

READING INTERNATIONAL INC
Form 10-K
March 19, 2013
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012 or

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

For the transition period from _____ to _____

Commission File No. 1-8625

READING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA

95-3885184

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

6100 Center Dr., Suite 900

Los Angeles, CA

90045

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

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 No

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 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

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 18, 2013, there were 21,805,665 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 \$93,911,612 as of June 30, 2012.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

YEAR ENDED DECEMBER 31, 2012

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PART I

Item 1 – Our Business

General Description of Our Business

Reading International, Inc., a Nevada corporation (“RDI”), was incorporated in 1999 incident to our reincorporation in Nevada. Our class A non-voting common stock (“Class A Stock”) and class B voting common stock (“Class B Stock”) are listed for trading on the NASDAQ Capital Market (Nasdaq-CM) under the symbols RDI and RDIB, respectively. Our principal executive offices are located at 6100 Center Drive, Suite 900, Los Angeles, California 90045. Our general telephone number is (213) 235-2240 and our website is www.readingrdi.com. It is our practice to make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with or furnished it to the Securities and Exchange Commission. In this Annual Report, we from time to time use terms such as the “Company,” “Reading” and “we,” “us,” or “our” to refer collectively to RDI and our various consolidated subsidiaries 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 have two business segments:

1. Cinema Exhibition, through our 56 cinemas, and
2. Real Estate, including real estate development and the rental of retail, commercial and live theater assets.

We believe that these two business segments complement one another, as the comparatively consistent cash flows generated by our cinema operations allow us to be opportunistic in acquiring and holding real estate assets, and can be used not only to grow and develop our cinema business but also to help fund the front-end cash demands of our real estate development business.

At December 31, 2012, the book value of our assets was \$428.6 million; and as of that same date, we had a consolidated stockholders’ book equity of \$131.0 million. Calculated based on book value, \$148.4 million or 34%, of our assets relate to our cinema exhibition activities and \$260.3 million or 61%, of our assets relate to our real estate activities.

For additional segment financial information, please see Note 22 – Business Segments and Geographic Area Information to our 2012 Consolidated Financial Statements.

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, 53% in Australia and 18% in New Zealand compared to 26%, 57%, and 17% at the end of 2011. For 2012, our gross revenue in these jurisdictions was \$121.5 million, \$108.3 million, and \$24.6 million, respectively, compared to \$112.0 million, \$110.7 million, and \$22.2 million for 2011.

For additional financial information concerning the geographic distribution of our business, please see Note 22 – Business Segments and Geographic Area Information to our 2012 Consolidated Financial Statements.

While we do not believe the cinema exhibition business to be a growth business, we do believe it to be a business that will likely continue to generate fairly consistent cash flows in the years ahead even in recessionary or inflationary environments. This is based on our belief that people will continue to spend some reasonable portion of their entertainment dollar on entertainment outside of the home and that, when compared to other forms of outside the home entertainment, movies continue to be a popular, and competitively priced option. Since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see growth in our cinema business coming principally from the enhancement of our current cinemas, the development in select markets of specialty cinemas, and the opportunistic acquisition of already existing cinemas rather than from the development of new conventional cinemas. In 2011, we acquired an existing 17-screen cinema in Southern California for \$4.2 million. In late 2012, we opened a new 8-screen “Angelika” branded cinema in the Greater Washington D.C. area, and we have begun the process of converting one of our conventional cinemas in San Diego into an “Angelika”. In recent periods, reflecting the difficulties in finding financing and tenants for new real estate development projects, our cash flow has been invested more heavily in the cinema aspects of our business rather than in real estate development activities. However, over time, we do anticipate that the cash flow from our cinema operations will be used increasingly to support our real estate oriented activities, rather than for cinema growth, and that our real estate activities will, again, become the principal thrust of our business.

In the period 2008 through 2012, the market value of most commercial and undeveloped real estate saw a material decline in the markets in which we operate. This has affected some of our development projects resulting in impairment losses during those periods. However, the practical impact on our real estate holdings has been minimal, as we have continued to enjoy increases in rentals from the tenants in our retail holdings, and as our strategy has generally called for development of our raw land holdings over time for long-term development. We have also benefited from the strengthening of Australian and New Zealand dollars. On an overall or portfolio basis, our estimated market value of our real estate and cinema assets measured in US dollars has remained flat in recent periods. Furthermore, in our view, it appears that values have stabilized in the markets in which we operate. In some markets (such as Manhattan), our real estate portfolio values have increased materially in recent years and have, in our estimation, a value substantially in excess of their book value.

In light of uncertainties in the real estate and financial markets in recent periods, and the need to focus our attention on the renewal and preservation of our various lending facilities we have generally delayed our plans for development of our various properties. In 2011, we replaced our Australian credit facility with a new three-year credit facility from National Australia Bank (“NAB”) in the amount of \$110.5 million (AUS\$105.0 million). On

February 8, 2012, we amended our existing \$36.9 million (NZ\$45.0 million) New Zealand credit facility with Westpac, extending that facility for a further three-years and setting the borrowing limit at \$32.8 million (NZ\$40.0 million). On October 31, 2012, we replaced our GE Capital Term Loan of \$27.7 million with a new credit facility from Bank of America of \$30.0 million, which expires on October 31, 2017. In addition, Bank of America renewed and increased our existing \$3.0 million line of credit to \$5.0 million. In 2012, we also converted substantially all of our domestic cinemas to digital projection, under a \$15.5 million equipment lease from the Banc of America Capital & Leasing, LLC.

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. However, in light of the current market conditions and our desire to free up capital and pay down debt, we sold, in 2012, our 24,000 square foot office building in Indooroopilly, and anticipate the sale in 2013 of our property in Lake Taupo, New Zealand. In addition, we may sell additional properties in the year ahead to fund the development or redevelopment of other assets in our portfolio.

Given the resurgence of Manhattan commercial real estate values, we intend to focus on the redevelopment of our Cinemas 1, 2 & 3 property and 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, our 3.3 acre Moonee Ponds property in Melbourne, Australia and our 70.3 acre Manukau property in New Zealand. We may sell all or portions of these properties to provide liquidity for other projects. In evaluating whether to sell a particular property, we consider the potential upside in a particular property and costs required to achieve that upside, compared to the opportunities presented by our other properties.

Typically, we have endeavored to match the currency in which we have financed our development with the jurisdiction within which these developments are located. We have followed this approach to reduce our risk to currency fluctuations. This structure has, however, somewhat limited our ability to move cash from one jurisdiction to another. During 2012, we deviated somewhat from this policy by purchasing \$8.0 million in time deposits denominated in U.S. dollars and held by an Australian bank. In February 2007, we also deviated from this policy and privately placed \$50.0 million of 20-year trust preferred securities ("TPS"), with dividends fixed at 9.22% for the first five years, to serve as a long-term financing foundation for our real estate assets and to pay down our New Zealand and a portion of our Australian dollar denominated debt. Although structured as the issuance of TPS by a related trust, the financing is essentially the same as an issuance of fully subordinated debt: the payments are tax deductible to us and the default remedies are the same as debt. During the first quarter of 2009, we returned somewhat to our debt-to-local-currency matching policy by taking advantage of the then current market illiquidity for TPS to repurchase \$22.9 million in face value of our TPS for \$11.5 million. As a result of this transaction, in 2009, we recorded a \$10.7 million gain on retirement of subordinated debt. In addition, in December 2008 we secured a waiver of all financial covenants with respect to our TPS for a period of nine years (through December 2017), in consideration of the payment of \$1.6 million, consisting of an initial payment of \$1.1 million, a payment of \$270,000 made in December 2011 and a contractual obligation to pay \$270,000 in December 2014. In the event that the remaining payment is not made, the only remedy available to us is the termination of the waiver. Also, we anticipate that, in order to reduce our cost of converting our Australian and New Zealand circuits to digital projection, our parent company will guaranty the equipment lease under which we anticipate acquiring the equipment to complete the conversion of our Australian and New Zealand cinemas to digital projection.

In summary, while we do have operating company attributes, we see ourselves principally as a geographically diversified real estate and cinema company and intend to add to stockholder value by building the value of our portfolio of tangible real estate and entertainment-oriented assets. We endeavor to maintain a reasonable asset allocation between our domestic and overseas assets and operations, and between our cash generating cinema operations and our cash consuming real estate development activities. We believe that by blending the cash generating capabilities of a cinema operation with the investment and development opportunities of our real estate operation coupled with our international diversification of assets, our business strategy is unique among public companies. While historically we have retained our properties through development, we continue to evaluate the sale

of certain assets to provide capital to develop our remaining properties.

At December 31, 2012, our principal assets included:

- interests in 54 cinemas comprising some 462 screens;

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- 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 24.0 million square feet of developed and undeveloped real estate; and
- cash, cash equivalents, and time deposits aggregating \$46.5 million.

Our Cinema Exhibition Activities

General

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

- first, notwithstanding the enormous advances that have been made in home entertainment technology, humans are essentially social beings, and will continue to want to go beyond the home for their entertainment, provided that they are offered clean, comfortable and convenient facilities, with state of the art technology;
- second, cinemas can be used as anchors for larger retail developments and our involvement in the cinema business can give us an advantage over other real estate developers or redevelopers who must identify and negotiate exclusively with third party anchor tenants;
- third, pure cinema operators can get themselves into financial difficulty as demands upon them to produce cinema based earnings growth tempt them into reinvesting their cash flow into increasingly marginal cinema sites. While we believe that there will continue to be attractive opportunities to acquire cinema assets and/or to develop upper end specialty type theaters (like our Angelika Film Centers) in the future, we do not feel pressure to build or acquire cinemas for the sake of adding units. We intend to focus our use of cash flow on our real estate development and operating activities, to the extent that attractive cinema opportunities are not available to us; and
- fourth, we are always open to the idea of converting an entertainment property to another use, if there is a higher and better use for the property, or to sell individual assets, if we are presented with an attractive opportunity.

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

	Wholly Owned	Consolidated ¹	Unconsolidated ²	Managed ³	Totals
Australia	18 cinemas 138 screens	2 cinemas 11 screens	1 cinema ⁴ 16 screens	None	21 cinemas 165 screens
New Zealand	7 cinemas 40 screens	None	2 cinemas ⁵ 13 screens	None	9 cinemas 53 screens
United States	23 cinemas 238 screens	1 cinema ⁶ 6 screens	None	2 cinemas 9 screens	26 cinemas 253 screens
Totals	48 cinemas 416 screens	3 cinemas 17 screens	3 cinemas 29 screens	2 cinemas 9 screens	56 cinemas 471 screens

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

[2] Cinemas owned and operated through unconsolidated subsidiaries.

[3] Cinemas in which we have no ownership interest, but which are operated by us under management agreements.

[4] 33.3% unincorporated joint venture interest.

[5] 50% unincorporated joint venture interests.

[6] The Angelika Film Center and Café in Manhattan is owned by a limited liability company in which we own a 50% interest with rights to manage.

We focus on the ownership and/or 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, Dallas, and Fairfax, Virginia 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 have various premium class offerings including luxury seating, premium audio, private lounges, café and bar service, and other amenities in certain of our cinemas and are in the process of converting certain of our exiting cinemas to provide this premium offering.

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

Our cinemas generated approximately 69% of their 2012 revenue from box office receipts. Ticket prices vary by location and we offer reduced rates for senior citizens and children.

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

Concession sales accounted for approximately 26% of our total 2012 revenue. Although certain cinemas have licenses for the sale and consumption of alcoholic beverages, concession products primarily include popcorn, candy, and soda.

Screen advertising and other revenue contribute approximately 5% of our total 2012 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 provide such advertising for us.

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

Management of Cinemas

With two exceptions, we manage all of our cinemas with executives located in Los Angeles, Manhattan, Melbourne, Australia, and Wellington, New Zealand. Approximately 2,268 individuals were employed (on a full time or part time basis) in our cinema operations in 2012. Our two 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 33.3% interest in a 16-screen Brisbane cinema. Greater Union manages that cinema as well.

Licensing/Pricing

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

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

Competition

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

Competition for films can be intense, depending upon the number of cinemas in a particular market. Our ability to obtain top grossing first run feature films may be adversely impacted by our comparatively small size, and the limited number of screens we can supply to distributors. Moreover, in the United States, because of the dramatic consolidation of screens into the hands of a few very large and powerful exhibitors such as Regal and AMC, these

mega exhibition companies are in a position to offer distributors access to many more screens in major markets than we can. Accordingly, distributors may decide to give preference to these mega exhibitors when it comes to licensing top grossing films, rather than deal with independents such as ourselves. The situation is different in Australia and New Zealand where typically every major multiplex cinema has access to all of the film currently in distribution, regardless of the ownership of that multiplex cinema. However, we have suffered somewhat in these

markets from competition from boutique operators, who are able to book top grossing commercial films for limited runs, thus increasing competition for customers wishing to view such top film product.

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

The film exhibition markets in the United States, Australia, and New Zealand are to a certain extent dominated by a limited number of major exhibition companies. The principal exhibitors in the United States are Regal (with 6,880 screens in 540 cinemas), AMC (with 4,804 screens in 332 cinemas), Cinemark (with 3,918 screens in 299 cinemas), and Carmike (with 2,242 screens in 232 cinemas). As of December 31, 2012, we were the 11th largest exhibitor with 1% of the box office in the United States with 253 screens in 26 cinemas.

The principal exhibitors in Australia are Greater Union, which do business under the Event name (a subsidiary of Amalgamated Holdings Limited), Hoyts Cinemas (“Hoyts”), and Village. The major exhibitors control approximately 66% of the total cinema box office: Event 30%, Hoyts 21%, and Village 15%. Event has 476 screens nationally, Hoyts 359 screens, and Village 217 screens. By comparison, our 148 screens represent approximately 7% of the total box office.

The principle exhibitors in New Zealand are Event with 101 screens nationally and Hoyts with 64 screens. Reading has 40 screens (not including partnerships). The major exhibitors in New Zealand control approximately 57% of the total box office: Event 35% and Hoyts 22%. Reading has 11% of the market (Event and Reading market share figures again do not include any partnership theaters).

Greater Union is the owner of Birch Carroll & Coyle in Australia and purchased Sky Cinemas in New Zealand during 2010. In addition, generally speaking, all new multiplex cinema projects announced by Village are being jointly developed by a joint venture comprised of Greater Union and Village. These companies have substantial capital resources. Village had a publicly reported consolidated net worth of approximately \$535.1 million (AUS\$522.8 million) at June 30, 2012. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately \$879.1 million (AUS\$858.9 million) at June 30, 2012. Hoyts is privately held and does not publish financial reports. Hoyts is currently owned by Pacific Equity Partners.

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

Digital Exhibition

After years of uncertainty as to the future of digital exhibition and the impact of this technology on cinema exhibition, it became clear in 2012 that the industry must go digital. We have now substantially completed the conversion of our domestic cinema operations to digital projection. We are in the process of, and anticipate that we will complete in 2013, the conversion of our Australian and New Zealand cinema operations to digital projection. We anticipate that the cost of this conversion, over time, will be covered in substantial part by the receipt of Virtual Print Fees paid by film distributors for the use of such digital projection equipment.

In-Home Competition

The “in-home” entertainment industry has experienced significant leaps in recent periods in both the quality and affordability of in-home entertainment systems and in the accessibility to entertainment programming

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through cable, satellite, DVD, and internet distribution channels. These alternative distribution channels are putting pressure on cinema exhibitors to reduce the time period between theatrical and secondary release dates, and certain distributors are talking about possible simultaneous or near simultaneous releases in multiple channels of distribution. These are issues common to both our domestic and international cinema operations.

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

Seasonality

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

Employees

We have 62 full time executive and administrative employees and approximately 2,268 cinema employees. Our cinema employees in Wellington, New Zealand and our projectionists in Hawaii are unionized. None of our other employees are subject to union contracts. Our one union contract with respect to our projectionists in Hawaii expired on March 31, 2012. Our union contracts with respect to our New Zealand employees expired on August 31, 2012. We are currently in the process of renegotiating these contracts. None of our Australian based employees is unionized. Overall, we are of the view that the existence of these contracts does not materially increase our costs of labor or our ability to compete. We believe our relations with our employees to be generally good.

Our Real Estate Activities

Our real estate activities have historically consisted principally of:

- the ownership of fee or long-term leasehold interests in properties used in our cinema exhibition activities or which were acquired for the development of cinemas or cinema based real estate development projects;
- the acquisition of fee interests in land for general real estate development;
- the leasing to shows of our live theaters; and
- the redevelopment of our existing fee owned cinema or live theater 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 real estate activities, holdings and developments are described in greater detail in Item 2 – Properties.

Item 1A – Risk Factors

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

Business Risk Factors

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

Cinema Exhibition and Live Theater Business Risk Factors

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

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

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

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

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

Both our cinema and live theater operations face competition from developing “in-home” sources of entertainment. These include competition from DVDs, cable and satellite television, pay per view, 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 for the cinema exhibition industry. 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 cinema operations depend upon access to film that is attractive to our patrons and our live theater operations depend upon the continued attractiveness of our theaters to producers.

Our ability to generate revenue and profits is largely dependent on factors outside of our control, specifically, the continued ability of motion picture and live theater producers to produce films and plays that are attractive to audiences, the amount of money spent by film distributors to promote their motion pictures, and the willingness of these producers to license their films on terms that are financial viable to our cinemas and to rent our theaters for the presentation of their plays. To the extent that popular movies and plays are produced, our cinema and live theater activities are ultimately dependent upon our ability, in the face of competition from other cinema and live theater operators, to book these movies and plays into our facilities.

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

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

Cinema and live theater attendance is a luxury, not a necessity. Accordingly, a decline in the economy resulting in a decrease in discretionary income, or a perception of such a decline, may result in decreased discretionary spending, which could adversely affect our cinema and live theater businesses. Adverse economic conditions can also affect the supply side of our business, as reduced liquidity can adversely affect the availability of funding for movies and plays. This is particularly true in the case of Off-Broadway plays, which are often times financed by high net worth individuals or groups of such individuals and which are very risky due to the absence of any ability to recoup investment in secondary markets like DVD or cable.

Our screen advertising revenue may decline.

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

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

We are now in the midst of converting substantially all of our cinema auditoriums to digital projection. However, no assurances can be given that other technological advances will not require us to make further material investments in our cinemas or face loss of business. For example, only a limited number of our cinemas are

equipped with the 48 frame per second equipment that is required to show such films as *The Hobbit*. Also, equipment is currently being developed for holographic or laser projection. The future of these technologies in the cinema exhibition industry is uncertain.

Real Estate Development and Ownership Business Risks

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

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

Risks Related to the Real Estate Industry Generally

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

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

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

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

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

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

Real estate development involves a variety of risks.

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

- The identification and acquisition of suitable development properties. Competition for suitable development properties is intense. Our ability to identify and acquire development properties may be limited by our size and resources. Also, as we and our affiliates are considered to be “foreign owned” for purposes of certain Australian and New Zealand statutes, we have been in the past, and may in the future be, subject to regulations that are not applicable to other persons doing business in those countries.
- The procurement of necessary land use entitlements for the project. This process can take many years, particularly if opposed by competing interests. Competitors and community groups (sometimes funded by such competitors) may object based on various factors including, for example, impacts on density, parking, traffic, noise levels and the historic or architectural nature of the building being replaced. If they are unsuccessful at the local governmental level, they may seek recourse to the courts or other tribunals. This can delay projects and increase costs.
- The construction of the project on time and on budget. Construction risks include the availability and cost of finance; the availability and costs of material and labor; the costs of dealing with unknown site conditions (including addressing pollution or environmental wastes deposited upon the property by prior owners); inclement weather conditions; and the ever-present potential for labor related disruptions.
- The leasing or sell-out of the project. Ultimately, there are risks involved in the leasing of a rental property or the sale of a condominium or built-for-sale property. For our entertainment themed retail centers (“ETRCs”), the extent to which our cinemas can continue to serve as an anchor tenant will be influenced by the same factors as will influence generally the results of our cinema operations. Leasing or sale can be influenced by economic factors that are neither known nor knowable at the commencement of the development process and by local, national, and even international economic conditions, both real and perceived.
- The refinancing of completed properties. Properties are often developed using relatively short-term loans. Upon completion of the project, it may be necessary to find replacement financing for these loans. This process involves risk as to the availability of such permanent or other take-out financing, the interest rates, and the payment terms applicable to such financing, which may be adversely influenced by local, national, or international factors. To date, we have been successful in negotiating development loans with roll over or other provisions mitigating our need to refinance immediately upon completion of construction.

The ownership of properties involves risk.

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

International Business Risks

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

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

declines in the relative value of the Australian and New Zealand dollar compared to the US dollar. Our cash in Australia and New Zealand of \$17.5 million (AUS\$16.8 million) and \$6.3 million (NZ\$7.6 million),

respectively, is denominated in local currencies and subject to the risk of currency exchange rate fluctuations. Also, our use of local borrowings to mitigate the business risk of currency fluctuations has reduced our flexibility to move cash between jurisdictions. Set forth below is a chart of the exchange ratios between these three currencies over the past twenty years:

- Risk of adverse government regulation. At the present time, we believe that relations between the United States, Australia, and New Zealand are good. However, no assurances can be given that this relationship will continue and that Australia and New Zealand will not in the future seek to regulate more highly the business done by US companies in their countries.
- Risk of adverse labor relations. Our labor relations and costs of labor (including future government requirements with respect to pension liabilities, disability insurance and health coverage, and vacations and leave).

Risks Associated with Certain Discontinued Operations

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

Operating Results, Financial Structure and Borrowing Risk

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

In recent years, as we have invested our cash in new acquisitions and the development of our existing properties, we have from time to time had negative working capital. This negative working capital is typical in the cinema exhibition industry because our short-term liabilities are in part financing our long-term assets instead of long-term liabilities financing short-term assets as is the case in other industries such as manufacturing and distribution.

We have substantial short to medium term debt.

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

In February 2007, we issued \$50.0 million in 20-year TPS, and utilized the net proceeds principally to retire short-term bank debt in New Zealand and Australia. The interest rate on our TPS was only fixed for five years. Additionally, we used US dollar denominated obligations to retire debt denominated in New Zealand and Australian dollars which 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. Unlike property rental leases, our newly added digital equipment leases do not have cost of living or other lease adjustment features.

Our stock is thinly traded.

Our stock is thinly traded, with an average daily volume in 2012 of only approximately 53,000 shares. This can result in significant volatility, as demand by buyers and sellers can easily get out of balance.

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

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

Mr. James J. Cotter beneficially owns 70.4% of our outstanding Class B Stock. Our Class A Stock is non-voting, while our Class B Stock represents all of the voting power of our Company. As a result, as of December 31, 2012, 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 25 – Related Parties and Transactions to our 2012 Consolidated Financial Statements).

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

Generally speaking, the NASDAQ requires listed companies to meet certain minimum corporate governance provisions. However, a Controlled Corporation, such as we, may elect not to be governed by certain of these provisions. Our board of directors has elected to exempt our Company from requirements that (i) at least a

majority of our directors be independent, (ii) nominees to our board of directors be nominated by a committee comprised entirely of independent directors or by a majority of our Company's independent directors, and (iii) the compensation of our chief executive officer be determined or recommended to our board of directors by a compensation committee comprised entirely of independent directors or by a majority of our Company's independent directors. Notwithstanding the determination by our board of directors to opt-out of these NASDAQ requirements, a majority of our board of directors is nevertheless currently comprised of independent directors, and our compensation committee is nevertheless currently comprised entirely of independent directors.

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

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

Item 1B - Unresolved Staff Comments

None.

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Item 2 – Properties

Executive and Administrative Offices

We lease approximately 9,800 square feet of office space in Los Angeles, California to serve as our executive headquarters. We own an 8,100 square foot office building in Melbourne, Australia, approximately 5,200 square feet of which serves as the headquarters for our Australian and New Zealand operations (the remainder being leased to an unrelated third party). We maintain our accounting personnel and certain IT and operational personnel in approximately 5,900 square foot of offices located in our Wellington Courtenay Central shopping center. We occupy approximately 3,500 square feet at our Village East leasehold property for administrative purposes. We also own a residential condominium unit in Los Angeles, used for offsite corporate meetings and residential space by our Chairman and Chief Executive Officer.

Entertainment Properties

Entertainment Use Leasehold Interests

As of December 31, 2012, we lease approximately 1.8 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	942,000	2013 – 2049
Australia	721,000	2017 – 2049
New Zealand	141,000	2024 – 2034

During September 2012, we opened an 8-screen art cinema in the Mosaic District in the greater Washington D.C. metropolitan area. Additionally, during 2012, we elected not to renew the leases of our 4-screen Hastings cinema in New Zealand and our 4-screen Kukui cinema in Hawaii. We terminated operations with the Hastings cinema in January 2012 and we terminated operations for our Kukui cinema in November 2012.

Entertainment Use Fee Interests

In Australia, as of December 31, 2012, we own approximately 3.2 million square feet of land at nine locations. 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 145,000 square feet are currently improved with cinemas.

In New Zealand, as of December 31, 2012, we own approximately 3.4 million square feet of land at seven locations. This includes the Courtney Central ETRC in Wellington, the 70.3 acre Manakau site, and the fee interests underlying three cinemas in New Zealand, which properties include approximately 22,000 square feet of ancillary retail space.

In the United States, as of December 31, 2012, we own approximately 134,000 square feet of improved real estate comprised of four live theater buildings, which include approximately 58,000 square feet of leasable space, and the fee interest in our Cinemas 1, 2 & 3 in Manhattan (held through a limited liability company in which we have a 75% managing member interest).

Live Theaters (“Liberty Theaters”)

Included among our real estate holdings are four “Off Broadway” style live theaters, operated through our Liberty Theaters subsidiary. We license theater auditoriums to the producers of “Off Broadway” theatrical productions and provide various box office and concession services. The terms of our licenses are, naturally, principally dependent upon the commercial success of our tenants. STOMP has been playing at our Orpheum Theatre in excess of 16 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). Two of the properties, the Union Square and the Royal George, have ancillary retail and office space.

Liberty Theaters is primarily in the business of renting theater space. However, we may from time to time participate as an investor in a play, which can help facilitate the production of the play at one of our facilities, and do from time to time rent space on a basis that allows us to share in a production's revenue or profits. Revenue, expense, and profits are reported as a part of the real estate segment of our business.

Joint Venture Cinema Interests

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

- in Australia, we own a 75% interest in a subsidiary company that leases two cinemas with eleven screens in two Australian country towns, and a 33% unincorporated joint venture interest in a 16-screen leasehold cinema in a suburb of Brisbane.
- in New Zealand, we own a 50% unincorporated joint venture interest in two cinemas with 13 screens in the New Zealand cities of Auckland and Dunedin.
- In the United States, we own a 50% membership interest in Angelika Film Center, LLC, which holds the lease to the approximately 17,000 square foot Angelika Film Center & Café in the Soho district of Manhattan. We also hold the management rights with respect to this asset. We also own a 75% managing member interest in the limited liability company that owns our Cinemas 1, 2 & 3 property and a 50% managing member interest in Shadow View Land & Farming, LLC which owns an approximately 202-acre property in Riverside County, California which, while zoned residential and approved for 823 single family lots.

Income Operating Property

As of December 31, 2012, we own fee interests in approximately 1.0 million square feet of income producing properties (including certain properties principally occupied by our cinemas).

Property ⁷	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Auburn 100 Parramatta Road Auburn, NSW, Australia	60000 / 57000 Plus a 871-space parking structure	100%	\$35,894,000
Belmont Knutsford Avenue and Fulham Street Belmont, WA, Australia	15000 / 52000	78%	\$16,102,000
Cinemas 1, 2 & 3 ⁸ 1003 Third Avenue Manhattan, NY, USA	0 / 21000	N/A	\$23,626,000
Courtenay Central 100 Courtenay Place Wellington, New Zealand	38000 / 71000 Plus a 1,086-space parking structure	75%	\$26,237,000

[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 such 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, 2012.

[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.

Property	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Invercargill Cinema 29 Dee Street Invercargill, New Zealand	10000 / 24000	72%	\$3,243,000
Lake Taupo Motel 138-140 Lake Terrace Road Taupo, New Zealand	9000 / 0	Short-term rentals	\$2,283,000
Maitland Cinema Ken Tubman Drive Maitland, NSW, Australia	0 / 22000	N/A	\$2,472,000
Minetta Lane Theatre 18-22 Minetta Lane Manhattan, NY, USA	0 / 9000	N/A	\$8,354,000
Napier Cinema 154 Station Street Napier, New Zealand	12000 / 17000	100%	\$3,547,000
Newmarket 400 Newmarket Road Newmarket, Queensland, Australia	93000 / 0 Plus a 436-space parking structure	97%	\$45,087,000
Orpheum Theatre 126 2 nd Street Manhattan, NY, USA	0 / 5000	N/A	\$3,439,000
Royal George 1633 N. Halsted Street Chicago, IL, USA	37000 / 23000 Plus a 55-space parking structure	91%	\$3,415,000
Rotorua Cinema 1281 Eruera Street Rotorua, New Zealand	0 / 19000	N/A	\$3,044,000
Union Square Theatre 100 E. 17 th Street Manhattan, NY, USA	21000 / 17000	100%	\$8,900,000

Long-Term Leasehold Operating Property

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, 2012, we had approximately 169,000 square foot of space subject to such long-term leases.

Property ⁹	Square Feet of Improvements (rental/entertainment)	Percentage Leased	Gross Book Value (in U.S. Dollars)
Manville	0 / 53000	N/A	\$2,285,000
Tower	0 / 16000	N/A	\$994,000
Village East ¹⁰	4000 / 38000	100%	\$11,877,000
Waurm Ponds	6000 / 52000	100%	\$3,656,000

[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 operating property 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, 2012.

[10] The lease of the Village East provides for a call option pursuant to which Reading may purchase the cinema ground lease for \$5.9 million at the end of the lease term in 2020. Additionally, the lease has a put option pursuant to which SHC may require Reading to purchase all or a portion of SHC's interest in the existing cinema lease and the cinema ground lease at any time between July 1, 2013 and December 4, 2019. See Note 25 - Related Parties and Transactions to our 2012 Consolidated Financial Statements.

Investment and Development Property

We are engaged in several investment and development projects relative to our currently undeveloped parcels of land. In addition, we anticipate that redevelopment of one or more of our existing developed properties may also occur.

Property ¹¹	Acreage	Gross Book Value (in U.S. Dollars)	Status
Auburn, Sydney, Australia	2.6 acres	\$2,107,000	We are actively pursuing the development of the next phase of this property.
Burwood, Victoria, Australia	50.6 acres	\$54,156,000	We continue to evaluate our options with regards to this property.
Coachella, CA, USA	202 acres	\$4,050,000	We continue to evaluate our options with regards to this property.
Courtenay Central, Wellington, New Zealand	1.1 acres	\$6,831,000	We are actively pursuing the development of the next phase of this property.
Moonee Ponds, Victoria, Australia	3.3 acres	\$12,728,000	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. We continue to evaluate our options with regards to this property.
Lake Taupo, Taupo, New Zealand	0.5 acre	\$2,283,000	We are actively pursuing various methods to dispose of this property.

[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.

Property ¹¹	Acreage	Gross Book Value (in U.S. Dollars)	Status
Manakau, Auckland, New Zealand	64 acres zoned agricultural and 6.4 acres zoned light industrial	\$14,021,000	The bulk of the land is zoned for agriculture and is currently used for horticulture commercial purposes. A development plan has been filed to rezone the property for warehouse, distribution and manufacturing uses. We currently anticipate that this rezoning will be approved. 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.

Some of our income operating property and our investment and development property carry various debt encumbrances based on their income streams and geographic locations. For an explanation of our debt and the associated security collateral please see Note 12 – Notes Payable to our 2012 Consolidated Financial Statements.

Other Property Interests and Investments

We own the fee interest in 11 parcels comprising 195 acres in Pennsylvania and Delaware. These acres consist primarily of vacant land. With the exception of certain properties located in Philadelphia (including the raised railroad bed leading to the old Reading Railroad Station), the properties are principally located in rural areas of Pennsylvania and Delaware. Additionally, we own a condominium in the Los Angeles, California area that is used for offsite corporate meetings and by our Chief Executive Officer when he is in town. Except for a negative pledge on the aforementioned Los Angeles condominium, these properties are unencumbered with any debt and are lien free.

Item 3 – Legal Proceedings

Tax Audit/Litigation

The Internal Revenue Service (the “IRS”) has examined the tax return of Reading Entertainment Inc. (“RDGE”) for its tax years ended December 31, 1996 through December 31, 1999 and the tax return of Craig Corporation (“CRG”) for its tax year ended June 30, 1997. These companies are both now wholly owned subsidiaries of the Company, but for the time periods under audit, were not consolidated with the Company for tax purposes.

CRG and the IRS agreed to compromise the claims made by the IRS against CRG and the Tax Court’s order was entered on January 6, 2011. In the settlement, the IRS conceded 70% of its claimed adjustment to income. Instead of a claim for unpaid taxes of \$20.9 million plus interest, the effect of settlement on the Reading consolidated group was to require a total federal income tax obligation of \$5.4 million, reduced by a federal tax refund of \$800,000 and increased by interest of \$9.3 million, for a net federal tax liability of \$13.9 million as of January 6, 2011. On October 26, 2011, CRG reached an agreement with the IRS for an installment plan to pay off this federal tax liability, including additional interest accruals at the prescribed IRS floating rate. The agreement requires monthly payments of \$290,000 over a period of approximately five years. As of December 31, 2012 and 2011, after the payments made during 2012 and 2011, respectively, the remaining federal tax obligation was \$10.0 million and \$13.5 million, respectively, in tax and interest. Of the \$10.0 million owed under the installment agreement as of December 31, 2012, \$3.5 million was recorded as current taxes payable, with the remaining balance being recorded as non-current tax liability. Of the \$13.5 million owed under the installment agreement as of December 31, 2011, \$3.5 million was recorded as current taxes payable, with the remaining balance being recorded as non-current tax liability.

The impact of the settlement upon the state taxes of the Reading consolidated group, if the adjustment to income agreed with the IRS were reflected on state returns, would be an obligation of approximately \$1.4 million in tax plus interest and potential penalty. CRG’s 1997 tax year remains open with respect to CRG’s potential tax liability to the State of California. As of December 31, 2012, 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 if a deficiency is asserted.

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, 2012, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be \$17.7 million (AUS\$17.1 million) and as of that date we had already incurred a total of \$8.6 million (AUS\$8.3 million) of these costs. We do not believe that this has added materially to the overall development cost of the site, as it is anticipated that all of the

work will be done in connection with the excavation and other development activity already contemplated for the property.

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PART II

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

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

Market Information

Reading International, Inc., a Nevada corporation (“RDI” and collectively with our consolidated subsidiaries and corporate predecessors, the “Company,” “Reading” and “we,” “us,” or “our”), was incorporated in 1999. Historically, we have 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 2012 and 2011 as reported by NASDAQ:

	Class A Stock		Class B Stock	
	High	Low	High	Low
2012 Fourth Quarter	\$ 6.23	\$ 5.48	\$ 7.40	\$ 5.64
Third Quarter	\$ 6.58	\$ 4.73	\$ 7.95	\$ 5.00
Second Quarter	\$ 5.88	\$ 4.62	\$ 6.75	\$ 4.53
First Quarter	\$ 4.56	\$ 4.12	\$ 7.00	\$ 4.26
2011 Fourth Quarter	\$ 4.30	\$ 3.95	\$ 7.01	\$ 4.26
Third Quarter	\$ 4.49	\$ 3.88	\$ 7.00	\$ 6.00
Second Quarter	\$ 5.02	\$ 4.53	\$ 7.00	\$ 5.25
First Quarter	\$ 5.16	\$ 4.86	\$ 9.00	\$ 6.04

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

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	857,450	\$ 7.03	1,829,436
Total	857,450	\$ 7.03	1,829,436

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, 2008, 2009, 2010, 2011, and 2012 against the cumulative total return as calculated by the NASDAQ composite, the motion picture theater operator group, and the real estate operator

group.

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Holders of Record

The number of holders of record of our Class A Stock and Class B Stock in 2012 was approximately 3,500 and 300, respectively. On March 18, 2013, the closing price per share of our Class A Stock was \$5.64 and the closing price per share of our Class B Stock was \$5.65.

Dividends on Common Stock

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

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

None.

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

During 2011, we purchased 172,300 of Class A Nonvoting shares on the open market for \$747,000. Additionally, during the first quarter of 2010, we purchased 62,375 shares for a total cost of \$251,000. No shares were purchased during 2012.

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, 2012 (the “2012 Annual Report”), and the related notes to the consolidated financial statements (dollars in thousands, except per share amounts).

	At or for the Year Ended December 31,				
	2012	2011	2010	2009	2008
Revenue	\$ 254,430	\$ 244,979	\$ 229,322	\$ 216,740	\$ 197,055
Operating income (loss)	\$ 19,127	\$ 18,178	\$ 13,069	\$ 13,910	\$ (2,134)
Income (loss) from discontinued operations	\$ (405)	\$ 1,888	\$ 97	\$ 12	\$ (154)
Net income (loss)	\$ (1,406)	\$ 10,896	\$ (12,034)	\$ 6,482	\$ (16,189)
Net income (loss) attributable to Reading International, Inc. shareholders	\$ (914)	\$ 9,956	\$ (12,650)	\$ 6,094	\$ (16,809)
Basic earnings (loss) per share – continuing operations	\$ (0.02)	\$ 0.36	\$ (0.56)	\$ 0.27	\$ (0.74)
Basic earnings (loss) per share – discontinued operations	\$ (0.02)	\$ 0.08	\$ --	\$ --	\$ (0.01)
Basic earnings (loss) per share	\$ (0.04)	\$ 0.44	\$ (0.56)	\$ 0.27	\$ (0.75)
Diluted earnings (loss) per share – continuing operations	\$ (0.02)	\$ 0.35	\$ (0.56)	\$ 0.27	\$ (0.75)
Diluted earnings (loss) per share – discontinued operations	\$ (0.02)	\$ 0.08	\$ --	\$ --	\$ --
Diluted earnings (loss) per share	\$ (0.04)	\$ 0.43	\$ (0.56)	\$ 0.27	\$ (0.75)
Other Information:					
Shares outstanding	23,083,265	22,806,838	22,804,313	22,588,403	22,482,605
Weighted average number of shares outstanding–basic	23,028,596	22,764,666	22,781,392	22,580,942	22,477,471
Weighted average number of shares outstanding–diluted	23,028,596	22,993,135	22,781,392	22,767,735	22,477,471
Total assets	\$ 428,588	\$ 430,764	\$ 430,349	\$ 406,417	\$ 371,870
Total debt	\$ 196,597	\$ 209,614	\$ 228,821	\$ 226,993	\$ 239,162
Working capital (deficit)	\$ (21,415)	\$ (12,844)	\$ (57,634)	\$ (16,229)	\$ 12,516
Stockholders’ equity	\$ 130,954	\$ 124,987	\$ 112,639	\$ 110,263	\$ 69,447
EBIT	\$ 20,416	\$ 18,664	\$ 13,900	\$ 22,618	\$ 1,030
Depreciation and amortization	\$ 16,049	\$ 16,595	\$ 15,563	\$ 15,034	\$ 18,556
Add: Adjustments for discontinued operations	\$ 335	\$ 365	\$ 351	\$ 134	\$ 2
EBITDA	\$ 36,800	\$ 35,624	\$ 29,814	\$ 37,786	\$ 19,588
Debt to EBITDA	\$ 5.34	\$ 5.88	\$ 7.67	\$ 6.01	\$ 12.21
Capital expenditure (including acquisitions)	\$ 13,723	\$ 9,376	\$ 19,371	\$ 5,686	\$ 75,167
Number of employees at 12/31	2,412	2,263	2,109	2,207	1,986

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.

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):

	2012	2011	2010	2009	2008
Net income (loss) attributable to Reading International, Inc. shareholders	\$ (914)	\$ 9,956	\$ (12,650)	\$ 6,094	\$ (16,809)
Add: Interest expense, net	16,426	21,038	12,286	14,572	15,740
Add: Income tax (benefit) expense	4,904	(12,330)	14,264	1,952	2,099
EBIT	\$ 20,416	\$ 18,664	\$ 13,900	\$ 22,618	\$ 1,030

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Add: Depreciation and amortization	16,049	16,595	15,563	15,034	18,556
Adjustments for discontinued operations	335	365	351	134	2
EBITDA	\$ 36,800	\$ 35,624	\$ 29,814	\$ 37,786	\$ 19,588

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

The following review should be read in conjunction with the consolidated financial statements and related notes included in this 2012 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 56 multiplex theaters, and
- Real Estate, including investment, 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 new cinema business opportunities and the front-end cash demands of our real estate investment and 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. Since we believe the cinema exhibition business to be a mature business with most markets either adequately screened or over-screened, we see growth in our cinema business coming principally from the enhancement of our current cinemas, the development in select markets of specialty cinemas, and the opportunistic acquisition of already existing cinemas rather than from the development of new conventional cinemas. From time to time, we invest in the securities of other companies, where we believe the business or assets of those companies to be attractive or to offer synergies to our existing entertainment and real estate businesses. Also, in the current environment, we intend to be opportunistic in identifying and endeavoring to acquire undervalued assets, particularly assets with proven cash flow and which we believe to be resistant to current recessionary trends.

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

Business Climate

Cinema Exhibition - General

After years of uncertainty as to the future of digital exhibition and the impact of this technology on cinema exhibition, it became clear in 2012 that the industry must go digital. We have now substantially completed the

conversion of our domestic cinema operations to digital projection. We are in the process, and anticipate that we will complete this year the conversion of our Australia and New Zealand cinema operations to digital projection.

Over several years, we anticipate that the cost of this conversion will be covered in substantial part by the receipt of Virtual Print Fees paid by film distributors for the use of such digital projection equipment.

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

Cinema Exhibition – Australia / New Zealand

The film exhibition industry in Australia and New Zealand is highly concentrated in that Village, Event, and Hoyts (the “Major Exhibitors”) control approximately 66% of the cinema box office in Australia while Event and Hoyts control approximately 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 compress the supply of screens in a very limited number of markets. This competitive disadvantage has increased significantly in recent periods with the development of mega circuits like Regal and AMC who are able to offer distributors access to screens on a truly nationwide basis, or, on the other hand, to deny access if their desires with respect to film supply are not satisfied.

These consolidations can adversely affect 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

Over the past few years, there has been a noted decrease in real estate market activity resulting in decreases to commercial and retail property values in Australia and to a lesser extent in New Zealand. That being said, both countries have relatively stable economies with varying degrees of economic growth that are mostly influenced by global trends. Also, we have noted that our Australian and New Zealand developed properties have had consistent growth in rentals and values although project commencements have slowed. Once developed, we remain confident that our Australian and New Zealand holdings will continue to provide value and cash flows to our operations.

Real Estate – North America

The commercial real estate market has improved somewhat during 2012 and we have noted some strong increases associated with our real estate located in large urban environments.

Business Segments

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

Cinema Exhibition

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One of our primary businesses consists of the ownership and operation of cinemas. For a breakdown of our current cinema assets that we own and/or manage please see Item 1 – Our Business of this 2012 Annual Report under the subheading “Our Cinema Exhibition Activities.”

During 2012, we opened one cinema with 8 screens and closed two cinemas having a total of 8 screens. In 2011, we purchase one 17-screen cinema. In 2010, we opened one 8-screen cinema and closed two cinemas having a total of 12 screens.

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

Real Estate

For fiscal 2012, our income operating property consisted of the following: