valuation allowance in Australia, resulting in a net deferred tax asset of $14.4 million as of December 31, 2011, with approximately $2.0 million classified as current and $12.4 million as non-current.

As of December 31, 2011, we had U.S. net operating loss carry forwards of $33.4 million, of which $26.1 million expire between 2025 and 2030, while $7.3 million expire between 2030 and 2035.

In addition to the above net operating loss carry forwards having expiration dates, we have the following carry forwards that have no expiration date at December 31, 2011:

- approximately $2.9 million in U.S. alternative minimum tax credit carry forwards;
- approximately $45.9 million in Australian loss carry forwards; and
- approximately $15.8 million in New Zealand loss carry forwards.

We disposed of our Puerto Rico operations during 2005 and plan no further investment in Puerto Rico for the foreseeable future. We have approximately $14.1 million in Puerto Rico loss carry forwards expiring no later than 2018. No material future tax benefits from Puerto Rico loss carry forwards can be recognized by the Company unless it re-enters the Puerto Rico market.

We expect no other substantial limitations on the future use of U.S. or foreign loss carry forwards except as may occur for certain losses occurring in New Zealand related to the Landplan operations, which may only be used to offset income and gains from those particular activities, and cannot be shared with their respective consolidated group.

U.S. income taxes have not been recognized on the temporary differences between book value and tax basis of investment in foreign subsidiaries. These differences become taxable upon a sale of the subsidiary or upon distribution of assets from the subsidiary to U.S. shareholders. We expect neither of these events will occur in the foreseeable future for any of our foreign subsidiaries.

Table of Contents

The provision for income taxes is different from amounts computed by applying U.S. statutory rates to consolidated losses before taxes. The significant reason for these differences follows (dollars in thousands):

	Year Ended December 31,		
	2011	2010	2009
Expected tax provision (benefit)	$(831)	$554	$2,817
Increase (decrease) in tax expense resulting from:			
Change in valuation allowance	(15,260)	(5,595)	(4,509)
Expired foreign loss carry forward	1,100	1,816	1,847
Foreign tax provision	1,067	1,291	942
Tax effect of foreign tax rates on current income	24	(240)	528
State and local tax provision	361	440	320
Tax/Audit Litigation Settlement	1,375	12,528	--
Effect of tax rate change	--	3,422	--
Other items	(166)	48	7
Actual tax provision (benefit)	$(12,330)	$14,264	$1,952

Pursuant to ASC 740-10, a provision should be made for the tax effect of earnings of foreign subsidiaries that are not permanently invested outside the United States. Our intent is that earnings of our foreign subsidiaries are not permanently invested outside the United States. Current earnings were available for distribution in the Reading Australia consolidated group of subsidiaries as of December 31, 2011. There is no withholding tax on dividends paid by an Australian company to its 80% or more U.S. public company shareholder, thus we have not provided foreign withholding taxes for these current retained earnings. We believe the U.S. tax impact of a dividend from our Australian subsidiary, net of loss carry forward and potential foreign tax credits, would not have a material effect on the tax provision as of December 31 2011.

We have accrued $27.3 million in income tax liabilities as of December 31, 2011, of which $14.9 million has been classified as income taxes payable and $12.4 million have been classified as non-current tax liabilities. As part of current tax liabilities, we have accrued $9.8 million in connection with the "Tax/Audit Litigation" matter which has now been settled (see Note 19 – Commitments and Contingencies). As part of noncurrent tax liabilities, we have accrued an additional $10.0 million related to the "Tax Audit/Litigation" matter. Amounts assessed by IRS and expected to be assessed by state income tax agencies in connection with the "Tax Audit/Litigation" matter are no longer recorded under the cumulative probability approach prescribed by FASB ASC 740-10-25 but are recorded as a fixed and determinable liability. We believe the $27.3 million in tax liabilities represents an adequate provision for our income tax exposures.

The following table is a summary of the activity related to unrecognized tax benefits, excluding interest and penalties, for the years ending December 31, 2011, December 31, 2010, and December 31, 2009 (dollars in thousands):

	Year Ended December 31,		
	2011	2010	2009
Unrecognized tax benefits – gross beginning balance	$8,058	$11,412	$11,271
Gross increases – prior period tax provisions	--	--	92
Gross decreases – prior period tax positions	--	--	--
Gross increases – current period tax positions	151	405	219
Settlements	(6,235)	(3,189)	--
Statute of limitations lapse	--	(570)	(170)
Unrecognized tax benefits – gross ending balance	$1,974	$8,058	$11,412

We adopted FASB ASC 740-10-25 – Income Taxes - Uncertain Tax Positions (“ASC 740-10-25”) on January 1, 2007. In connection, we record interest and penalties related to income tax matters as part of income tax expense.

Table of Contents

We had approximately $10.8 million and $11.4 million of gross tax benefits as of the adoption date and December 31, 2007, respectively, plus $1.7 million and $2.3 million of tax interest unrecognized on the financial statements as of each date, respectively. The gross tax benefits mostly reflect operating loss carry forwards and the IRS Tax Audit/Litigation case described below.

We recorded an increase to our gross unrecognized tax benefits of approximately $0.2 million and an increase to tax interest of approximately $0.6 million during the period January 1, 2009 to December 31, 2009, and the total balance at December 31, 2009 was approximately $15.3 million (of which approximately $3.8 million represents IRS interest). Of the $11.4 million gross unrecognized tax benefit at December 31, 2009, $3.2 million would impact the effective tax rate if recognized. We further recorded a reduction to our gross unrecognized tax benefits of approximately $3.4 million and an increase to tax interest of approximately $8.8 million during the period January 1, 2010 to December 31, 2010, and the total balance at December 31, 2010 was approximately $20.6 million (of which approximately $12.6 million represents IRS interest). Having settled the Tax Audit/Litigation matter described in Note 19 – Commitments and Contingencies, we further recorded a net reduction to our gross unrecognized tax benefits of approximately $6.1 million and a reduction to tax interest of approximately $10.4 million during the period January 1, 2011 to December 31, 2011, resulting in a total balance at December 31, 2011 of approximately $4.1 million, consisting of $1.9 million tax and $2.2 million interest. Of the $4.4 million gross unrecognized tax benefit at December 31, 2011, approximately $3.0 million would impact the effective tax rate if recognized.

It is difficult to predict the timing and resolution of uncertain tax positions. Based upon the Company's assessment of many factors, including past experience and judgments about future events, it is probable that within the next 12 months the reserve for uncertain tax positions will increase within a range of $0.5 million to $1.5 million. The reasons for such change include but are not limited to tax positions expected to be taken during 2011, reevaluation of current uncertain tax positions, and expiring statutes of limitations.

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

Generally, changes to our federal and most state income tax returns for the calendar year 2007 and earlier are barred by statutes of limitations. Certain domestic subsidiaries filed federal and state tax returns for periods before these entities became consolidated with us. These subsidiaries were examined by IRS for the years 1996 to 1999 and significant tax deficiencies were assessed for those years. Those deficiencies have been settled, as discussed in "Tax Audit/Litigation," Note 19 – Commitments and Contingencies. Our income tax returns of Australia filed since inception in 1995 are generally open for examination. The income tax returns filed in New Zealand and Puerto Rico for calendar year 2006 and afterward remain open for examination as of December 31, 2011.

Table of Contents

Note 15 – Other Liabilities

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

	December 31, 2011	2010
Current liabilities		
Security Deposit Payable	137	141
Other current liabilities	$137	$141
Other liabilities		
Foreign Withholding Taxes	$6,212	$5,944
Straight-line Rent Liability	8,067	7,559
Related Party Lease Liability	5,746	5,637
Environmental Reserve	1,656	1,656
Accrued Pension	4,289	4,406
Interest Rate Swap	4,722	181
Acquired Lease Liability	2,742	3,264
Other Payable	1,243	2,603
Other	962	945
Other liabilities	$35,639	$32,195

Village East Purchase Option

On June 29, 2010, we agreed to extend our existing lease from SHC of the Village East Cinema in New York City by 10 years, with a new termination date of June 30, 2020. The Village East lease includes a sub-lease of the ground underlying the cinema that is subject to a longer-term ground lease between SHC and an unrelated third party that expires in June 2031 (the "cinema ground lease"). The extended lease provides for a call option pursuant to which Reading may purchase the cinema ground lease for $5.9 million at the end of the lease term. Additionally, the lease has a put option pursuant to which SHC may require Reading to purchase all or a portion of SHC's interest in the existing cinema lease and the cinema ground lease at any time between July 1, 2013 and December 4, 2019. SHC's put option may be exercised on one or more occasions in increments of not less than $100,000 each. Because our Chairman, Chief Executive Officer, and controlling shareholder, Mr. James J. Cotter, is also the managing member of SHC, RDI and SHC are considered entities under common control. As a result, we recorded the Village East Cinema building as a property asset of $4.7 million on our balance sheet based on the cost carry-over basis from an entity under common control with a corresponding lease liability of $5.6 million presented under other liabilities which accretes up to the $5.9 million liability till July 1, 2013 (see Note 26 – Related Parties and Transactions).

Note 16 – Fair Value of Financial Instruments

In September 2006, FASB issued ASC 820-10. ASC 820-10 does not establish requirements for any new fair value measurements, but it does apply to existing accounting pronouncements in which fair value measurements are already required. ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. We adopted the provisions of ASC 820-10 as of January 1, 2008, for financial instruments. Although the adoption of ASC 820-10 has not materially impacted our financial condition, results of operations, or cash flow, we are now required to provide additional disclosures as part of our financial statements.

ASC 820-10 (see Note 2 –Summary of Significant Accounting Policies) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

We use appropriate valuation techniques based on the available inputs to measure the fair values of our assets and liabilities. When available, we measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

We used the following methods and assumptions to estimate the fair values of the assets and liabilities in the table above.

Level 1 Fair Value Measurements – are based on market quotes of our marketable securities.

Level 2 Fair Value Measurements – Interest Rate Swaps – The fair value of interest rate swaps and cap are estimated using internal discounted cash flow calculations based upon forward interest rate curves, which are corroborated by market data, and quotes obtained from counterparties to the agreements.

Level 3 Fair Value Measurements – Impaired Property – For assets measured on a non-recurring basis, such as real estate assets that are required to be recorded at fair value as a result of an impairment, our estimates of fair value are based on management's best estimate derived from evaluating market sales data for comparable properties developed by a third party appraiser and arriving at management's estimate of fair value based on such comparable data primarily based on properties with similar characteristics. For the years ended December 31, 2011, 2010, and 2009, the fair value of our impaired properties was estimated to be $1.9 million, $1.8 million, and $4.5 million, respectively, which we used to record our impairment expense and was based on level 3 inputs in developing management's estimate of fair value. For the year ended December 31, 2011, the fair value of our Rialto Cinemas investment was $1.6 million (NZ$2.0 million) resulting in an impairment charge of $2.9 million (NZ$3.8 million).

As of December 31, 2011, we held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents, available for sale securities, and interest rate derivative contracts. Cash equivalents consist of short-term, highly liquid, income-producing investments, all of which have maturities of 90 days or less where the carrying value approximates fair value. Derivative instruments are related to our economic hedge of interest rates. Our available-for-sale securities primarily consist of investments associated with the ownership of marketable securities in Australia.

The fair values of the interest rate swap agreements are determined using the market standard methodology of discounting the future expected cash receipts or payments that would occur if variable interest rate fell above or below the strike rate of the interest rate swap agreement. The variable interest rates used in the calculation of projected receipts or payments on the interest rate swap and cap agreements are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820-10, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2011, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation and determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. We have consistently applied these valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivative contracts we hold.

Table of Contents

The following items are measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820-10 at December 31, 2011 and 2010, respectively (dollars in thousands):

		Book Value		Fair Value	
Financial Instrument	Level	2011	2010	2011	2010
Investment in marketable securities	1	$ 2,874	$ 2,985	$ 2,874	$ 2,985
Interest rate swaps asset	2	$ --	$ 446	$ --	$ 446
Interest rate swaps liability	2	$ 4,722	$ 181	$ 4,722	$ 181

Financial Instruments Disclosed at Fair Value

The following table sets forth the carrying value and the fair value of our financial assets and liabilities at December 31, 2011and 2010 (dollars in thousands):

	Book Value		Fair Value	
Financial Instrument	2011	2010	2011	2010
Cash	$31,597	$34,568	$31,597	$34,568
Accounts receivable	$6,973	$5,470	$6,973	$5,470
Restricted cash	$2,379	$2,159	$2,379	$2,159
Accounts and film rent payable	$23,067	$21,687	$23,067	$21,687
Notes payable	$172,701	$191,908	$166,152	$173,142
Notes payable to related party	$9,000	$9,000	$N/A	$N/A
Subordinated debt	$27,913	$27,913	$20,544	$18,241
Investment in Marketable Securities	$2,874	$2,985	$2,874	$2,985
Interest rate swaps asset	$--	$446	$--	$446
Interest rate swaps liability	$4,722	$181	$4,722	$181

For purposes of this fair value disclosure, we based our fair value estimate for notes payable and subordinated debt on our internal valuation whereby we apply the discounted cash flow method to our expected cash flow payments due under our existing debt agreements based on a representative sample of our lenders' market interest rate quotes as of December 31, 2011 and 2011, respectively, for debt with similar risk characteristics and maturities.

Note 17 – Lease Agreements

Most of our cinemas conduct their operations in leased facilities. Thirteen of our eighteen operating multiplexes in Australia, four of our eight cinemas in New Zealand, and all but one of our cinemas in the United States are in leased facilities. These cinema leases have remaining terms inclusive of options of 1 to 39 years. Certain of our cinema leases provide for contingent rentals based upon a specified percentage of theater revenue with a guaranteed minimum. Substantially all of our leases require the payment of property taxes, insurance, and other costs applicable to the property. We also lease office space and equipment under non-cancelable operating leases. All of our leases are accounted for as operating leases and accordingly, we have no leases of facilities that require capitalization.

We determine the annual base rent expense of our cinemas by amortizing total minimum lease obligations on a straight-line basis over the lease terms. Base rent expense and contingent rental expense under the operating leases totaled approximately $31.2 million and $1.6 million for 2011, respectively; $30.9 million and $1.1 for 2010, respectively; and $27.5 million and $794,000 for 2009, respectively. Future minimum lease payments by year and, in the aggregate, under non-cancelable operating leases consisted of the following at December 31, 2011 (dollars in thousands):

Table of Contents

	Minimum Ground Lease Payments	Minimum Premises Lease Payments	Total Minimum Lease Payments
2012	$3,160	$27,957	$31,117
2013	3,216	25,196	28,412
2014	2,131	22,929	25,060
2015	1,095	19,950	21,045
2016	1,129	18,449	19,578
Thereafter	16,472	60,470	76,942
Total minimum lease payments	$27,203	$174,951	$202,154

Since approximately $86.4 million of our total minimum lease payments of $202.2 million as of December 31, 2011 consisted of lease obligations denominated in Australian and New Zealand dollars, the U.S dollar amounts of these obligations will fluctuate in accordance with the relative values of these currencies. See Note 26 – Related Parties and Transactions for the amount of leases associated with any related party leases.

Note 18 – Pension Liabilities

Supplemental Executive Retirement Plan

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

The SERP initially will be unfunded, but Reading may choose to establish one or more grantor trusts from which to pay the SERP benefits. As such, the SERP benefits are unsecured, general obligations of Reading. The SERP is administered by the Compensation Committee of the Board of Directors of Reading. In accordance with FASB ASC 715-30-05 – Defined Benefit Pension Plans ("ASC 715-30-05"), the initial pension benefit obligation of $2.7 million was included in our other liabilities with a corresponding amount of unrecognized prior service cost included in accumulated other comprehensive income on March 1, 2007 (see Note 24 – Comprehensive Income (Loss)). The initial benefit obligation was based on a discount rate of 5.75% and a compensation increase rate of 3.5%. The $2.7 million is being amortized as a prior service cost over the estimated service period of 10 years combined with an annual interest cost. For the years ended December 31, 2011, 2010, and 2009, we recognized $195,000, $200,000, and $160,000, respectively, of interest cost and $304,000 of amortized prior service cost per year. For the years ended December 31, 2011 and 2010, we recognized $24,000 and $0 of amortized net gains. The balance of the other liability for this pension plan was $3.5 million and $3.8 million at December 31, 2011 and 2010, respectively, and the accumulated unrecognized prior service costs included in other comprehensive income balance was $1.2 and $2.1 million at December 31, 2011 and 2010, respectively. The December 31, 2011 and 2010 values of the SERP are based on a discount rate of 5.10% and 6.25%, respectively and an annual compensation growth rate of 3.50% per year.

Table of Contents

The change in the SERP pension benefit obligation and the funded status for the year ending December 31, 2011 and 2010are as follows (dollars in thousands):

Change in Benefit Obligation	For the year ending December 31, 2011
Benefit obligation at January 1, 2011	$ 3,820
Interest cost	195
Actuarial gain	(504)
Benefit obligation at December 31, 2011	3,511
Funded status at December 31, 2011	$ (3,511)

Change in Benefit Obligation	For the year ending December 31, 2010
Benefit obligation at January 1, 2010	$ 3,428