READING INTERNATIONAL INC
Form 10-K
March 16, 2011

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, 2010

or

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

For the transition period from _______ to ______

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

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

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

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

Title of each class	Name of each exchange on which registered
Class A Nonvoting Common Stock, $0.01 par value	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 ¨ 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, 2011, there were 21,483,648 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 $68,613,462 as of June 30, 2010.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2010
INDEX

Table of Contents

PART I

Item 1 – Our Business

General Description of Our Business

Reading International, Inc., a Nevada corporation ("RDI"), was incorporated in 1999 incident to our reincorporation in Nevada. Our class A non-voting common stock ("Class A Stock") and class B voting common stock ("Class B Stock") are listed for trading on the NASDAQ under the symbols RDI and RDIB. Our principal executive offices are located at 500 Citadel Drive, Suite 300, Commerce, California 90040. Our general telephone number is (213) 235-2240 and our website is www.readingrdi.com. It is our practice to make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with or furnished it to the Securities and Exchange Commission. In this Annual Report, we from time to time use terms such as the "Company," "Reading" and "we," "us," or "our" to refer collectiv to RDI and our various consolidated subsidiaries and 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 58 multiplex theaters, 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. Also, we have the ability, in appropriate circumstances, to be our own anchor tenant.

At December 31, 2010, the book value of our assets was approximately $430.3 million; and as of that same date, we had a consolidated stockholders' book equity of approximately $112.6 million. Calculated based on book value, approximately $221.6 million of our assets relate to our cinema exhibition activities and approximately $185.0 million of our assets relate to our real estate activities which results in the allocation between our cinema assets and our non-cinema assets of approximately 51% and 49%, respectively.

For additional segment financial information, please see Note 22 – Business Segments and Geographic Area Information to our 2010 Consolidated Financial Statements.

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 29% of our assets (based on net book value) in the United States, 55% in Australia and 16% in New Zealand compared to 34%, 50%, and 16% at the end of

Table of Contents

2009. For 2010, our gross revenue in these jurisdictions was $110.6 million, $94.2 million, and $25.0 million, respectively, compared to $113.4 million, $80.8 million, and $22.4 million for 2009.

For additional financial information concerning the geographic distribution of our business, please see Note 22 – Business Segments and Geographic Area Information to our 2010 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 environment. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home and that, when compared to other forms of outside the home entertainment, movies continue to be a popular, and competitively priced option. However, since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see our future asset growth coming more from our real estate development activities and from the acquisition of existing cinemas rather than from the development of new cinemas. Over time, we anticipate that our cinema operations will become increasingly a source of cash flow to support our real estate oriented activities, rather than a focus of growth, and that our real estate activities will, again, over time become the principal thrust of our business. We also, from time to time, invest in the shares of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

In 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 business plan 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.

Of greater impact is the current lack of liquidity in the lending markets for real estate development, which has in certain cases delayed our plans for development of certain properties, or may necessitate the involvement of money partners in such developments. In 2010, we were advised by our principal lender in Australia that it was curtailing lending activities in that country, and would not be renewing our $111.3 million (AUS$110.0 million) credit facility. On March 9, 2011, we received credit approval from National Australia Bank for a $106.3 million (AUS$105.0 million) facility that will replace our expiring Australia Corporate Credit Facility which will allow us to fully repay our $101.7 million (AUS$100.5 million) of outstanding debt.

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

Table of Contents

the current market, given the difficulty in obtaining leverage on attractive terms, we are considering the sale of certain real estate assets including our Cinemas 1, 2 & 3 property in Manhattan in 2011. In addition, as we have now completed the residential rezoning of our Taupo property in New Zealand, we have listed that property for sale. We did, however, add to our overall real estate holdings during 2010 by acquiring the fee interest in additional property (aggregating approximately 6.4 acres) adjoining our property in Manukau, New Zealand for $3.6 million (NZ$5.2 million).

Given the resurgence of Manhattan commercial real estate values, we intend to focus in 2011 on the development of our Union Square property (in Manhattan). As part of that work, during January 2011, we started communications with several potential joint venture partners with respect to 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.

While a development plan has been submitted for our 64.0 acre holding in Manukau, New Zealand, we do not currently anticipate that the rezoning process for that property will be completed until mid 2013. Our 3.3 acre holdings in the Moonee Ponds area of Melbourne has enjoyed the benefit of a new council initiated Structure Plan for Moonee Ponds. This Structure Plan process has resulted in increased height controls and proposed general increased density development of the properties in parts of central Moonee Ponds. This new zoning increases our permitted development potential from up to 10 levels to a range of 10 to 16 levels. This enables increased mixed-use density on the development site.

Consistent with our philosophy of acquiring proven cash-flowing cinemas, on February 22, 2008 we acquired fifteen leasehold cinemas in Hawaii and California representing 181 screens. These cinemas are located in Hawaii and California and from the acquisition date through December 31, 2008, and for the full years ended December 31, 2009 and 2010, produced gross revenue of $66.9 million, $80.6 million, and $77.9 million, respectively. This acquisition was financed, principally with a combination of institutional and seller financing. The original purchase price of these cinemas of $70.2 million was subject to downward adjustments, depending upon how certain potentially competitive situations played out, that have now been fixed at $23.4 million and which has been fully realized at December 31, 2010.

In 2010, we opened a new 8-screen cinema in Australia that opened strongly and signed a lease for the development of a new 8-screen “Angelika” cinema in the Mosaic District in the Greater Washington D.C. area. During 2010, we elected not to renew the leases of two underperforming cinemas (representing 12 screens) in New Zealand and the United States. We also extended our lease (with option to buy) of our Village East Cinema in Manhattan.

We continue our efforts to upgrade the quality of our cinema offerings. In 2010, we introduced our TitanXC super-screen, 3D cinema concept in Hawaii and Australia, and have to date converted three auditoriums to this large screen, enhanced audio concept. We also converted 2 of our auditoriums in Australia to a premium-seating concept. We anticipate continuing this process in 2011 in order to take advantage of increasing demand for a premium entertainment experience.

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 Australia 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. In addition, in December 2008 we secured a waiver of all financial covenants with respect to our TPS for a period of nine years, in consideration of the payment of $1.6 million, consisting of an initial payment of $1.1 million and a contractual obligation to pay $270,000 in December 2011 and $270,000 in December 2014. In the event that the remaining payments are not made, the only remedy is the termination of the waiver. As a result of this transaction, in 2009, we enjoyed a $10.7 million gain on retirement of subordinated debt.

In summary, while we do have operating company attributes, we see ourselves principally as a geographically diversified company and intend to add to shareholder value by building the value of our portfolio of tangible assets

Table of Contents

including both entertainment and other types of land, 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 company with the investment and development opportunities of a real estate development company, we are unique among public companies with our business plan.

A major development in 2010 was our settlement for $13.8 million of the Internal Revenue Services claim against us of $68.1 million. This claim relates to the 1996 tax year of our wholly owned subsidiary, Craig Corporation, and represents a settlement of that claim for thirty (30) cents on the dollar. To date, the State of California Franchise Tax Board has made no claim against Craig Corporation with respect to that (or any other) tax year. However, we have booked a reserve of $4.7 million against a potential California State Franchise Tax liability. For further explanation, see Item 3 – Legal Proceedings.

At December 31, 2010, our principal assets included:

- interests in 56 cinemas comprising some 453 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 1.1 million square feet of developed commercial real estate, and approximately 14.9 million square feet of land; and
- cash, cash equivalents, and investments in marketable securities aggregating $34.6 million.

Our Cinema Exhibition Activities and Business

General

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

- first, notwithstanding the enormous advances that have been made in home entertainment technology, humans are essentially social beings, and will continue to want to go beyond the home for their entertainment, provided that they are offered clean, comfortable and convenient facilities, with state of the art technology;
- second, cinemas can be used as anchors for larger retail developments and our involvement in the cinema business can give us an advantage over other real estate developers or redevelopers who must identify and negotiate exclusively with third party anchor tenants;
- third, pure cinema operators can get themselves into financial difficulty as demands upon them to produce cinema based earnings growth tempt them into reinvesting their cash flow into increasingly marginal cinema sites. While we believe that there will continue to be attractive cinema acquisition opportunities in the future, and believe that we have taken advantage of one such opportunity through our purchase of Consolidated Cinemas, we do not feel pressure to build or acquire cinemas for the sake of simply adding units. We intend to focus our cash flow on our real estate development and operating activities, to the extent that attractive cinema opportunities are not available to us; and
- fourth, we are 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	3 cinemas 16 screens	1 cinema4 16 screens	None	22 cinemas 170 screens
New Zealand	8 cinemas 44 screens	None	3 cinemas5 16 screens	None	11 cinemas 60 screens
United States	22 cinemas 217 screens	1 cinema6 6 screens	None	2 cinemas 9 screens	25 cinemas 232 screens
Totals	48 cinemas 399 screens	4 cinemas 22 screens	4 cinemas 32 screens	2 cinemas 9 screens	58 cinemas 462 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 derive essentially from box office receipts, concession sales, and screen advertising. Our ancillary revenue derives 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 derived approximately 71.3% of their 2010 revenue from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children.

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

Concession sales accounted for approximately 23.7% of our total 2010 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 5.0% of our total 2010 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 ourselves with executives located in Los Angeles, Manhattan, Melbourne, Australia, and Wellington, New Zealand. Approximately 2,056 individuals were employed (on a full time or part time basis) in our cinema operations in 2010. 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 such as Miramax. In Australia and New Zealand, some of those major distributors distribute through local unaffiliated distributors. The major film distributors dominate the market for mainstream conventional films. Similarly, most art and specialty films come from the art and specialty divisions of these major distributors, such as Fox's Searchlight and Miramax. Generally speaking, film payment terms are based upon an agreed upon percentage of box office receipts which will vary from film to film as films are licensed in Australia, New Zealand and the United States on a film-by-film, 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 products. In the art and specialty markets, due to the limited number of prints available, we from time to time are unable to license all of the films that we might desire to play. In summary, while in some markets we are subject to film allocation, on the whole, access to film product has not in recent periods been a major impediment to our operations.

Competition

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

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 preferences to these mega exhibitors when it comes to licensing top grossing films, rather than deal with independents such as ourselves. The situation is different in

Table of Contents

Australia and New Zealand where typically every major multiplex cinema has access to all of the film currently in distribution, regardless of the ownership of that multiplex cinema.

Once a patron has selected the film, the choice of cinema is typically impacted by the quality of the cinema experience offered, weighed against convenience and cost. For example, most cinema patrons seem to prefer a modern stadium design multiplex, to an older sloped floor cinema, and to prefer a cinema that either offers convenient access to free parking (or public transport) over a cinema that does not. However, if the film they desire to see is only available at a limited number of locations, they will typically chose the film over the quality of the cinema and/or the convenience of the cinema. Generally speaking, our cinemas are modern multiplex cinemas with good and convenient parking. As discussed further below, the availability of 3D or digital technology 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 exhibiters in the United States are Regal (with 6,683 screens in 537 cinemas), AMC (with 5,325 screens in 380 cinemas), Cinemark (with 3,854 screens in 295 cinemas), and Carmike (with 2,277 screens in 244 cinemas). At the present time, we are the 12th largest exhibitor with 1% of the box office in the United States with 232 screens in 25 cinemas.

The principal exhibitors in Australia are Event (a subsidiary of Amalgamated Holdings Limited), Hoyts, and Village. The major exhibitors control approximately 62.2% of the total cinema box office: Event 31.1%, Hoyts Cinemas (“Hoyts”) 16.8%, and Village 14.3%. Event has 473 screens nationally, Hoyts 315 screens, and Village 506 screens. By comparison, our 170 screens represent approximately 7.6% of the total box office.

The major players in New Zealand are Event with 122 screens nationally, Hoyts with 70 screens, and Reading with 44 screens (not including partnerships). The major exhibitors in New Zealand control approximately 57% of the total box office: Greater Union 36.7%, Hoyts 20.3%, and Reading 13.7% (Greater Union 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 $581.9 million (AUS$686.3 million) at June 30, 2010. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately $644.6 million (AUS$760.2 million) at June 30, 2010. Hoyts is privately held and does not publish financial reports. Hoyts is currently owned by Pacific Equity Partners.

In Australia, the industry is also somewhat vertically integrated in that Roadshow Film Distributors, 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 at least one auditorium in each of their significant locations with 3D capability. In 2010 and 2009, cinemagoers demonstrated a strong appetite for and a willingness to pay premium prices for 3D movies. The release schedule for 2011 lists 33 titles for 3D release, compared to 26 titles for 2010.

By the end of 2011, we anticipate that we will have 3D projectors in not less than 40 out of the 52 cinema locations that we either wholly own or consolidate. We believe that the transition from film to digital projectors, while likely inevitable, will take some time to roll out and our business plan is to be selective in our selection of auditoriums to be fitted out with such technology, identifying those situations where premiums can best be achieved by having such projection capabilities.

Table of Contents

In-Home Competition

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

Competitive issues are discussed in greater detail 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 Years, 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 Australia and New Zealand holidays that are not celebrated in the United States.

Employees

We have 62 full time executive and administrative employees and approximately 1,994 cinema employees. Our cinema employees in 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. Our union contracts with respect to our employees in New Zealand expire on August 31, 2012. We are currently in the process of renegotiating these contracts. None of our Australia based employees is unionized. Overall, we are of the view that the existence of these contracts does not materially increase our costs of labor or our ability to compete. We believe our relations with our employees to be generally good.

Our Real Estate Activities

Our real estate activities have historically consisted principally of:

- the ownership of fee or long-term leasehold interests in properties used in our cinema exhibition activities or which were acquired for the development of cinemas or cinema based real estate development projects;
- the acquisition of fee interests for general real estate development;
- the leasing to shows of our live 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. Our senior executives oversee and participate in both the cinema and real estate aspects of our business. We also employ a number of full time real estate professionals to assist us in our non-cinema real estate development activities and non-cinema property management activities.

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

Table of Contents

Item 1A – Risk Factors

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

Business Risk Factors

We are currently engaged principally in the cinema exhibition and real estate businesses. Since we operate in two business segments (cinema exhibition and real estate), we have discussed separately the risks we believe to be material to our involvement in each of these segments. We discuss separately below 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 circuits are able to offer distributors more screens in more markets – including markets where they may be the exclusive exhibitor – than can we. In some cases, faced with such competition, we may not be able to get access to all of the films we want, which may adversely affect our 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.

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 cinemas 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, and the willingness of these producers to license their films 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.

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.

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. In 2010 and 2009, cinemagoers demonstrated a strong appetite for and a willingness to pay premium prices for 3D movies. The release schedule for 2011 lists 33 titles for 3D release, compared to 26 titles for 2010. We believe that the transition from film to digital projectors, while likely inevitable, will take some time to roll out and our business plan is to be selective in which auditoriums are to be fitted out with such technology, identifying those situations where premiums can best be achieved by having such projection capabilities.

Table of Contents

Real Estate Development and Ownership Business Risks

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

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

Risks Related to the Real Estate Industry Generally

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

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

Real estate development involves a variety of risks.

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

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

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

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

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

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

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 $16.6 million (AUS$16.4 million) and $1.6 million (NZ$2.0 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:

-12-

Table of Contents

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

Risks Associated with Certain Discontinued Operations

Certain of our subsidiaries were previously in industrial businesses. As a consequence, properties that are currently owned or may have in the past been owned by these subsidiaries may prove to have environmental issues. 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.

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, which we consider to be akin to an interest free loan, 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.

Table of Contents

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 2010 of only approximately 44,000 shares. This can result in significant volatility, as demand by buyers and sellers can easily get out of balance.

Ownership Structure, Corporate Governance, and Change of Control Risks

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

Mr. James J. Cotter beneficially owns 70.4% of our outstanding Class B 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, 2010, 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).

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.

Item 1B - Unresolved Staff Comments

None.

Table of Contents

Item 2 – Properties

Executive and Administrative Offices

We lease approximately 8,582 square feet of office space in Commerce, California to serve as our executive headquarters. We own an 8,783 square foot office building in Melbourne, Australia, approximately 5,500 square feet of which serves as the headquarters for our Australia and New Zealand operations (the remainder being leased to an unrelated third party). We occupy approximately 2,000 square feet at our Village East leasehold property for administrative purposes. We also own a residential condominium unit in Los Angeles, used as executive office and residential space by our Chairman and Chief Executive Officer.

Entertainment Properties

Entertainment Use Leasehold Interests

As of December 31, 2010, we lease approximately 1.92 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	975,000	2011 – 2049
Australia	756,000	2017 – 2049
New Zealand	193,320	2023 – 2034

On February 22, 2008, we acquired 15 pre-existing cinemas from a third party, comprising approximately 748,000 square feet of cinema improvements in the United States. During October 2010, we opened a new cinema at Newcastle, NSW Australia. During 2010, we elected not to renew our leases of two underperforming cinemas in the United States and New Zealand.

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. Also, in the first quarter of 2011, we signed a lease for an art cinema in a suburb of Houston to replace our closed downtown Houston operation. That new lease is likewise not reflected in the above table.

Entertainment Use Fee Interests

In Australia, we own as of December 31, 2010 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 598,000 square feet is currently improved with cinemas.

In New Zealand, we own as of December 31, 2010 a 152,000 square foot site, which includes an existing 335,000 square foot, nine-level parking structure in the heart of Wellington, the capital of New Zealand. All but 38,000 square feet of the Wellington site has been developed as an ETRC that incorporates the existing parking garage. The remaining land is currently leased and is slated for development as phase two of our Wellington ETRC. We own the fee interests underlying three additional cinemas in New Zealand, which properties include approximately 12,000 square feet of ancillary retail space.

In the United States, we own as of December 31, 2010, approximately 162,000 square feet of improved real estate comprised of four live theater buildings, which include approximately 55,000 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).

Table of Contents

Live Theaters (Liberty Theaters)

Included among our real estate holdings are four "Off Broadway" style live theaters, operated through our Liberty Theaters subsidiary. We lease theater auditoriums to the producers of "Off Broadway" theatrical productions and provide various box office and concession services. The terms of our leases are, naturally, principally dependent upon the commercial success of our tenants. STOMP has been playing at our Orpheum Theatre in excess of 10 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 66% unincorporated joint venture interest in a leased 5-screen multiplex cinema in Melbourne (our interest is currently held for sale), a 75% interest in a subsidiary company that leases two cinemas with eleven screens in two Australian country towns, and a 33% unincorporated joint venture interest in a 16-screen leasehold cinema in a suburb of Brisbane.

- in New Zealand, we own a 50% unincorporated joint venture interest in three cinemas with 16 screens in the New Zealand cities of Auckland, Christchurch, and Dunedin.

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

Income Producing Real Estate Holdings

We own, as of December 31, 2010 fee interests in approximately 1.1 million square feet of income producing properties (including certain properties principally occupied by our cinemas). In the case of properties leased to our cinema operations, these numbers include an internal allocation of "rent" for such facilities.

Table of Contents

Property7	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Auburn 100 Parramatta Road Auburn, NSW, Australia	57,000 / 57,000 Plus an 871-space subterranean parking structure	100%	$ 36,500,000
Belmont Knutsford Avenue and Fulham Street Belmont, WA, Australia	19,000 / 49,000	63%	$ 15,323,000
Cinemas 1, 2 & 38 1003 Third Avenue Manhattan, NY, USA	0 / 21,000	N/A	$ 23,570,000
Courtenay Central 100 Courtenay Place Wellington, New Zealand	38,000 / 68,000 Plus a 335,000 square foot parking structure	80%	$ 24,396,000
Indooroopilly 70 Station Road Brisbane, Australia	28,000/0	100%	$ 13,350,000
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	10,000 / 24,000	69%	$ 3,521,000
Lake Taupo Motel 138-140 Lake Terrace Road Taupo, New Zealand	9,000 / 0	Short-term rentals	$ 4,305,000
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22,000	N/A	$ 2,408,000
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9,000	N/A	$ 8,318,000
Napier Cinema 154 Station Street Napier, New Zealand	13,000 / 17,000	100%	$ 3,106,000
Newmarket 400 Newmarket Road Newmarket, QLD, Australia	105,000 / 0	100%	$ 43,808,000
Orpheum Theatre 126 2nd Street Manhattan, NY, USA	0 / 5,000	N/A	$ 3,401,000
Royal George 1633 N. Halsted Street	34,000 / 23,000	93%	$ 3,441,000

Chicago, IL, USA	Plus 21,000 square feet of parking			
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19,000	N/A	$	2,831,000
Union Square Theatre 100 E. 17th Street Manhattan, NY, USA	21,000 / 17,000	100%	$	9,159,000

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, 2010.

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, 2010, we had approximately 169,000 square foot of space subject to such long-term leases.

Property[9]	Square Footage (rental/entertainment)	Percentage Leased		Gross Book Value (in U.S. Dollars)
Manville	0 / 53,000	N/A	$	2,210,000
Tower	0 / 16,000	N/A	$	797,000
Village East[10]	4,000 / 38,000	100%	$	11,825,000
Waurn Ponds	6,000 / 52,000	100%	$	3,426,000

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, 2010.

10 The recently extended 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.

Table of Contents

Real Estate Development Properties

We are engaged in several real estate development projects:

Property11	Square Footage/ Acreage	Gross Book Value (in U.S. Dollars)	Status
Auburn, Sydney, Australia	2.1 acres	$ 2,052,000	No longer held for sale. The buyer elected not to proceed with its option to acquire this property, and we have elected to continue to hold the property for development for the foreseeable future.
Burwood, Victoria, Australia	50.6 acres	$ 52,755,000	As of December 31, 2010, this property was held for sale. We continue to evaluate our options with regards to this property.
Courtenay Central, Wellington, New Zealand	0.9 acre	$ 3,326,000	Have regulatory approval for expansion and we are actively pursuing the development of the next phase of our Courtenay Central property in Wellington, New Zealand.
Moonee Ponds, Victoria, Australia	3.3 acres	$ 14,020,000	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	1.1 acres	$ 4,880,000	As we no longer have contracts to purchase the adjacent properties, we are currently considering our options on whether to develop or sell this property.
Newmarket, Queensland, Australia	18,000 sq. ft.	$ 2,762,000	Analyzing if plans for a cinema should be replaced with plans for additional retail space.
Lake Taupo, Taupo, New Zealand	0.5 acre	$ 1,974,000	Development consent for this 20,000 square foot residential development site has been obtained, and we have listed the property for sale.
Manukau, Auckland, New Zealand	64.0 acres zoned agricultural 6.4 acres zoned industrial	$ 13,895,000	The bulk of the land is zoned for agriculture and 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.

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

Table of Contents

Other Property Interests and Investments

Place 57, Manhattan

We own a 25% membership interest in the limited liability company that developed the site of our former Sutton Cinema on 57th Street just east of 3rd Avenue in Manhattan, as a 143,000 square foot residential condominium tower, with a ground floor retail unit and a resident manager's apartment. The project is now sold out as the remaining commercial unit was sold in February 2009 for approximately $3.8 million. At December 31, 2010, all debt on the project had been repaid, and we had received distributions totaling $13.1 million from this project, on an investment of $3.0 million made in 2004.

Landplan Property Partners, Ltd

In 2006, we formed Landplan Property Partners, Ltd ("Reading Landplan") to identify, acquire, develop, or redevelop properties on an opportunistic basis in Australia and New Zealand. These properties are held in separate special purpose entities, which are collectively referred to as "Reading Landplan." The properties held through Landplan currently consist of the holdings described above as being located at Indooroopilly, Taringa, Lake Taupo (including the adjacent undeveloped parcel), and Manukau. 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. As consideration for his future services on our behalf with respect to our Manukau properties, we have agreed to pay Mr. Osborne an amount equal to 7.5% of the net profit realized, if any, from our investment in these properties.

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. These properties are unencumbered with any debt and lien free.

Table of Contents

Item 3 – Legal Proceedings

Tax Audit/Litigation

The Internal Revenue Service (the "IRS") 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. With respect to both of these companies, the principal focus of these audits was the treatment of the contribution by RDGE to our wholly owned subsidiary, Reading Australia, and, thereafter, the subsequent repurchase by Stater Bros. Inc. from Reading Australia, of certain preferred stock in Stater Bros. Inc. (the "Stater Stock"). The Stater Stock was received by RDGE from CRG as a part of a private placement of securities by RDGE, which closed in October 1996. A second issue involved an equipment-leasing transaction entered into by RDGE. This issue was conceded by RDGE resulting in a net tax refund.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of RDGE and CRG for the years in question (the "Examination Report"). The Examination Report for each of RDGE and CRG proposed that the gains on the disposition by RDGE of Stater Stock, reported as taxable on the RDGE return, should be allocated to CRG. As reported, the gain resulted in no additional tax to RDGE inasmuch as the gain was entirely offset by a net operating loss carry forward of RDGE. This proposed change would have caused an additional federal tax liability for CRG of approximately $20.9 million plus interest, and an additional California tax liability of approximately $5.4 million plus interest and "amnesty" penalties.

Notices of deficiency dated June 29, 2006 were received with respect to each of RDGE and CRG determining proposed deficiencies of $20.9 million for CRG and a total of $349,000 for RDGE for the tax years 1997, 1998, and 1999. In September 2006, petitions were filed with the Tax Court by CRG and RDGE disputing the proposed deficiencies.

In July 2010, CRG and the IRS agreed to file with the Tax Court a settlement of the IRS's claim against CRG. The final decision of the Tax Court was entered on January 6, 2011. In the settlement, the IRS conceded 70% of its proposed adjustment to income claimed in its notices of deficiency dated June 29, 2006. Instead of a claim for unpaid taxes of $20.9 million plus interest, the effect of settlement on the Reading consolidated group is to require a total federal income tax obligation of $5.4 million, reduced by a federal tax refund of $800,000, increased by interest of $9.3 million, for a net federal tax liability of $13.9 million as of December 31, 2010. The Company anticipates federal and state tax deductions will be available for interest paid to IRS and to state tax agencies, plus an additional federal deduction will be available for taxes paid to state tax agencies.

The impact of the settlement upon state taxes on the Reading consolidated group remains uncertain as of December 31, 2010, but if the agreed adjustment to income were reflected on state returns, it would cause a state tax obligation of approximately $4.7 million. Of this, $4.2 million would be related to California, and $0.5 million to other states. CRG's 1997 tax year remains open with respect to CRG's potential tax liability to the State of California. As of December 31, 2010, 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.

The decision to settle was based on various business considerations, the most prominent of which was the potential size of an adverse judgment (some $56.8 million net federal tax liability, including interest, if the case had remained unsettled as of December 31 2010), plus state liabilities and the direct costs of trial.

Immediately before 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 this 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. As of December 31, 2010, we show the $18.7 million potential impact as current taxes payable.

Table of Contents

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.

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, 2010, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be $12.3 million (AUS$12.2 million) and as of that date we had incurred a total of $8.4 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 much of the work will be done in connection with the excavation and other development activity already contemplated for the property.

Table of Contents

Item 4 – [Reserved.]

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 2010 and 2009 as reported by NASDAQ:

		Class A Stock		Class B Stock	
		High	Low	High	Low
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
2009:	Fourth Quarter	$4.60	$3.80	$9.50	$5.00
	Third Quarter	$4.69	$3.70	$7.78	$5.14
	Second Quarter	$4.96	$3.25	$7.00	$4.06
	First Quarter	$4.00	$2.90	$4.25	$3.52

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, 2006, 2007, 2008, 2009 and 2010 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 beneficial holders of our Class A Stock and Class B Stock in 2010 was approximately 2,600 and 350, respectively. On March 14, 2011, the closing price per share of our Class A Stock was $4.95 and the closing price per share of our Class B Stock was $8.13.

Dividends on Common Stock

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

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

None.

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

None.

Table of Contents

Item 6 – Selected Financial Data

The table below sets forth certain historical financial data regarding our Company. This information is derived in part from, and should be read in conjunction with our consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 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,				
	2010	2009	2008	2007	2006
Revenue	$229,817	$216,685	$196,826	$119,235	$106,125
Operating income (loss)	$13,129	$13,864	$(2,348)	$5,165	$2,415
Income from discontinued operations	$5	$58	$60	$1,896	$--
Net income (loss)	$(12,034)	$6,482	$(16,189)	$(1,100)	$4,528
Net income (loss) attributable to Reading International, Inc. shareholders	$(12,650)	$6,094	$(16,809)	$(2,103)	$3,856
Basic earnings (loss) per share – continuing operations	$(0.56)	$0.27	$(0.75)	$(0.18)	$0.17
Basic earnings (loss) per share – discontinued operations	$--	$--	$--	$0.09	$--
Basic earnings (loss) per share	$(0.56)	$0.27	$(0.75)	$(0.09)	$0.17
Diluted earnings (loss) per share – continuing operations	$(0.56)	$0.27	$(0.75)	$(0.18)	$0.17
Diluted earnings per share – discontinued operations	$--	$--	$--	$0.09	$--
Diluted earnings (loss) per share	$(0.56)	$0.27	$(0.75)	$(0.09)	$0.17
Other Information:					
Shares outstanding	22,804,313	22,588,403	22,482,605	22,482,605	22,476,355
Weighted average shares outstanding	22,781,392	22,580,942	22,477,471	22,478,145	22,425,941
Weighted average dilutive shares outstanding	22,781,392	22,767,735	22,477,471	22,478,145	22,674,818
Total assets	$430,349	$406,417	$371,870	$346,071	$289,231
Total debt	$228,821	$226,993	$239,162	$177,195	$130,212
Working capital (deficit)	$(57,634)	$(16,229)	$12,516	$6,345	$(6,997)
Total stockholders' equity	$112,639	$110,263	$69,447	$124,197	$110,262
EBIT	$13,868	$22,618	$1,030	$8,098	$12,734
Depreciation and amortization	$15,891	$15,135	$18,577	$11,880	$13,212
Add: Adjustments for discontinued operations	$23	$33	$(19)	$41	$--
EBITDA	$29,782	$37,786	$19,588	$20,019	$25,946
Debt to EBITDA	7.68	6.01	12.21	8.85	5.02
Capital expenditure (including acquisitions)	$19,371	$5,686	$75,166	$42,414	$16,389
Number of employees at 12/31	2,109	2,207	1,986	1,383	1,451

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.

-27-

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):

	2010	2009	2008	2007	2006
Net income (loss) attributable to Reading International, Inc. shareholders	$(12,650)	$6,094	$(16,809)	$(2,103)	$3,856
Add: Interest expense, net	12,286	14,572	15,740	8,163	6,608
Add: Income tax expense	14,232	1,952	2,099	2,038	2,270
EBIT	$13,868	$22,618	$1,030	$8,098	$12,734
Add: Depreciation and amortization	15,891	15,135	18,577	11,880	13,212
Adjustments for discontinued operations	23	33	(19)	41	--
EBITDA	$29,782	$37,786	$19,588	$20,019	$25,946

Table of Contents

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

The following review should be read in conjunction with the consolidated financial statements and related notes included in our 2010 Annual Report. Historical results and percentage relationships do not necessarily indicate operating results for any future periods.

Overview

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

- Cinema Exhibition, through our 58 multiplex 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 can complement one another, as the comparatively consistent cash flows generated by our cinema operations can be used to fund the front-end cash demands of our real estate development business.

We manage our worldwide cinema 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. 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. From time to time, we invest in the shares of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

Business Climate

Cinema Exhibition - General

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. In 2010 and 2009, cinemagoers demonstrated a strong appetite for and a willingness to pay premium prices for 3D movies. The release schedule for 2011 lists 33 titles for 3D release compared to 26 titles for 2010.

By the end of 2011, we anticipate that we will have 3D projectors in not less than 40 out of the 52 cinema locations that we either wholly own or consolidate. We believe that the transition from film to digital projectors, while likely inevitable, will take some time to roll out and our business plan is to be selective in our selection of auditoriums to be fitted out with such technology, identifying those situations where premiums can best be achieved by having such projection capabilities.

Table of Contents

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

Cinema Exhibition – Australia / New Zealand

The film exhibition industry in Australia and New Zealand is highly concentrated in that Village, Event (Greater Union), and Hoyts (the "Major Exhibitors") control approximately 62% of the cinema box office in Australia while Event and Hoyts control approximately 57% 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 suppress 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 the latter half of 2008 and into early 2009 interest rates materially decreased to 40-year lows in Australia and New Zealand. During 2010, interest rates in these areas have again 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.

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. 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 Australian commercial sector has however continued to soften in Australia during 2009.

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.

Real Estate – North America

The commercial real estate market has followed the larger economy into a downturn that is likely to last through 2011. We believe that as our real estate is well located in large urban environments, it will be the first to see signs of recovery when the U.S. economy starts to recover.

Table of Contents

Business Segments

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

Cinema Exhibition

One of our primary businesses consists of the ownership and operation of cinemas. At December 31, 2010 we:

- owned and operated 52 cinemas with 421 screens;
- had interests in certain unconsolidated joint ventures in which we have varying interests, which own an additional 4 cinemas with 32 screens; and
- managed 2 cinemas with 9 screens.

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 and we opened a new 8-screen cinema in Charlestown, NSW, Australia that opened strongly. During 2010, we elected not to renew the leases of two underperforming cinemas (representing 12 screens) in New Zealand and the United States. We also extended our lease (with option to buy) of our Village East Cinema in Manhattan.

Our cinema revenue consists of admissions, concessions, and advertising. The cinema operating expense consists of the costs directly attributable to the operation of the cinemas including employee-related, occupancy, and operating costs and film rent expense. Cinema revenue and expense 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 2010, 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;

- 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 have approximately 5.6 million square feet of unimproved real estate held for development in Australia and New Zealand, discussed in greater detail below, and certain unimproved land in the United States

Table of Contents

that was used in our historic activities. We also own an 8,783 square foot commercial building in Melbourne, which serves as our administrative headquarters for Australia and New Zealand, approximately 50% of which is leased to an unrelated third party.

In 2010, we acquired the following real property interests:

- Additional Manukau Land Purchase. 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.

Properties Held for Sale

For fiscal 2010, our investments in property held for sale consisted of:

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

- a 1.0-acre parcel of commercial real estate located in Lake Taupo, New Zealand. A portion of this property was improved with a motel in which we recently renovated the property's units to be condominiums. We have enhanced the property value with residential apartment entitlements for the adjoining vacant land.

- our 66.7% interest in the 5-screen Elsternwick Classic cinema located in Melbourne, Australia.

Property Held For or Under Development

For fiscal 2010, our investments in property held for or under development consisted of:

- two properties in the Taringa area of Brisbane, Australia of approximately 1.1 acres. As we no longer have contracts to purchase the adjacent properties, we are currently considering our options on whether to develop or sell these properties;

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

- an approximately 0.9 acre property located adjacent to the Courtenay Central ETRC in Wellington, New Zealand. We have received all necessary governmental approvals to develop the site for retail, commercial and entertainment purposes as Phase II of our existing ETRC. We are actively pursuing the development of the next phase of our Courtenay Central property in Wellington, New Zealand; and

- the Manukau land parcel purchased in 2007, consisting of a 64.0-acre parcel of undeveloped agricultural real estate. Additionally, on March 31, 2010, we purchased for $3.6 million (NZ$5.2 million) a 6.4 acre property adjacent to this existing property. This additional property was acquired to improve the access of our larger parcel to the existing road network servicing the area. We intend to rezone the larger parcel from its current agricultural use to commercial use, and thereafter to redevelop the properties in accordance with its new zoning. The smaller parcel is already zoned for industrial use. No assurances can be given that such rezoning will be achieved, or if achieved, that it will occur in the near term.

Critical Accounting Policies

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

- impairment of long-lived assets, including goodwill and intangible assets;

- tax valuation allowance and obligations; and
- legal and environmental obligations.

We review long-lived assets, including goodwill and intangibles, for impairment as part of our annual budgeting process, at the 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 $2.2 million, $3.2 million and $4.3 million relating to certain of our property and cinema locations for the years ended December 31, 2010, 2009, and 2008, 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, 2010, we had recorded approximately $54.5 million of deferred tax assets related to the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards and tax credit carry forwards. These deferred tax assets were fully offset by a valuation allowance in the same amount, resulting in a net deferred tax asset of zero. The recoverability of deferred tax assets is dependent upon our ability to generate future taxable income. There is no assurance that sufficient future taxable income will be generated to benefit from our tax loss carry forwards and tax credit carry forwards.

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

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

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.

Table of Contents

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 2010, 2009, and 2008, respectively. The retroactive presentation in 2009 and 2008 segment results decreased intersegment revenue and expense for the intercompany rent by $4.4 million and $2.2 million, respectively, 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 and $2.2 million for the years ended December 31, 2009 and 2008, respectively. This change results in a reduction of real estate operating expense and an increase of cinema operating expense of $4.4 million and $2.2 million, respectively, on our Consolidated Statements of Operations for the years ended December 31, 2009 and 2008, respectively.

The tables below summarize the results of operations for our principal business segments for the years ended December 31, 2010, 2009, and 2008 (dollars in thousands).

Year Ended December 31, 2010	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$211,073	$25,210	$ (6,466)	$229,817
Operating expense	178,261	8,979	(6,466)	180,774
Depreciation & amortization	10,559	4,617	--	15,176
Impairment expense	--	2,239	--	2,239
General & administrative expense	2,880	1,220		4,100
Segment operating income	$19,373	$8,155	$ --	$27,528

Year Ended December 31, 2009	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$201,388	$20,538	$ (5,241)	$216,685
Operating expense	165,708	7,353	(5,241)	167,820
Depreciation & amortization	10,816	3,653	--	14,469
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	$3,611	$ --	$25,830

Year Ended December 31, 2008	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$181,188	$21,313	$ (5,675)	$196,826
Operating expense	153,064	7,451	(5,675)	154,840
Depreciation & amortization	13,702	4,219	--	17,921
Impairment expense	351	3,968	--	4,319
General & administrative expense	3,834	1,123	--	4,957
Segment operating income	$10,237	$4,552	$ --	$14,789

Table of Contents

Reconciliation to net income (loss):	2010	2009	2008
Total segment operating income	$27,528	$25,830	$14,789
Non-segment:			
Depreciation and amortization expense	715	666	656
General and administrative expense	13,684	13,851	16,481
Other operating income	--	(2,551)	--
Operating income (loss)	13,129	13,864	(2,348)
Interest expense, net	(12,286)	(14,572)	(15,740)
Other income (expense)	(347)	(2,013)	991
Gain on sale of assets	352	(2)	--
Income from discontinued operations	5	58	60
Income tax expense	(14,232)	(1,952)	(2,099)
Equity earnings of unconsolidated joint ventures and entities	1,345	117	497