READING INTERNATIONAL INC
Form 10-K/A
December 23, 2005

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

FORM 10-K / A
(Amendment No. 1)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from __________ to __________

Commission File No. 1-8625

READING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

NEVADA	**95-3885184**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
500 Citadel Drive, Suite 300 Commerce, CA	90040
(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	**American Stock Exchange**
Class B Voting Common Stock, $0.01 par value	**American Stock Exchange**

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 o No þ

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

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

Yes þ No o

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. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes þ No o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of March 25, 2004, there were 20,452,733 shares of Class A Non-voting Common Stock, par value $0.01 per share and 1,545,506 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 $110,322,000 as of March 25, 2004.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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EXPLANATORY NOTE

Reading International, Inc. (the Company) is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on March 25, 2005. This filing amends Items 6 and 7 of Part II of the original filing, primarily to augment the discussion and definition of EBITDA and to provide added explanation to Item 7 Management s Discussions and Analysis of Financial Condition and Results of Operations. No other information included in the original report on Form 10-K is amended by this Form 10-K/A.

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PART II

Item 6 Selected Financial Data

The table below sets forth certain historical financial data regarding RII. 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, 2004 (the 2004 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,				
	2004	**2003**	**2002**	**2001**	**2000**
Revenue	$ 102,982	$ 93,739	$ 86,486	$ 23,744	$ 7,384
Operating loss	$ (5,952)	$ (5,340)	$ (5,977)	$ (3,382)	$ (1,055)
Net loss	$ (8,463)	$ (5,928)	$ (7,954)	$ (4,572)	$ (3,542)
Basic loss per share	$ (0.39)	$ (0.27)	$ (0.36)	$ (0.21)	$ (0.47)
Diluted loss per share	$ (0.39)	$ (0.27)	$ (0.36)	$ (0.21)	$ (0.47)
Other Information:					
Shares outstanding	21,998,239	21,899,290	21,821,154	21,821,324	9,947,964
Weighted average shares and dilutive share equivalents	21,948,065	21,860,222	21,821,236	9,980,946	7,557,718
Total assets	$ 230,227	$ 222,866	$ 182,772	$ 170,595	$ 63,922
Total debt	$ 83,252	$ 71,145	$ 48,121	$ 37,490	$ 15,221
Working capital	$ (5,808)	$ (154)	$ 124	$ 548	$ 13,062
Stockholders equity	$ 102,010	$ 108,491	$ 91,265	$ 91,125	$ 39,128
EBIT	$ (3,500)	$ (1,794)	$ (5,172)	$ (3,425)	$ (3,928)
Depreciation and amortization	$ 12,899	$ 12,003	$ 8,705	$ 2,044	$ 657
EBITDA	$ 9,399	$ 10,209	$ 3,533	$ (1,381)	$ (3,271)
Debt to EBITDA	8.86	6.97	13.62		
Capital expenditure (including acquisitions)	$ 33,180	$ 5,809	$ 10,437	$ 10,325	$ 10,773
Number of employees at 12/31	1,677	1,453	1,304	1,110	147

The balance sheet data for 2004, 2003, 2002 and 2001 includes assets, borrowings, and stockholders equity of CDL, RDGE and CRG following the consolidation of the three companies on December 31, 2001. The balance sheet data for 2000 includes assets, borrowings, and stockholders equity of CDL only.

EBIT presented above represents net 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

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operating assets by purchasing those assets directly, or indirectly by purchasing the stock of a company that might hold such operating assets.

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

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

EBITDA presented above is net 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 company and its 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 the ability of our company to generate cash, as a basis for the comparison of our company 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 the financial performance of our company and 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 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 our company is paid periodically as accrued. Taxes may or may not be a current cash item but are nevertheless real costs which, in most situations, must eventually be paid. A company that realizes taxable earnings in high tax jurisdictions may, ultimately, be 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, may not be comparable to similarly titled measures reported by other companies. A reconciliation of net loss to EBIT and EBITDA is presented below (dollars in thousands):

	2004	2003	2002	2001	2000
Net loss	$ (8,463)	$ (5,928)	$ (7,954)	$ (4,572)	$ (3,542)
Add: Interest expense, net	3,917	3,423	2,776	939	(386)
Add: Income tax expense	1,046	711	6	208	
EBIT	$ (3,500)	$ (1,794)	$ (5,172)	$ (3,425)	$ (3,928)
Add: Depreciation and amortization	12,899	12,003	8,705	2,044	657
EBITDA	$ 9,399	$ 10,209	$ 3,533	$ (1,381)	$ (3,271)

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 the 2004 Annual Report. Historical results and percentage relationships do not necessarily indicate operating results for any future periods.

Overview

RII, the surviving entity following the consolidation of RDGE, CRG and CDL on December 31, 2001, is now the owner of the consolidated businesses and assets of RDGE, CRG and CDL. Today, our businesses consist primarily of:

- the development, ownership and operation of multiplex cinemas in the United States, Australia, New Zealand, and Puerto Rico; and
- the development, ownership and operation of retail and commercial real estate in Australia, New Zealand and the United States, including entertainment-themed retail centers (ETRC) in Australia and New Zealand and live theater assets in Manhattan and Chicago in the United States.

We manage our worldwide cinema businesses under various different brands:

- in the US, under the Reading, Angelika Film Center and City Cinemas brands;
- in Australia, under the Reading brand;
- in New Zealand, under the Reading and Berkeley Cinemas brand; and
- in Puerto Rico, under the CineVista brand.

We consider ourselves to be essentially a cinema exhibition company with a strong focus on the development and holding of real estate assets. We plan to continue to identify, develop and acquire cinema and live theater properties, focusing primarily on those opportunities where we can acquire either the fee interest underlying the operating assets, or long-term leases, which we believe provide flexibility with respect to the usage of such leasehold assets. In the near term, we are focusing principally on the operation of our existing cinema and live theater assets and in the development of five parcels of undeveloped real estate in Melbourne, Brisbane, and Sydney in Australia and Wellington in New Zealand.

We look to take advantage of those opportunities that may present themselves to strategically expand our existing cinema circuits. However, we do not intend to reach out for cinema assets or to grow simply for the sake of growing. Rather, we intend to be disciplined in our approach to acquiring and developing cinema assets.

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We have, in the past, and may, in the future, dispose of, or put to alternative use some or all of our interests in various operating assets, in order to maximize the values of such assets. Generally speaking, since the Consolidation, we have disposed of our non-cinema and non-real estate related assets so as to focus on our principal two businesses.

Our revenues have risen to above $100 million and our EBITDA remains strong, however we have not yet been able to translate this into a stronger bottom line result, for the following reasons:

- The results of our cinema operations in the US were unusually poor, due to the cost of the anti-trust litigation and the refusal of Fox and Universal to supply us with film product while we were pursuing claims against them. Now that we have achieved settlement with Fox and Universal, we expect that things will return more to normal from a supply point of view;

- We have not yet fully integrated the Anderson and Movieland circuits and have not yet realized the synergies that we anticipate in 2005. Indeed, we have realized higher costs and expenses as we have worked to integrate these cinemas into our system;

- Our depreciation and amortization is increasing as we continue to increase our asset base; and

- As we continue to grow, we continue to incur start-up costs inherent in bringing new projects, whether cinema or real estate, on line. We enjoyed unusual growth in 2004 and as a result, these costs were higher than in prior years. This was prominent last year given that our two newest cinemas did not open until late December. We had only limited revenues cinemas to offset their pre-opening costs.

We have engaged in the following transactions which we believe are consistent with our business plan:

1. *Glendale Building:* In January 2005, we entered into a purchase and sale agreement providing for the sale of our office building in Glendale, California for $21.0 million. Our Glendale property is currently subject to a first mortgage in the amount of approximately $10.2 million. The sale of the property is subject to the buyer assuming this mortgage. As the mortgage is non-recourse in nature, we believe it likely that the assumption will be approved. However, no assurances can be given in this regard. It is currently our intention to complete a 1031 exchange of the Glendale property for the fee, ground lease and building comprising the property.

2. *West Lakes and Rhodes*: In December 2004 we completed the fit outs of the two cinemas with a total of 15 screens. The leases and development rights for the two cinemas were acquired as part of the Anderson acquisition discussed below.

3. *Botany Downs:* On December 24, 2004, we opened an additional 8-screen cinema, this one located in a suburb of Auckland, New Zealand and owned in an unincorporated joint venture with our partner in the Berkeley Cinemas chain in New Zealand.

4. *The Sutton Redevelopment Investment*: On September 14, 2004, we acquired for $2.3 million a non-managing membership interest in 205-209 East 57th Street Associates, LLC a limited liability company formed to redevelop our former cinema site at 205 East 57th Street in Manhattan. Our membership interest represents a 25% interest in the LLC, and was issued to us by 205-209 East 57th Street Associates, LLC in consideration of a capital contribution equal to 25% of its total book capital, calculated after taking into account the effect of our capital contribution. In December 2004, a capital call of $2,877,000 was made to make up the shortfall in equity resulting from higher than budgeted cost for the redevelopment project. In order not to dilute our 25% interest we decided to increase our capital contribution by $719,000 as requested and will make this payment in the first quarter of 2005.

5. *The Cinemas 1, 2 & 3 Land Acquisition*: On August 4, 2004, we entered into an agreement to purchase for $12 million the approximately 7,840 square-foot fee interest underlying our current leasehold estate in the Cinemas 1, 2 & 3 property located in Manhattan on 3rd Avenue between 58th Street and 59th Street. The

ownership of the Cinemas 1, 2 & 3 property is currently divided into three components: the fee interest

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(which we now have under contract to purchase); the ground lease and improvements (which are owned by Sutton Hill Capital LLC but which we, have an option to purchase as a part of a pool of assets in 2010); and our current space lease which also runs until 2010. We are currently in negotiations with Sutton Capital to acquire immediately Sutton Capital s ground lease interest in the property and its proprietary interest in the building and other improvements on the land, and have agreed in principal that, as a part of the transaction, Sutton Capital will have an option to acquire at cost up to a 25% non-managing membership interest in the limited liability company that we have formed to take title to the property. These negotiations are ongoing, and any potential transaction will ultimately be subject to review and approval by the Conflicts Committee of our Board of Directors. In connection with these negotiations, the parties are also discussing an early acquisition of Sutton Capital s interest in the Village East Cinema. As of December 31, 2004, we had deposited earnest money totaling $800,000 into escrow with respect to the purchase of the fee interest. In January, the purchase price was increased to $12.2 million and the deposit was increased to $4.0 million in consideration of an extension of the closing date to June 1, 2005.

6. *Movieland Cinemas Circuit*: In August 2004, we closed a series of agreements which, together, provided for the acquisition of six existing New Zealand cinemas, representing 27 screens, and in the case of three of these locations, the fee interests underlying such cinemas. Two of the locations included ancillary retail and commercial tenants. We also acquired the plans and permits for the development of an additional two screens at each of two of the cinemas, for a potential increase of 4 additional screens.

   We acquired the Movieland Circuit in New Zealand for $7.2 million (NZ$10.7 million) representing a multiple of approximately 5 times projected cash flow, the underlying fee interests of three of the cinema properties for $7.4 million (NZ$11.0 million) representing a capitalization rate of approximately 9%. Although there was a degree of overlapping ownership of these six cinemas and although the purchase was negotiated as a package, these cinemas were not in fact managed as a single circuit. We anticipate that we will be able to significantly improve the cash flow from these assets, once they are integrated with the remainder of our cinema assets, and can enjoy the benefits of our greater purchasing power and other economies of scale.

   The acquisition costs of these cinemas and fee interests amounting to $14.6 million (NZ$21.8 million) was funded by a combination of $13.3 million (NZ$19.8 million) of working capital, $792,000 (NZ$1.2 million) in shares of our Class A Common Stock (98,949 shares issued at $8.00 per share (NZ$11.94, using a NZ$ to US$ exchange ratio of $0.67)), and a $546,000 (NZ$784,000) purchase money promissory note The working capital was funded through a combination of cash of $5.4 million (NZ$8.1 million) and a drawdown under of our new banking facility in New Zealand of $8.3 million (NZ$12.3 million). The shares issued includes a non-transferable option to put to us the Class A Common Stock issued to them at a put price of NZ$11.94 at any time during January 2006. The $546,000 (NZ$784,000) purchase money promissory note has an interest rate of 5.50% and requires that all principal and interest be paid in February 2006.

   With the closing of the Movieland acquisition and the opening of a new 8 screen Berkeley joint venture cinema, (discussed separately above) we now own directly seven cinemas representing 37 screens and own indirectly through our various Berkeley joint ventures an additional five cinemas with 29 screens in New Zealand. As previously mentioned, two of the newly acquired cinemas have the capacity for 4 additional screens. Completion of these expansion screens will increase our New Zealand screen count to 70 screens in twelve cinemas plus a 5-plex cinema managed by one of our Berkeley joint ventures. By comparison, our principal competitors in New Zealand, Hoyts and Village/Sky, own 50 screens, and 60 screens, respectively.

7. *Anderson Cinema Circuit*: On July 1, 2004, we acquired most of the assets of the Australia based Anderson Circuit for $5.7 million (AUS$8.0 million) giving us four existing cinemas with 22 screens and agreements to lease with respect to two additional cinemas (with an additional 15 screens) in two facilities then under construction. Prior to selling the circuit, the Andersons had encountered financial difficulties, and substantially all

of their cinema assets had been placed in the hands of a receiver by their bank lender. Ultimately, as the result of negotiations with the Andersons, certain other stockholders, landlords and the bank, we were able to acquire all but one of the cinemas that had historically comprised the Anderson circuit and both of their projects (West Lakes and Rhodes) then under development.

The total acquisition costs of these cinemas, of $5.7 million (AUS$8.0 million), excluding the cost of the fit-out of the two development cinemas, were met from our own funds in conjunction with a $3.4 million (AUS$4.7 million) drawdown on the newly signed $39.3 million (AUS$55.0 million) bank facility. As part of this acquisition, several landlords required bank guarantees, which increased our restricted cash by $296,000 (AUS$417,000) and reduced our total credit facility by $1.9 million (AUS$2.7million). The total fit-out cost for the two development cinemas aggregated $3.8 million (AUS$5.0 million) and was paid from our own funds.

As ownership of the various cinemas in the circuit was divided among a variety of entities and subject to the claims of a variety of creditors, the acquisitions were ultimately structured as the acquisition of (i) the shares of one company, which owns as its sole asset the 10-screen leasehold cinema at Epping (a suburb of Melbourne), (ii) agreements to lease with respect to two leasehold cinemas opened in the fourth quarter at Rhodes (8 screens) (a suburb of Sydney) and West Lakes (7 screens) (a suburb of Adelaide), and (iii) three existing leasehold cinemas at Colac (2 screen), Melton (5 screens) and Sunbury (5 screens) (all suburbs of Melbourne).

8. *Newmarket Property*: We currently own an approximately four-acre property located in the Newmarket area of Brisbane, Australia, which we are developing as an approximately 100,000 square foot shopping center. On July 1, 2004, we acquired an approximately 12,500 square foot parcel adjacent to that development site for $1.0 million (AUS$1.4 million). We anticipate that the addition of this property will allow the addition of a complementary cinema element to the project. On December 31, 2004, we entered into a $25.2 million (AUS$32.7 million) construction loan with the Bank of Western Australia, Ltd. This loan will be used to fund the construction of the Newmarket site.

9. *Angelika Plano*: We have been retained to manage a new art cinema in Plano, Texas which is being operated under our *Angelika* name and which commenced operations in June 2004.

10. *CineVista Cinema:* Negotiations for the sale of the Puerto Rican circuit are ongoing, but have not progressed. No assurances can be given that the sale will be consummated. As a result, effective December 31, 2002, the Puerto Rican circuit was no longer deemed to be an asset held for sale for accounting purposes and was no longer presented as such at December 31, 2004 or 2003, respectively.

11. *Christchurch*: In September 2003, we opened an 8-screen cinema in Christchurch, New Zealand (beneficially owned in an unincorporated joint venture with our partner in the Berkeley Cinemas chain in New Zealand).

12. *Mt. Gravatt*: On May 15, 2003, we acquired, for $2,178,000 (AUS$3,244,000), and the settlement of certain litigation claims (i) an undivided 1/3rd interest in the unincorporated joint venture that owns and operates the 16-screen multiplex cinema at the Mt. Gravatt shopping center in suburban Brisbane, Australia and (ii) the right, exercisable at any time prior to December 16, 2003, to sell that interest back to the sellers for $4,960,000 (AUS$7,388,000), the Put Price. We have elected to continue to hold our ownership interest in that cinema. In addition, as a part of that settlement, we also received the right to acquire at cost an undivided interest in an additional multiplex cinema development opportunity. The extent of our participation is subject to certain factors outside of our control, but will not be less than a 1/3 interest nor greater than a 1/2 interest. While the development is proceeding, it has not yet reached the point of maturity where we are obliged to make an election whether or not to participate, or as to the extent of our participation.

Our purchase of our undivided ownership interest in the Mt. Gravatt cinema at the seller s undepreciated historic cost of $2,178,000 (AUS$3,244,000) resulted in a one-time gain of $2,259,000 (AUS$3,463,000), net of applicable expenses. The gain was based on a fair market value for that unconsolidated joint venture interest of

$4,960,000 (AUS$7,388,000), as reflected by the above described Put Price. In addition, we received approximately $287,000 (AUS$430,000) in profit distribution covering the period from December 18, 2002 (the agreed effective date of the parties settlement) to May 15, 2003 (the date on which the settlement was completed). We additionally booked the recovery of approximately $518,000 in legal fees related to the litigation. As permitted by SFAS No. 141, *Business Combinations,* the proceeds were prorated and approximately $60,000 (AUS$92,000) was recognized as income. The remainder was recorded as an adjustment to the joint venture purchase price.

13. *Gish Biomedical:* We began liquidating our investment in Gish in 2003, and as of April 30, 2003 we had divested all of our holdings. For the year ended December 31, 2002, the Gish stock was carried as an available-for-sale security at approximately $1,016,000 under the caption Investment in Marketable Securities on our Consolidated Balance Sheets.

14. *Disposition of Agricultural Operations:* In July 2002, we effectively disposed of our agricultural investment when certain agricultural partnerships in which we had an interest reconveyed their interests in the Big 4 Ranch to the original owner of that property in satisfaction of the purchase money mortgage held by the original owner. We had previously written off our investment in and advances made to these agricultural partnerships in September 2000.

15. *Courtenay Central Opening:* In March 2002, we opened our Courtenay Central ETRC complex located in Wellington, New Zealand. In addition to a 10-screen cinema, there is approximately 37,383 square feet of restaurant and retail space and a car park. As of December 31, 2004, approximately 86% of the available restaurant and retail space had been leased. We are now working on Phase II of that project, a planned 150,000 square foot expansion including approximately 110,000 square feet of retail and a multiplex art specialty cinema.

16. *Sutton Hill Transaction:* In 2000, we entered into a transaction with a related party designed to give us (i) operating control, through an operating lease, of the City Cinemas theater chain in Manhattan, and (ii) the right to enjoy any appreciation in the underlying real estate assets, through a fixed price option to purchase these cinemas on an all or nothing basis in 2010. Two of the cinemas included in that chain the Murray Hill Cinema and the Sutton Cinema have now been sold for redevelopment, under terms that we believe preserve this basic structure and which will, if we exercise our purchase option, give us the future benefit of any appreciation realized in those assets during the time they were under our operation and control.

In July 2000, we acquired from Sutton Hill Capital, LLC (SHC) the Manhattan based City Cinemas circuit in a transaction structured as a 10 year operating lease (the City Cinemas Operating Lease) with options either to extend the lease for an additional 10 year term or, alternatively, to purchase the improvements and certain of the real estate assets underlying that lease (the City Cinemas Purchase Option). We paid an option fee of $5,000,000, which will be applied against the purchase price if we elected to exercise the City Cinemas Purchase Option. The aggregate exercise price of the City Cinemas Purchase Option was originally $48,000,000, and rent was calculated to provide an 8.25% yield to SHC (subject to an annual modified cost of living adjustment) on the difference between the exercise price and the $5,000,000 option fee. Incident to that transaction, we agreed to lend to SHC (the City Cinemas Standby Credit Facility) up to $28,000,000, beginning in July 2007, all due and payable in December 2010 (the principal balance and accrued interest on any such loan was likewise to be applied against the option exercise price, in the event the option was exercised). The interest rate on the City Cinemas Standby Credit Facility was also fixed at 8.25%, subject to the same modified cost of living adjustment used to calculate rent under the City Cinemas Operating Lease. We have no legal obligation to exercise either the option to extend the City Cinemas Operating Lease or the City Cinemas Purchase Option. However, our recourse against SHC on the City Cinemas Standby Credit Facility is limited to the assets of SHC which consist of, generally speaking, only the assets subject to the City Cinemas Purchase Option. In this annual report, we refer to the transaction memorialized by the City Cinemas Operating Lease, City Cinemas Purchase Option and City Cinemas Standby Credit Agreement as the City Cinemas Transaction.

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Because the City Cinemas Operating Lease is an operating lease and since the City Cinemas Standby Credit Facility was, in our view, adequately secured, no asset or liability was established on our balance sheet at the time of the City Cinemas Transaction other than the option fee, which has been deferred and is being amortized over the 10 year period of the lease.

SHC is indirectly owned by Messrs. James J. Cotter and Michael Forman. Mr. Cotter is our Chairman, Chief Executive Officer and controlling stockholder. Mr. Forman is a major holder of our Class A Stock. As the transaction was a related party transaction, it was reviewed and approved by a committee of our Board of Directors comprised entirely of independent directors.

Since we entered into the City Cinemas Transaction, two of the cinema properties involved in that transaction have been sold to third parties for redevelopment: the Murray Hill Cinema and the Sutton Cinema. These purchasers paid $10,000,000 and $18,000,000 respectively for these two properties, which included the cost of acquiring the fee interest in these properties held by Nationwide Theaters (an affiliate of SHC), the leasehold interest held by SHC, and our rights under the City Cinemas Operating Lease and the City Cinemas Purchase Option. Since we believed that a sale of these properties at these prices was more beneficial to us than continuing to operate them as cinemas, and since the original City Cinemas Transaction did not contemplate a piece-meal release of properties or give us the right to exercise our City Cinemas Purchase Option either (i) on a piece-meal basis or (ii) prior to July 2010, we worked with SHC to devise a transaction that would allow us to dispose of our collective interests in these properties while preserving the fundamental benefits of the transaction for ourselves and SHC. Included among the benefits to be preserved by SHC was the deferral of any capital gains tax with respect to the transfer of the remaining properties until 2010 and assurances that the various properties involved in the City Cinemas Transaction would only be acquired by us on an all or none basis. Included among the benefits to be preserved for us was the right to get the benefit of 100% of any appreciation in the properties underlying the City Cinemas Operating Lease between the date of that lease (July 2000) and the date any such properties were sold, provided that we ultimately exercised our purchase rights under the City Cinemas Purchase Option.

As a result of these negotiations and the sale of these two properties, our rent under the City Cinemas Operating Lease has been reduced by approximately $1,861,000 per annum, the exercise price of the City Cinemas Purchase Option has been reduced from $48,000,000 to $33,000,000, and our funding obligation under the City Cinemas Standby Line of Credit has been reduced from $28,000,000 to $13,000,000. In addition, we received in consideration of the release of our interest in the Murray Hill Cinema a cash payment of $500,000. In consideration of the transfer of our interest in the Sutton Cinema we received (i) a $13,000,000 purchase money promissory note (the Sutton Purchase Money Note) secured by a first mortgage on the Sutton Cinema property (the Sutton Purchase Money Mortgage), (ii) a right to acquire up to a 25% interest in the special purpose entity formed to redevelop the Sutton Cinema property for a prorated capital contribution (the Sutton Reinvestment Option) or to receive instead an in lieu fee of $650,000, and (iii) the right to operate the Sutton Cinema until such time as the Sutton Purchase Money Note was paid. The Sutton Purchase Money Note was due and payable on October 21, 2005, and carried interest for the first year at 3.85%, increasing in the second year to 8.25%. On September 14, 2004, the Sutton Purchase Money Note was prepaid in full and we exercised our Sutton Reinvestment Option.

In keeping with the all or nothing nature of our rights under the City Cinemas Purchase Option, we agreed to use the principal proceeds of the Sutton Purchase Money Promissory Note to fund a portion of our remaining $13.0 million obligation under the City Cinemas Standby Credit Facility. As of December 31, 2004, we have funded $8.0 million of this obligation. We anticipate that the remaining obligation will be fully funded by July 2007. We have also agreed that the principal amount of the City Cinemas Standby Credit Facility will be forgiven if we do not exercise our purchase rights under the City Cinemas Purchase Option. Accordingly, if we exercise our rights under the City Cinemas Purchase Option to purchase the remaining City Cinemas assets, we will be acquiring the remaining assets subject to the City Cinemas Operating Lease for an additional cash payment of $15,000,000, (offsetting against the current $33,000,000 exercise price, the previously paid $5,000,000 deposit and the $13,000,000 principal amount of the City Cinemas Standby Credit Facility) and will receive, in essence, the benefit of 100% of the appreciation in all of the properties initially subject to the City Cinemas Operating Lease between July 2000, and the date such properties were either disposed of or acquired by us pursuant to the City Cinemas Purchase Option. If we do not exercise our option to purchase, then the City Cinemas Credit Facility will be forgiven, and we will not get the benefit of such appreciation. The remaining properties consist of the Village East Cinema, which is located at the corner of 2nd Avenue and 11th Street in Manhattan, on a 27 year land lease, and the Cinemas 1, 2 & 3. It is located on 3rd Avenue between E. 59th and E. 60th Streets in Manhattan and likewise on a long term ground lease. We are currently under contract to purchase the Cinemas 1, 2, & 3 ground lease from another party for $12.2 million.

Since the Murray Hill Cinema sale transaction was structured as a release of our leasehold interest in the Murray Hill Cinema, we did not recognize any gain or loss for either book or tax purposes, other than the $500,000 in lieu fee, which was recognized as non-operating income. We likewise did not book any gain or loss on the disposition of the Sutton Cinema for book purposes. However, we did recognize gain in the amount of approximately $13,000,000 for state and federal tax purposes, which gain was offset against net operating losses. Notwithstanding this offset, we were still liable for alternative minimum tax on the transaction. That alternative minimum tax will, however, be offset against our future tax liabilities. In the event that we decide not to exercise our City Cinemas Purchase Option, we would at that time recognize a $13 million loss for tax purposes.

Following the release of our leasehold interest in the Murray Hill Cinema and disposition of the Sutton Cinema in 2003 we accelerated the amortization of the option fee in the City Cinemas Purchase Option agreement by $890,000. In addition, in October 2003 we recorded our loan commitment under the City Cinemas Standby Credit Facility as a payable in our long-term debt on the Consolidated Balance Sheet. As a result of having funded $8.0 million of this obligation during 2004, the remaining balance recorded as long-term debt is $5.0 million.

Each of the above modification transactions involved was reviewed by a committee of the independent directors of the Board of Directors with the assistance of outside counsel. In each case, the independent directors of the applicable committee have found the transaction to be fair and in the best interests of Reading and its public stockholders. The material documents memorializing these transactions with SHC have been previously filed as exhibits to this annual report.

Reflecting the disposition of the Murray Hill Cinema and the Sutton Cinema and the amendments to date with respect to the City Cinemas Transaction, we are currently paying SHC rent of $1,686,000 per year on a triple net basis. For the years ended December 31, 2004 and 2003, rent expense to SHC was $2,386,000 and $2,674,000, respectively. We have funded $8,000,000 of our remaining $13,000,000 obligation under the City Cinemas Standby Credit Facility (which currently earns interest at 8.98%, reduced our rent obligation under the City Cinemas Operating Lease to $1,686,000 per year for the Village East Cinema and the Cinemas 1, 2 & 3. Every $1,000,000 in increased funding under the City Cinemas Standby Credit Facility currently will result in an approximately $90,000 annual effective reduction in that rent obligation). We also have the option to purchase in July 2010 the remaining assets under the City Cinemas Operating Agreement (SHC s long term leasehold interests in the Village East Cinema and the Cinemas 1, 2 & 3 in Manhattan and the improvements comprising these two cinemas) for an additional payment of $15,000,000 (plus whatever unfunded balance remains with respect to our funding obligation under the City Cinemas Standby Credit Facility).

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Results of Operations

On January 01, 2002, we started reporting the operating results of RDGE, CRG and CDL as one, under the name *Reading International, Inc*. Fiscal 2004, 2003 and 2002 results fully reflect the impact of the Consolidation.

We currently operate two operating segments: Cinema and Real Estate. Our cinema segment includes the operations of our owned, managed and unconsolidated joint venture cinemas. Our rental/real estate segment includes the operating results of our commercial real estate holdings, theater real estate and ETRC s.

The tables below summarize the results of operations for our principal business segments for the years ended December 31, 2004, 2003 and 2002 (dollars in thousands).

Year Ended December 31, 2004	Cinema	Real Estate	Corporate	Total
Revenue	$87,257	$15,725	$	$102,982
Operating expense	72,476	7,321		79,797
Depreciation & amortization	8,569	4,230	100	12,899
General & administrative expense	5,172	638	10,428	16,238
Operating income (loss)	1,040	3,536	(10,528)	(5,952)
Other expense		(720)	(745)	(1,465)
Income (loss) before tax	1,040	2,816	(11,273)	(7,417)
Income tax expense			1,046	1,046
Net income (loss)	$ 1,040	$ 2,816	$(12,319)	$ (8,463)

Year Ended December 31, 2003	Cinema	Real Estate	Corporate	Total
Revenue	$81,464	$12,275	$	$93,739
Operating expense	65,002	7,436		72,438
Depreciation & amortization	7,517	4,301	185	12,003
General & administrative expense	4,782	1,017	8,839	14,638
Operating income (loss)	4,163	(479)	(9,024)	(5,340)
Other income			123	123
Income (loss) before tax	4,163	(479)	(8,901)	(5,217)
Income tax expense			711	711
Net income (loss)	$ 4,163	$ (479)	$(9,612)	$ (5,928)

Year Ended December 31, 2002	Cinema	Real Estate	Corporate	Total
Revenue	$75,717	$10,683	$ 86	$86,486
Operating expense	62,845	6,482		69,327
Depreciation & amortization	5,621	2,689	395	8,705
General & administrative expense	5,789	1,097	7,545	14,431

Operating income (loss)	1,462	415	(7,854)	(5,977)
Other expense			(1,971)	(1,971)
Income (loss) before tax	1,462	415	(9,825)	(7,948)
Income tax expense			6	6
Net income (loss)	$ 1,462	$ 415	$(9,831)	$ (7,954)

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Cinema

2004 Compared with 2003

As described above, one of our primary businesses consists of the ownership and operation of cinemas. At December 31, 2004, we owned and operated, directly or indirectly through consolidated joint ventures, 271 screens in 41 cinema complexes. This compares to 202 screens in 28 cinemas on December 31, 2003. We also had unconsolidated joint venture interests in an additional 45 screens in 6 cinema complexes and we operated, directly or indirectly, 14 screens in 3 cinema complexes in which we had no ownership interest.

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

In 2004, we continued to face uncertainties in the domestic cinema market because of the consolidations and financial restructuring that have taken place over the last few years among our competitors. We also continued antitrust litigation against Regal and certain major U.S. film distributors in an effort to stop Regal from preventing the distribution of top grossing first-run film by these distributors to our Village East Cinema. This has resulted in a significant increase in our legal expenditures in 2004 and 2003. Our cinema results were also negatively impacted by our antitrust lawsuits due to Fox and Universal refusing to provide us with their film product in the United States in retaliation for our legal action against them. This was compounded by a general decrease in the number of well received films in 2004 vs. 2003. We have, however, now reached settlement with Disney, DreamWorks, Fox, MGM, Universal and Loews on terms that we believe to be beneficial to our Company and are back on service with Fox and Universal elsewhere in the United States. We are currently pursuing our claims only against Regal, Columbia and Paramount. The impact of the Fox/Universal boycott in 2004 was much more significant than in 2003 due to the strength of the Fox and Universal product in 2004 compared to 2003. This is particularly true in the case of Fox s art film arm Fox Searchlight which brought to market in 2004 films such as Sideways, Garden State and Napoleon Dynamite.

In 2004, our cinema operations generated an operating profit, primarily due to the continued positive results of our Australian and New Zealand cinema operations. In addition, our results in 2004 include 6 months of operations of the Anderson circuit in Australia and 4 months of operation of the Movieland circuit in New Zealand which are both discussed in Note 6. Our Australian and New Zealand operations represent a significant part of our overall business. As such, our operations are subject to the effects of currency rate fluctuation. The respective exchange rates of the U.S. dollar to the Australian dollar at December 31, 2004 and 2003 were $0.7709 and $0.7520 respectively. The respective exchange rates of the U.S. dollar to the New Zealand dollar at December 31, 2004 and 2003 were $0.7125 and $0.6557, respectively. To date, from a net income perspective, our operating results have not been significantly affected by currency rate fluctuations.

Operating expense increased in 2004 compared to 2003 primarily as a result of variable costs such as film rental and payroll expenses that normally fluctuate in direct relation to the increases or decreases in revenue. In 2004 however, there was an added dynamic. In our domestic market the severe reduction in revenue brought about by the lack of first-run product due to the now resolved Fox/Universal boycott, was not capable of being fully adjusted for in the operating expense. All our cinemas have a threshold limit of fixed costs that, in the short term, cannot be adjusted in line with precipitous declines in revenue. As we have now resolved our disputes with all but two distributors Columbia and Paramount we are optimistic that the supply issues that plagued us in 2004 will be significantly mitigated. In Australia and New Zealand the Anderson and Movieland acquisitions, which in general operated at lower margins than us, had not yet fully been integrated into the Reading mode by year-end.

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The following tables detail our operating results for our 2004 and 2003 cinema activities, respectively (dollars in thousands):

Year Ended December 31, 2004	United States	Australia	New Zealand	Puerto Rico	Total
Admissions revenue	$ 15,584	$ 31,385	$ 7,908	$ 8,699	$ 63,576
Concessions revenue	4,339	9,451	2,293	3,470	19,553
Advertising and other revenues	1,374	1,600	391	763	4,128
Total revenues	21,297	42,436	10,592	12,932	87,257
Cinema costs	16,733	33,577	5,953	11,639	67,902
Concession costs	905	2,213	748	708	4,574
Total operating expense	17,638	35,790	6,701	12,347	72,476
Depreciation and amortization	2,082	5,293	720	474	8,569
General & administrative expense	3,987	66	320	799	5,172
Operating (loss) income	$ (2,410)	$ 1,287	$ 2,851	$ (688)	$ 1,040

Year Ended December 31, 2003	United States	Australia	New Zealand	Puerto Rico	Total
Admissions revenue	$ 18,709	$ 24,700	$ 5,783	$ 9,738	$ 58,930
Concessions revenue	4,987	7,607	1,682	3,783	18,059
Advertising and other revenues	1,684	1,667	309	815	4,475
Total revenues	25,380	33,974	7,774	14,336	81,464
Cinema costs	19,299	25,052	3,883	12,836	61,070
Concession costs	794	1,862	544	732	3,932
Total operating expense	20,093	26,914	4,427	13,568	65,002
Depreciation and amortization	3,126	3,407	534	450	7,517
General & administrative expense	4,244	(332)		870	4,782
Operating (loss) income	$ (2,083)	$ 3,985	$ 2,813	$ (552)	$ 4,163

A summary of the operating results for the Cinema segment is as follows:

Cinema revenue increased in fiscal 2004 by $5.8 million or 7% when compared to fiscal 2003. Most of the $11.3 million increase noted in Australia and New Zealand was related to activity from our new Anderson Circuit and Movieland Circuits. This increase was proportionately distributed between admissions and concessions revenues. However, these increases were offset by a decline in our domestic admissions and concessions revenue primarily related to the refusal of Universal and Fox to supply our domestic cinemas with film product as a result of our antitrust lawsuit against them. Cinema revenues are primarily related to admissions which are directly related to our ability to obtain desirable product from our distributors.

Cinema operating expense increased in fiscal 2004 by $7.5 million or 10% when compared to fiscal 2003. Approximately $6.9 million and $642,000 of the increased costs of sales was related to cinema costs and concession costs, respectively. Of these fiscal 2004 increases, $8.9 million was from our Australian operations and $2.2 million was from our New Zealand operations of which most of these increases were from our new Anderson and Movieland Circuits opening in July and August 2004, respectively. However, these increases were offset by a decline in theater film rental costs and concessions costs at our domestic theaters primarily related to our Village East lawsuit. Overall our operating expenses for twelve months year-to-year were 83% and 80% of gross revenue for 2004 and 2003, respectively.

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Depreciation expense increased in fiscal 2004 by $1.0 million or 12% when compared to fiscal 2003. The fiscal 2004 increase was primarily from our late-year 2004 acquisitions of the Anderson and Movieland Circuits in Australia and New Zealand, respectively, and an increased domestic depreciation expense stemming from various renovation/remodeling projects undertaken at the Angelika New York and Village East cinemas offset by a 2003 charge of $890,000 to amortization expense related to our City Cinemas purchase option under intangible assets.

General and administrative expense increased in fiscal 2004 by $390,000 or 8% when compared to fiscal 2003. The increase in general and administrative expenses is primarily related to the pre-opening expenses at our two new cinemas in Australia that opened in December. As they were only open for less than a month, their operating results for 2004 were distorted by their inability over this truncated period to generate sufficient earnings to offset these pre-opening expenses.

As a result of the above, net income for the cinema segment decreased in fiscal 2004 by $3.1 million when compared to fiscal 2003.

2003 Compared with 2002

At December 31, 2003, we operated, directly or indirectly through consolidated joint ventures, 200 screens in 28 cinema complexes and held unconsolidated joint venture interests in an additional 37 screens in five cinema complexes. This compares to 209 screens in 30 cinemas at December 31, 2002. During 2003, we closed two of our domestic cinemas and one of our Puerto Rico cinemas. One of the domestic cinemas and the Puerto Rico cinema were closed in light of competitive pressures from new cinema development. The other domestic cinema was sold, as its highest and best use was no longer for cinema purposes. Our cinema segment included the operating results of both our consolidated and unconsolidated joint venture interests. At December 31, 2003, we managed 4 screens in one cinema compared to 5 screens in two cinemas at December 31, 2002.

In 2003, we continued to face uncertainties in the domestic cinema market flowing from the consolidation of our industry and the financial restructuring, following bankruptcy, of some of the largest exhibition companies in the United States. Our operating results were also adversely effect by our antitrust litigation against Regal, Loews and virtually all of the major U.S. film distributors (other than Warner Bros. and Miramax). This resulted in a significant increase in our legal expenditures in 2003 over 2002 legal expenditures and a loss of access to Fox and Universal film product in the United States, due to their unwillingness to license films to us in the United States so long as the litigation was ongoing. Our Australia and New Zealand circuits did not experience the same types of issues; however, our cinema results in Australia were adversely affected by an industry wide reduction in the compensation paid to exhibitors for screen advertising and our inability to renew, on a comparable basis, the film advertising contract that expired in July 2003, and by a similar decline in film advertising revenue in New Zealand.

In Australia and New Zealand, we had a strong year both in terms of attendance and box office receipts benefiting from a series of well-received films throughout the year such as the Pirates of the Caribbean, Matrix Revolution, Elf, Mystic River and Lord of the Rings: Return of the King.

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

In 2003, our cinema operations generated an operating profit, primarily due to the continued positive results of our Australian and New Zealand cinema operations. Our Australian and New Zealand operations represented a significant part of our overall business. As such, our operations were subject to the effects of currency rate fluctuation. The respective exchange rates of the U.S. dollar to the Australian dollar at December 31, 2003 and 2002 were $0.7520 and $0.5625, respectively. The respective exchange rates of the U.S. dollar to the New Zealand dollar at December 31, 2003 and 2002 were $0.6557 and $0.5239, respectively.

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We operated our Courtenay Central 10-plex for the full year of 2003 which contributed favorably to our operating results. Domestically and in Puerto Rico, both our per screen revenue and attendance increased when compared to 2002 despite the fact that we operated fewer screens in 2003 due to the closure of cinemas in Manhattan, Minneapolis and Puerto Rico, and despite the impact of the Fox/Universal film boycott which began in March 2003.

Operating expenses increased 2003 compared to 2002 primarily as a result of the variable costs such as film rental and payroll expenses that fluctuate in direct relation to the increases in revenue.

Depreciation and amortization expense increased in 2003 when compared to 2002 due to:

- accelerated amortization taken against the Option Fee in the City Cinemas Purchase Option agreement;
- increased domestic depreciation expense stemming from various renovation/remodeling projects undertaken at the Angelika New York and Village East cinemas; and
- a full year of depreciation taken on the Wellington ETRC.

General and administrative expense decreased in 2003 when compared to the same periods in 2002 despite the revenue growth in our business. Beneficial lease rent payments made to SHC under the City Cinemas Operating Lease of approximately $2,674,000 and $2,815,000 in 2003 and 2002, respectively, are recorded as general and administrative expense of the Cinema segment. As a result, the decrease in the general and administration expense was primarily driven by:

- the decrease in the beneficial lease rent payments;
- the credit of approximately $518,000 of reimbursed legal fees resulting from the settlement and acquisition of a joint venture (fully described in Note 6 to the consolidated financial statements);
- the closure of the administrative office in Puerto Rico; offset by
- litigation against one of our joint venture partners in Australia relative to collection on a promissory note related to our former investment in the Whitehorse center.

Real Estate

As discussed above, our other major business segment is the operation of real estate properties. These include our rental generating real estate holdings which includes our rental live theaters, and investments in several real estate holdings in various stages of development.

<u>2004 Compared with 2003</u>

<u>Rental Real Estate Holdings</u>

For fiscal 2004, our rental generating real estate holdings consisted of:

- the Belmont, Perth ETRC, the Auburn, Sydney ETRC and the Courtenay Central ETRC in Wellington, New Zealand;
- three single auditorium live theaters in Manhattan (Minetta Lane, Orpheum, and Union Square) and a four auditorium live theater complex in Chicago (The Royal George) and their accompanying ancillary retail and commercial tenants;
- the ancillary retail and commercial tenants at some of our cinema locations;
- an office building located in Glendale, California (which we are under contract to sell in the first quarter of 2005); and
- certain domestic properties historically used in our railroad operations (which were held for sale at December 31, 2004).

During 2004, we acquired the following real property interests:

- three fee parcels, incident to our acquisition of the Movieland Circuit in New Zealand. These parcels included, in addition to cinemas, expansion space for two of the cinemas and the ancillary retail and commercial tenants at two of the locations;
- an approximately 13,000 square foot parcel next to our Newmarket site. It is anticipated that the acquisition of this fee interest will enable us to develop a cinema at that site, in addition to the approximately 100,000 square foot shopping center being constructed at that location as discussed below under the caption Property Held for Development; and
- the beneficial interest under an executory agreement to purchase the fee interest in the land underlying our Cinemas 1, 2 & 3 property.

Net income increased in 2004 for the real estate segment compared to 2003, primarily due to the following:

- an increase in rental revenue at our Australia and New Zealand ETRC s due to higher occupancy rates;
- an increase in rental revenue relating to the ancillary retail and commercial tenants at two of our locations acquired in the Movieland acquisition;
- renegotiation of rents at our Union Square property which resulted in a $358,000 per annum increase; and
- a 2% decrease in dark-time (period when the live theaters carry no productions) when compared to fiscal 2003 at our rental live theaters. The rental live theaters decrease in dark time was positively impacted by the continued success of the production, Stomp, at our Orpheum Theater as well as improved occupancy rates in our Royal George Theater (where a production has been in our main stage for 31 weeks in 2004; this stage had been dark for 49 weeks in 2003) and Minetta Theater.

Property Held for Development

For fiscal 2004 our investments in real estate held for development consisted of:

- an approximately 50-acre property located in the Burwood area of Melbourne, Australia (currently in the zoning and planning stages for mixed use residential, retail, entertainment and commercial purposes);
- an approximately three-acre property located in the Moonee Ponds area of Melbourne, Australia (currently in the planning stages as an ETRC);
- an approximately four-acre property located in the Newmarket area of Brisbane, Australia (currently in the construction phase for a multiplex cinema and an approximately 100,000 square foot shopping center);
- an approximately two-acre property located adjacent to our Auburn ETRC in the Auburn area of Sydney, Australia (currently being held for development);
- an approximately one acre property located adjacent to the Courtenay Central ETRC in Wellington, New Zealand (currently in the design and governmental approval stages; negotiations are ongoing with two anchor tenants with respect to development of this approximately 150,000 square foot retail/entertainment addition to our existing Courtenay Central ETRC in downtown Wellington); and
- a 25% interest in the redevelopment of our previously sold Sutton Cinema site on 57^{th} street near its intersection with 3^{rd} Avenue. The property is being redeveloped as an approximately 100,000 square foot residential condominium project with ground floor retail.

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2003 Compared with 2002

Rental Real Estate Holdings

For fiscal 2003, our rental generating real estate holdings consisted of:

the Belmont, Perth ETRC, the Auburn, Sydney ETRC and the Courtenay Central ETRC in Wellington, New Zealand;

three single auditorium live theaters in Manhattan (Minetta Lane, Orpheum, and Union Square) and a four auditorium live theater complex in Chicago (The Royal George) and their accompanying ancillary retail and commercial tenants;

the ancillary retail and commercial tenants at some of our cinema locations;

an office building located in Glendale, California; and

certain domestic railroad-related properties (held for sale).

Net loss increased in 2003 for the real estate segment compared to 2002, primarily due to the following:

a full year of depreciation expense in 2003 attributable to the Courtenay Central ETRC, which opened in March 2002;

the write off of certain legal and development costs relating to the Whitehorse Center, an aborted development project in Australia; which was offset by

a 9% decrease in dark-time (period when the live theaters carry no productions) for our live theater rentals when compared to fiscal 2002. The live theaters operating results were positively impacted by the continued success of the production, Stomp, as well as a full year of revenue and the high gross returns earned on the I Love You You re Perfect, Now Change production. In September 2003, the production of Portraits opened at the Union Square Theater on September 9, 2003 and closed on October 5, 2003.

Property Held for Development

For fiscal 2003 our investments in real estate held for development consisted of:

an approximately 50-acre property located in the Burwood area of Melbourne, Australia;

an approximately three-acre property located in the Moonee Ponds area of Melbourne, Australia;

an approximately four-acre property located in the Newmarket area of Brisbane, Australia;

an approximately 12,500 square foot parcel adjacent to the four-acre property located in the Newmarket area of Brisbane;

an approximately two-acre property located adjacent to the Auburn ETRC in the Auburn area of Sydney, Australia; and

an approximately one acre property located adjacent to the Courtenay Central ETRC in Wellington, New Zealand.

Corporate

2004 Compared to 2003

Corporate expense/income includes expense and/or income that is not directly attributable to other operating segments.

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During 2004, the increase in General and Administrative expense was primarily made up of:

- costs for Sarbanes-Oxley implementation and the associated first year audit costs of $520,000;
- duplicate salaries and severance payments relating to a major change-over in executive personnel at our Australian operation of approximately $540,000; and
- bank fees associated with financing activities that ultimately were not consummated due to our decision to pursue alternate financing opportunities amounted to approximately $165,000.

Other expense/income is comprised of:

- Interest expense/income;
- Gain/loss on sale of assets;
- equity income/loss;
- minority interest; and
- other miscellaneous income/loss items.

During 2004, the decrease in other income was primarily made up of:

- net interest expense of $4,762,000 which was $531,000 higher than 2003 because of higher debt and interest rates and an $91,000 increase in interest related to marking our interest swap instruments to market in accordance with SFAS No. 133 *Accounting for Derivatives*; and
- the absence in income to compensate for the $500,000 release of option, recorded in 2003 with respect to the disposition of our interest in the Murray Hill cinema and for the $2,259,000 also recorded in 2003 with respect to the settlement of certain litigation claims in Australia.

This was offset in part by:

- equity earnings from our affiliates of $1,680,000 which was $1,092,000 higher than 2003 primarily due to a full year of earnings from our Christchurch joint venture which opened in September 2003 and a full year of earnings at our Mt. Gravatt joint venture which effected earnings from May 2003; and
- $1,686,000 of realized exchange gain on monies transferred from our Australian subsidiary to the US parent.

2003 Compared to 2002

Corporate expense/income includes expense and/or income that is not directly attributable to other operating segments.

General and administrative expense decreased primarily due to ongoing savings associated with the 2001 Consolidation, including closure of the Puerto Rico administrative office and the transfer of those responsibilities to the Los Angeles office.

Corporate other expense (income) is comprised of:

- interest (expense) income;
- gain (loss) on sale of assets;
- equity income (loss);
- minority interest; and

other miscellaneous income and loss items.

During 2003, other income included the following transactions:

the recording in June 2003 of a $2,259,000 one-time gain on the settlement of two lawsuits involving antitrust and trade practices as fully described in Note 6 to the consolidated financial statements;

the recognition of a $500,000 gain on the release of the Murray Hill option in May 2003; and

increased interest expense due to the completion of the Wellington project in that interest could no longer be capitalized and was expensed.

Consolidated net losses

Over the past several years we have consistently experienced net losses. This trend is consistent with our focus on acquisitions and real estate development which result in high depreciation and amortization expenses and which during their holding and development stages produce little or no operating income for our company. Also, our efforts to break into the Australian cinema and real estate markets and to obtain film for our Village East cinema in Manhattan have resulted in significant legal expense. Our litigation expenses for years ending 2004 and 2003 were $4.6 million and $3.7 million, respectively. Finally, our Puerto Rico operations, while generating significant gross revenues, produced little or no profit or cash flow.

As evidenced by the above table at *Item 6 Selected Financial Data,* we believe the trend of annual net losses is improving when one compares annual net losses to the amount of depreciation and amortization incurred in each of those years. However, although we noted a similar pattern in 2004, we achieved lower profit margin than expected from our new cinema operations in Australia and New Zealand in addition to an increase in general and administrative expenses for corporate primarily related to our Sarbanes-Oxley implementation and certain duplicate salaries and severance payments from the changing of certain Australian operational management. We continue to focus our efforts on minimizing overhead costs while increasing operating assets and operating income in an effort to improve our profitability over time.

Business Plan, Capital Resources and Liquidity of the Company

Financial Condition

Our business plan is to continue to identify, develop and acquire cinema, live theater properties and other properties that may be of an entertainment nature, focusing on those opportunities where we can acquire either the fee interest underlying such operating assets, or long-term leases, which provide flexibility with respect to the usage of such leasehold estates. We continue to focus our acquisitions and development activities primarily in Australia and New Zealand as we believe that there are currently better opportunities in these markets than domestically. We actively continue to pursue efforts to dispose of our interests in Puerto Rico and have already disposed of all of our agricultural interests and assets, and our investment in certain marketable securities. We continue to close under-performing cinema assets, or to sell those which have value as real estate significantly in excess of their value as cinemas.

While we intend to maintain our entertainment focus, we may from time to time acquire interests in non-entertainment real estate, for example, our investment in the limited liability company that is developing our former Sutton cinema site in Manhattan into an approximately 100,000 square foot condominium known as *Place 57*. We have not, in more than the past five years, other than our investment in *Place 57*, which is more in the nature of the redevelopment of one of our existing properties than the a new investment, acquired any property other than entertainment properties or properties which we intended at the time to develop, at least in part, for entertainment purposes.

Liquidity and Capital Resources

Our ability to generate sufficient cash flows from operating activities in order to meet our obligations and commitments drives our liquidity position. This is further affected by our ability to obtain adequate, reasonable financing and/or to convert non-performing or non-strategic assets into cash. We cannot separate liquidity from capital resources in achieving our long-term goals or in order to meet our debt servicing requirements.

Currently, our liquidity needs arise mainly from:

- working capital requirements;
- capital expenditures; and
- debt servicing requirements.

Operating Activities

Cash used in operating activities was $1.0 million in 2004 compared with $5.7 million provided by operations in 2003. The change in cash from operating activities between 2004 and 2003 of $6.7 million is primarily due to:

- a decrease in cash of approximately $1.6 million due to reduced operating cash flows from our cinemas predominately in the United States resulting from our lack of quality film product due primarily to the refusal of Universal and Fox to provide film to our domestic cinemas as a consequence of our antitrust lawsuit against them;
- a decrease in cash of $573,000 due to increased legal costs paid in 2004 compared to 2003 primarily related to our anti-trust lawsuit with Universal and Fox;
- a decrease in cash of $700,000 due to increased interest paid in 2004 versus 2003 due to our increased borrowings noted in the financing activities;
- a decrease in cash of $884,000 due to lower proceeds from litigation settlements in 2004 compared to 2003;
- a $1.0 million decrease in cash due to cash received in 2003 for a one-time sale of our Gish stock;
- a $220,000 increase of cash used in inventory related to our increase in business in 2004 compared to 2003;
- a $244,000 increase of cash used as restricted cash in 2004 compared to 2003 related to lease guarantees required for our new operations in Australia;
- a decrease of cash of approximately $650,000 due to a change in deferred revenues driven by reduced sales of theater gift certificates in 2004 when compared to 2003; and
- a $400,000 decrease in cash due to higher film rent payments in early 2004 due to 2003 year-end blockbuster film rentals. This trend was not repeated at the 2004 year-end.

The increase in cash provided by operating activities between 2003 and 2002 of $2.5 million is primarily due to improved cash flow from our cinema and theater operations and an increase in deferred revenues and liabilities.

Investing Activities

Cash used in investing activities was $15.8 million in 2004 compared to $3.7 million in 2003 due to significant cinema acquisition activity in Australia and New Zealand in 2004 that was not present in 2003, as we took advantage of opportunities to acquire two groups of independent cinemas and to add to our landholdings in

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Queensland, and took advantage of a redevelopment opportunity with respect to one of our Manhattan cinemas. The $12.1 million increase in cash used in investing activities from 2004 to 2003 was primarily related to:

- $20.0 million of business acquisition costs related to the Anderson Circuit acquisition for $5.7 million (AUS$8.0 million), to the Newmarket (Queensland) land purchase of $1.0 million (AUS$1.4 million) and the Movieland Circuit acquisition of $13.3 million (NZ$19.8 million);

- $3.8 million (AUS$5.0 million) related to the fit-outs to our Westlake and Rhodes locations (development opportunities acquired as a part of the Anderson Circuit);

- $2.3 million of joint venture costs relating to our investment in the Sutton redevelopment project with 205-209 E. 57th Street Associates, LLC; offset by

- $13.0 million receivable payment on the Sutton Promissory Note.

Cash used in investing activities decreased in 2003 compared to 2002 primarily due to lower capital investments in 2003. In 2003, we made capital investments on our Newmarket and Burwood projects and improvements to our Angelika New York and Village East cinemas. Also impacting investing activities was our purchase of a 1/3rd interest in a Mt. Gravatt joint venture for approximately $2,178,000 in connection with our 2003 legal settlement. Cash used in investing was offset by the distributions we received from our joint venture partners.

In 2002, we included $714,000 in recovery of debt previously written off from the agricultural partnerships which will be non-recurring in nature, since we have discontinued our agricultural operations and disposed of our agricultural assets.

Financing Activities

Cash provided by financing activities was $7.1 million in 2004 compared to $3.2 million used in financing activities in 2003. The $10.3 million change was primarily due to the funding of our 2004 cinema acquisitions in Australia and New Zealand as follows:

- $60.7 million of proceeds in borrowings primarily from our new credit facilities in Australia of $24.9 million (AUS$32.3 million) and in New Zealand of $35.5 million (NZ$50.0 million) and

- $600,000 of lower distributions to minority interests; offset by

- $52.4 million of repayments on existing debt and obligations.

Cash used in financing activities was $3.2 million in 2003 compared to $3.6 million of cash provided by financing activities for the same period in 2002. The decrease of $6.8 million of cash provided by financing activities in the year was primarily due to no further bank borrowing in Australia in 2003 compared to 2002.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt and lease obligations at December 31, 2004 (in thousands):

	2005	2006	2007	2008	2009	Thereafter
Long-term debt	$ 610	$ 1,529	$ 9,638	$ 2,785	$56,297	$ 12,393
Lease obligations	13,601	13,739	13,923	13,173	12,797	98,966
Interest on long-term debt	5,886	5,826	5,695	5,485	3,639	445
Total	$20,097	$21,094	$29,256	$21,443	$72,733	$111,804

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In addition to the above, we have entered into the following purchase commitments:

- commitment to purchase for $12.2 million the fee interest underlying our current leasehold estate in the Cinemas 1, 2, & 3 properties.
- put option valued at $175,000 (NZ$261,000) in relation to the stock issued to the sellers of Movieland.
- commitment to make a capital contribution of $719,000 to 205-209 East 57th Street Associates, LLC relating to the Sutton Redevelopment in the first quarter of 2005.

Summary

Our cash position at December 31, 2004 was $12.3 million compared to $21.7 million at December 31, 2003. The majority of the $9.4 million difference relates to the following transactions:

- Cash used in the purchase of the Anderson circuit of $5.7 million (AUS$8.0 million) and the related fit-out costs of two new cinemas $3.8 million (AUS$5.0 million) totaling $9.5 million (AUS$13.0 million);
- Cash used in the purchase of the Movieland circuit and related fee interests of $13.3 million (NZ$19.8 million);
- Cash of $1.0 million (AUS$1.4 million) paid for the acquisition of land adjacent to our Newmarket property in Brisbane, Australia;
- Cash of $1.4 million expended on the Newmarket development project (an approximately 100,000 square foot shopping center located in a suburb of Brisbane, Australia), to date;
- Cash of $800,000 deposited in connection with our acquisition of the Cinemas 1, 2 and 3 fee interest in Manhattan;
- Cash of $2.3 million paid as our 25% ownership equity in the redevelopment of the property located on 57th Street just below 3rd Avenue in Manhattan as an approximately 100,000 square foot condominium complex; offset by
- Net borrowings increase of $21.2 million primarily from increased borrowings in Australia and New Zealand.

We believe that we have, or will have, sufficient borrowing capacity under our new Australian bank loan facility and our new New Zealand bank loan facility to recoup substantially all of the working capital that we have invested in Australia and New Zealand this year, if we so choose.

We have put into place several measures that are expected to have or have already had a positive effect on our overall liquidity, including:

- On December 31, 2004 we entered into a $25.2 million (AUS$32.7 million) construction loan with the Bank of Western Australia, Ltd through our Australian subsidiary Newmarket Properties Pty, Ltd. This loan is to be used to finance the construction of our approximately 100,000 square foot shopping center, currently under construction in Newmarket, Queensland, Australia;
- In December 2004, we concluded negotiations to move our Los Angeles corporate headquarters out of downtown to the City of Commerce, California, a suburb of Los Angeles, resulting in a projected annual savings of approximately $100,000;
- On November 23, 2004, we replaced our existing $20.9 million (NZ$31.3 million) New Zealand credit facility with a $35.5 million (NZ$50.0 million) credit facility providing us the funds to pay off the notes payable related to the Movieland acquisition and providing additional funds for current liquidity;

On October 4, 2004 we entered into a $39.3 million (AUS$55.0 million) credit facility with the Bank of Western Australia, Ltd through our Australian subsidiary, Reading Entertainment, Australia, Pty,

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- Limited. This credit facility replaces our prior facility with that lender in the amount of $21.4 million (AUS$30 million), expires on January 1, 2009 and provides for interest-only payments until June 30, 2006. At December 31, 2004, we had drawn down $24.9 million (AUS$32.3 million) and issued guarantees of $1.9 million (AUS$2.7 million); therefore, we have $15.4 million (AUS$20.0 million) available to draw on for future liquidity;

- In January 2004, we concluded the consolidation of our worldwide insurance coverage at an anticipated saving of approximately $500,000 annually in insurance costs. In January 2005, this policy has been renewed with an additional $100,000 savings;

- As more fully described in the 2003 Annual Report, on October 22, 2003 we finalized the sale of our Sutton Property located in Manhattan. Since we previously held the Sutton Property pursuant to a master operating lease with option to purchase, we expect the net economic effect of the sale will be to reduce our annual net expense by approximately $1.2 million after the first anniversary year of the sale. During 2004, we realized savings of approximately $966,000; and

- In the first quarter of 2003, as part of our ongoing drive to reduce general and administrative expense and notwithstanding our commitment to sell our Puerto Rico circuit, we consolidated our Puerto Rican administrative support function into our corporate office in Los Angeles, California. This consolidation has resulted in an annual reduction to our general and administrative expense of approximately $170,000.

Potential uses for funds during 2005 that would reduce our liquidity, other than those relating to working capital needs and debt service requirements include:

- the payment of tenant improvement incentives to lessees in Australia and the US;

- equity funding for several new developments in Australia and New Zealand;

- funding the balance of the purchase price of the underlying ground lease of our Cinemas 1, 2 & 3 land acquisition; and

- funding of the Whitehorse Litigation judgment.

Based upon the current levels of the consolidated operations, anticipated cost savings and future growth, we believe our cash flow from operations, together with both the existing and anticipated lines-of-credit and other sources of liquidity (including future potential asset sales) will be adequate to meet our anticipated requirements for interest payments and other debt service obligations, working capital, capital expenditures and other operating needs. There can be no assurance, however, that the business will continue to generate cash flow at or above current levels or that estimated cost savings or growth can be achieved. Future operating performance and our ability to service or refinance existing indebtedness will be subject to future economic conditions and to financial and other factors, such as access to first-run films, many of which are beyond our control. If our cash flow from operations and/or proceeds from anticipated borrowings should prove to be insufficient to meet our funding needs, our current intention is either:

- to defer construction of projects currently slated for land presently owned by us;

- to take on joint venture partners with respect to such development projects; and/or

- to sell assets.

Critical Accounting Policies

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

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

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tax valuation allowance and obligations; and

legal and environmental obligations.

We review long-lived assets, including goodwill and intangibles, for impairment as part of our annual budgeting process, in the fourth quarter, and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. We review internal management reports on a monthly basis as well as monitor current and potential future competition in film markets for indications of potential impairment. We evaluate our long-lived assets using historical and projected data of cash flow as our primary indicator of potential impairment and we take into consideration, the seasonality of our business. If the sum of the estimated future cash flows, undiscounted, were to be less than the carrying amount of the asset, then an impairment would be recognized for the amount by which the carrying value of the asset exceeds its estimated fair value based on a discounted cash flow calculation. Goodwill and intangible assets are evaluated on a reporting unit basis which is basically our business segments. The impairment evaluation is based on the present value of estimated future cash flows of the segment plus the expected terminal value. There are significant assumptions and estimates used in determining the future cash flows and terminal value. Accordingly, actual results could vary materially from such estimates. We had no impairment losses indicated or recorded for the year ended December 31, 2004.

We record our estimated future tax benefits and liabilities arising from the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards. We estimate the recoverability of any tax assets recorded on the balance sheet and provide any necessary allowances as required. As of December 31, 2004, we had recorded approximately $52,413,000 of deferred tax assets related to the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carry forwards and tax credit carry forwards. These deferred tax assets were fully offset by a valuation allowance in the same amount, resulting in a net deferred tax asset of zero. The recoverability of deferred tax assets is dependent upon our ability to generate future taxable income. There is no assurance that sufficient future taxable income will be generated to benefit from our tax loss carry forwards and tax credit carry forwards.

Due to our historical involvement in the railroad industry under RDGE, we have a number of former employees of RDGE claiming monetary compensation for hearing loss, black lung and other asbestos related illness suffered as a result of their past employment with RDGE. With respect to the personal injury claims, our insurance carrier generally pays approximately 98% of the claims and we do not believe that we have a significant exposure. However, we can give no assurance that such reimbursement will continue. In addition, we have an environmental contamination dispute with the City of Philadelphia that has been on going for some time. We intend to vigorously defend our position as we believe a complete disclosure about the property was made at the time we sold the property: however, no assurances can be given that we will prevail.

From time to time, we are involved with claims and lawsuits arising in the ordinary course of our business which may include contractual obligations; insurance claims; IRS claims; employment matters; and anti-trust issues, among other matters as fully discussed below under *Litigation*.

Financial Risk Management

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

After the Consolidation on December 31, 2001, we began recording unrealized foreign currency translation gains and losses. As our operational focus continues to shift to Australia and New Zealand, unrealized foreign currency translation gains and losses could materially affect our financial position. We currently manage our currency exposure by creating natural hedges in Australia and New Zealand. This involves local country sourcing of goods and services as well as borrowing in local currencies.

Our exposure to interest rate risk arises out of our long-term debt obligations. Consistent with our internally developed guidelines, we seek to reduce the negative effects of changes in interest rates by changing the character of the interest rate on our long-term debt, converting a fixed rate into a variable rate and vice versa. Our internal procedures allow us to enter into derivative contracts on certain borrowing transactions to achieve this goal. Our Australian credit facilities provide for floating interest rates but require that not less than a certain percentage of the loans be swapped into fixed rate obligations using the following derivative contracts:

Our Australian Corporate Credit Facility provides for floating interest rates, but requires that not less than 50% of the loan be swapped into fixed rate obligations. The facility allowed us to utilize the old swap that was in place from our previous facility, at 6.70%, through its term, and to swap up to 50% of the maximum credit facility immediately. As a result, at December 31, 2004, the floating rate portion, at 6.48% was $3.7 million (AUS$4.8 million); the old swap at 6.70% was $10.2 million (AUS$13.3 million); and the new swap, at 7.44% was $10.9 million (AUS$14.3 million). The old swap expires fully on December 31, 2007, at which time the full swap amount will be held under the new swap, which expires on December 31, 2008. We believe the interest rate and other terms of Our Australian Corporate Credit Facility to be customary for loans of this type in Australia and competitive. All interest rates above include a 1.00% interest rate margin.

The Australian construction/term facility of $25.2 million (AUS$32.7 million) provides for a floating rate of interest, but requires not less than 75% of the loan to be swapped into fixed rate obligations. At December 31, 2004, the fixed rate portion was at 7.18%. The current swap continues until May 31, 2006. The construction loan converts to a term loan on completion of the construction, and is interest only during the construction period and for the remaining years of the term loan expiring on January 1, 2009. All interest rates above include a 1.00% interest rate margin. As of 12/31/2004 there was no drawdown on the facility.

In accordance with SFAS No. 133, we marked our Australian interest swap instruments to market resulting in $91,000 (AUS$118,000) increase to interest expense during 2004 and an $80,000 (AUS$106,000) decrease in interest expense in 2003.

Inflation

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

Litigation

We are currently, and are from time to time, involved with claims and lawsuits arising in the ordinary course of our business. Some examples of the types of claims are:

- contractual obligations;
- insurance claims;
- IRS claims;
- employment matters; and
- anti-trust issues.

Where we are the plaintiffs, we expense all legal fees on an on-going basis and make no provision for any potential settlement amounts until received. In Australia, the prevailing party is entitled to recover its attorneys fees, which typically works out to be approximately 60% of the amounts actually spent where first class legal counsel is engaged at customary rates. Where we are a plaintiff, we have likewise made no provision for the liability for such attorneys in the event we were determined not to be the prevailing party.

Where we are the defendants, we accrue for probable damages, which may not be covered by insurance, as they become known and can be reasonably estimated. In our opinion, any claims and litigation in which we are currently involved are not reasonably likely to have a material adverse effect on our business, results of operations, financial position or liquidity. However, we do not give any assurance as to the ultimate outcome of such claims and litigation. The resolution of such claims and litigation could be material to our operating results for any particular period, depending on the level of income for such period.

Tax Audit

The Internal Revenue Service (the IRS) has completed its audits of the tax return of RDGE for its tax year ended December 31, 1996 and the tax return of CRG for its tax year ended June 30, 1997. With respect to both of these companies, the principal focus of these audits was the treatment of the contribution by RDGE to our wholly owned subsidiary, Reading Australia, and thereafter the subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the Stater Stock) received by RDGE from CRG as a part of a private placement of securities by RDGE which closed in October 1996.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of RDGE and CRG for the years in question (the Examination Reports). The Examination Report for each of RDGE and CRG proposed that the gains on the disposition by RDGE of Stater Stock, reported as taxable on the RDGE return, should be allocated to CRG. As reported, the gain resulted in no additional tax to RDGE inasmuch as the gain was entirely offset by a net operating loss carry forward of RDGE. This proposed change would result in an additional tax liability for CRG of approximately $21,850,000 plus interest of approximately $11,000,000 as of December 31, 2004. In addition, this proposal would result in California tax liability of approximately $5,500,000 plus interest of approximately $3,000,000 as of December 31, 2004. Accordingly, this proposed change represented, as at the end of 2004, an exposure of approximately $ 41,500,000. Moreover, California has recently enacted amnesty provisions imposing additional liability on taxpayers who are determined to have materially underreported their taxable income. While these provisions have been criticized by a number of corporate taxpayers to the extent that they apply to tax liabilities that are being contested in good faith, no assurances can be given that these new provisions will be applied in a manner that would mitigate the impact on such taxpayers. Accordingly, these provisions may cause an additional $4,000,000 exposure to CRG, for a total exposure of approximately $45,500,000.

In early February 2005, we had a mediation conference with the IRS concerning this proposed change. The mediation was conducted by two mediators, one of whom was selected by the taxpayer from the private sector and one of whom was an employee of the IRS. In connection with this mediation, we and the IRS each prepared written submissions to the mediators setting forth our respective cases. In its written submission, the IRS noted that it had offered to settle its claims against us at 30% of the proposed change, and reiterated this offer at the medication. This offer constituted, in effect, an offer to settle for a payment of $5,500,000 federal tax, plus interest, for an aggregate settlement amount of approximately $8,000,000. Based on advice of counsel given after reviewing the materials submitted by the IRS to the mediation panel, and the oral presentation made by the IRS to the mediation panel and the comments of the mediators (including the IRS mediator) we determined not to accept this offer.

We anticipate that we will shortly receive a notice of deficiency in the full amount of the IRS s proposed change, and we intend to aggressively litigate this matter in the tax court. While there are always risks in litigation, we believe that a settlement at the level currently offered by the IRS would substantially understate the strength of our position and the likelihood that we would prevail in a trial of this matter.

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

The IRS has also informally notified us that it intends to disallow the gains booked by RDGE in 1997 as a consequence of its acquisition certain computer equipment and sale of the anticipated income stream from the lease of such equipment to third parties. The result of such disallowance would be the loss of the depreciation deductions that we took with respect to that equipment in the years following 1997. Such disallowance would have the effect of decreasing net operating losses but would not result in any additional federal income tax for such years. We have advised the IRS that we intend to appeal this determination. In turn, such disallowance would increase our state tax exposure for those years by approximately $170,000. Since we offset the gain claimed in 1997 against then expiring net operating losses, the only impact of the IRS position at the federal level would be the refund to us of approximately $440,000 plus interest, representing the alternative minimum tax we paid to the IRS with respect to that transaction.

Environmental and Asbestos Claims

The City of Philadelphia (the City) has asserted that the North Viaduct property owned by a subsidiary of Reading requires environmental decontamination and that such subsidiary s share of any such remediation cost will aggregate approximately $3,500,000. The City has also asserted that we should demolish certain bridges and overpasses that comprise a portion of the North Viaduct. We have in the recent past had discussions with the City involving a possible conveyance of the property. However, these discussions have not produced any definitive offer or proposal from the City. We have also recently received an offer for the property from a firm specializing the in the acquisition and redevelopment of so called brown fields sites, indicating to us that the North Viaduct has value over and above costs of remediation. Accordingly, we continue to believe that our recorded remediation reserves related to the North Viaduct are adequate.

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 which 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. 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 rail road 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. To date, we have only had one such third party claim.

Whitehorse Center Litigation

On October 30, 2000, we commenced litigation in the Supreme Court of Victoria at Melbourne, Commercial and Equity Division, against our joint venture partner and the controlling stockholders of our joint venture partner in the Whitehorse Center. That action is entitled *Reading Entertainment Australia PTY, LTD vs. Burstone Victoria PTY, LTD and May Way Khor and David Frederick Burr*, and was brought to collect on a promissory note (the K/B Promissory Note) evidencing a loan that we made to Ms. Khor and Mr. Burr and that was guaranteed by Burstone Victoria PTY, LTD (Burstone). The defendants asserted certain set-offs and counterclaims, alleging, in essence, that we breached our alleged obligations to proceed with the development of the Whitehorse Shopping Center, causing the defendants substantial damages. Following trial, the trial court determined that we had breached certain obligations owed to WPG (the joint venture in which we own a 50% interest) but not any obligations owed to Ms. Khor, Mr. Burr or Burstone. Accordingly, due to a variety of factors, we have no direct liability to Ms. Khor, Mr. Burr or Burstone. Furthermore, it appears that any recovery that Ms. Khor, Mr. Burr and/or Burstone may obtain through WPG will be significantly less than their liability to us on the

loan. Accordingly, it appears that the net result, in the view of the trial court, is a net liability from Ms. Khor and Mr. Burr to us, before the assessment of attorneys fees.

Australia follows the so called English Rule that the prevailing party in an action is entitled to recoup attorney s fees. However, since (i) both parties to some extent prevailed in their claims, (ii) a number of the defenses and claims raised by Ms. Khor and Mr. Burr were struck down by the court or ultimately conceded at trial by Ms. Khor and Mr. Burr, and (iii) the standard for assessment of attorneys fees is different in an action on a promissory note providing for the assessment of attorneys fees (as did the K/B Promissory Note), in which case the court will typically assess attorneys fees at 100% of the amount billed, and the assessment of the amount of legal fees in the absence of such a contractual obligation, in which case the court will typically assess attorneys fees at approximately 66% of the amount billed, the amount of attorneys that Ms, Khor and Mr. Burr will be responsible to us for and the amount of legal fees that we will be responsible to Ms. Khor and Mr. Burr is uncertain, and currently awaits determination of this issue by the Trial Court.

We have retained a senior Queen s Counsel to conduct an independent review of the evidence submitted at trial and the trial court s opinion, and have been advice of such counsel, that in his opinion the trial court erred in a number of critical aspects, and that we should have no liability to WPG or any of the Burstone parties. Accordingly, we intend to appeal that part of the trial court s determination. Since Ms. Khor and Mr. Burr do not contest their liability under the K/B Promissory Note, and since we are advised that there is no right on the part of Ms, Khor and Mr. Burr to set off against their liability on the K/B Promissory Note their judgment against us pending appeal, we currently intend to pursue collection of the principal and interest owed on the K/B Promissory, and to pursue an appeal of the trial court s decision against us on the repudiation and damages issues.

Other Claims

We are not a party to any other pending legal proceedings or environmental action which we believe could have a material adverse effect on our financial position.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 153 Exchanges of Non-monetary Assets an amendment of APB Opinion No. 29 which amends Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement shall be effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R (revised 2004) *Share-Based Payment* which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services. This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, *Employers Accounting for Employee Stock Ownership Plans.* This statement is effective the beginning of the first interim or annual reporting period that begins after June 15, 2005. The adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In December 2003, the FASB issued Interpretation (FIN) No. 46R *Consolidation of Variable Interest Entities an interpretation of ARB No. 51(Issued 12/03).* This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, which replaces FASB Interpretation No. 46, Consolidation of Variable

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Interest Entities, addresses consolidation by business enterprises of variable interest entities, which have one or more of the following characteristics: (1) The equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support provided by any parties, including the equity holders; (2) The equity investors lack one or more of the following essential characteristics of a controlling financial interest: (a) the direct or indirect ability to make decisions about the entity s activities through voting rights or similar rights, (b) the obligation to absorb the expected losses of the entity, or (c) the right to receive the expected residual returns of the entity; or (3) The equity investors have voting rights that are not proportionate to their economic interests, and the activities of the entity involve or are conducted on behalf of an investor with a disproportionately small voting interest. As of December 31, 2003, we adopted the provisions of this interpretation, which did not have a material effect on our results of operations or financial condition.

Business Climate

Cinema Exhibition General

The film exhibition market in Australia and New Zealand is highly concentrated. Typically, the Major Exhibitors own the newer multiplex and mega-plex cinemas, while the independent exhibitors typically have older and smaller cinemas. Accordingly, we believe it likely that the Major Exhibitors may control upwards of 75% of the total cinema box office in Australia and New Zealand. Also, the Major Exhibitors have in recent periods built a number of new multiplexes as joint venture partners or under-shared facility arrangements, and have historically not engaged in head-to-head competition, except in the downtown areas of Sydney and Melbourne.

In recent years, the domestic cinema exhibition industry has gone through major retrenchment and consolidation, creating considerable uncertainty as to the direction of the domestic film exhibition industry, and our role in that industry. Several major cinema exhibition companies have gone through bankruptcy over the past five years, or have been otherwise financially restructured. Regal Cinemas emerged from bankruptcy and combined with Edwards and United Artists (which also went through bankruptcy) to create a circuit that has now grown to 6,273 screens, in 558 cinemas. Loews was recapitalized and grown to a circuit of 2,176 screens in 200 cinemas. Landmark Theaters, the largest art and specialty film exhibitor in the United States, has also emerged from bankruptcy and is now owned by a private company controlled by Mark Cuban (an individual with a reported personal net worth of $1.3 billion.) These companies, having used bankruptcy to restructure their debt and to rid themselves of burdensome leases and in some cases to consolidate, are now much stronger competitors than they were just a few years ago.

A significant number of older conventional screens have, as a result of this consolidation process, been taken out of the market. We estimate that the total domestic screen count has decreased from 37,396 in 2000 to 36,179 in 2004. Industry analysts project further consolidation in the industry, as players such as Cablevision seek to divest their domestic cinema exhibition assets. Accordingly, while we believe that recent developments may in some ways have aided the overall health of the domestic cinema exhibition industry, there remains considerable uncertainty as to the impact of this consolidation trend on us and our domestic cinema exhibition business, as we are forced to compete with these stronger and reinvigorated competitors and the significant market share commanded by these competitors.

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

Cinema Exhibition North America

In North America, distributors may find it more commercially appealing to deal with major exhibitors, rather than to deal with independents like us, which tends to suppress supply screens in a very limited number of markets. This competitive disadvantage has increased significantly in recent periods with the development of mega circuits like Regal and Loews, 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.

With the restructuring and consolidation recently undertaken in the industry, and the emergence of increasingly attractive in-home entertainment alternatives, it is unclear what the competitive future holds for our North American operations.

These recent consolidations in the industry have adversely affected our ability to get film in certain domestic markets where we compete against major exhibitors. We have been involved in litigation against Regal, Loews, and certain of the major film distributors in order to regain access to top-grossing first-run film in the Union Square area of Manhattan. While we have reached some settlements, litigation of this type is expensive, and no assurances can be given that our efforts will be successful. This litigation is ongoing and we can give you no assurances that we will prevail.

We believe that the reorganization and restructuring of the domestic cinema exhibition market may produce opportunities for us to grow our art and specialty circuit by acquiring, on favorable terms, rights to operate cinemas no longer seen as suitable or competitive as conventional first run film venues, or for other reasons no longer attractive to other exhibitors. We cannot assure you that such opportunities will evolve and we do not intend to aggressively pursue such opportunities. If such opportunities do not become available, we will focus on the operation of our existing cinemas and the exploitation of the real estate elements underlying those cinemas.

Cinema Exhibition Australia / New Zealand

The film exhibition industry in Australia and New Zealand is somewhat vertically integrated in that one of the Major Exhibitors, Roadshow Film Distributors, also serves as a distributor of film in Australia and New Zealand for Warner Bros. and New Line. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow.

In December 2002, the Major Exhibitors acquired Val Morgan, the principal lessee of screen advertising space in Australia and New Zealand. During 2003 and 2002, we received approximately $1,339,000 (AUS$1,681,000 and NZ$396,000) and $1,254,000 (AUS$1,942,000 and NZ$308,000) respectively from Val Morgan for screen advertising. Notwithstanding concerns expressed by us and other independent exhibitors to the Australian Consumer and Competition Commission (the ACCC) that such an arrangement would give the Major Exhibitors an unfair competitive advantage in the area of screen advertising, the ACCC ultimately approved the acquisition due to concerns that, but for the intervention of the Major Exhibitors, Val Morgan would fail. In 2004, Hoyts bought out the interests of Village and Greater Union in Val Morgan. Our contract with Val Morgan expired on July 1, 2003 and was renewed for Australia through September 2004 and has subsequently been renewed through September 2008. Our contract for New Zealand does not expire until March 2009. However, this New Zealand contract does not pertain to our Berkeley Cinemas or to the six cinemas we acquired from third parties in 2004. Under the terms approved by the ACCC, future net revenues are to be split 50/50 between Val Morgan and us for the advertising shown at our cinemas. However, we have no control over Val Morgan s costs. In light of the fact that Val Morgan was unable to operate profitably under its prior contracts with exhibitors, we believe that future revenues from screen advertising will continue to decrease and may ultimately be materially less, than the screen advertising revenue realized in 2003 and 2002. In 2004, we received approximately $1,149,000 (AUS$1,084,000 and NZ$416,000). The impact of the decline in screen advertising revenues is being mitigated to a certain extent at our parent company level due to the strengthening of the Australian and New Zealand dollars compared to the U.S. dollar in recent periods and a partial year of screen advertising revenue generated at our Movieland cinemas.

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Cinema Exhibition Puerto Rico

Based upon number of screens, box office revenues and number of theaters, we are the second largest exhibitor in Puerto Rico, with the two largest exhibitors accounting for over 99% of the box office revenues recorded in 2003, measured by theaters in daily operation. Competition among the theater exhibitors exists not only for theater patrons within certain geographic areas but also for the licensing of films and the development of new theater sites. The number of sites suitable for multiplex cinemas is limited, but our principal competitor is expected to continue to open theaters competitive with ours. Caribbean Cinemas, our principal competitor, currently operates screens representing approximately 81% of the total box office generated in Puerto Rico. We expect our percentage of that market to go down and our competitor s percentage of that market to go up, in light of recently opened screens.

Income Taxes

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

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

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

Forward-Looking Statements

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

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

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

With respect to our cinema operations:

- o The number and attractiveness to movie goers of the films released in future periods;
- o The amount of money spent by film distributors to promote their motion pictures;
- o The licensing fees and terms required by film distributors from motion picture exhibitors in order to exhibit their films;

- o The comparative attractiveness of motion pictures as a source of entertainment and willingness and/or ability of consumers (i) to spend their dollars on entertainment and (ii) to spend their entertainment dollars on movies in an outside the home environment; and

- o The extent to which we encounter competition from other cinema exhibitors, from other sources of outside of the home entertainment, and from inside the home entertainment options, such as home theaters and competitive film product distribution technology such as, by way of example, cable, satellite broadcast, DVD and VHS rentals and sales, and so called movies on demand;

With respect to our real estate development and operation activities:

- o The rental rates and capitalization rates applicable to the markets in which we operate and the quality of properties that we own;

- o The extent to which we can obtain on a timely basis the various land use approvals and entitlements needed to develop our properties;

- o The availability and cost of labor and materials;

- o Competition for development sites and tenants; and

- o The extent to which our cinemas can continue to serve as an anchor tenant which will, in turn, be influenced by the same factors as will influence generally the results of our cinema operations;

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

- o Our ongoing access to borrowed funds and capital and the interest that must be paid on that debt and the returns that must be paid on such capital;

- o The relative values of the currency used in the countries in which we operate;

- o Changes in government regulation, including by way of example, the costs resulting from the implementation of the requirements of Sarbanes Oxley;

- o Our labor relations and costs of labor (including future government requirements with respect to pension liabilities, disability insurance and health coverage, and vacations and leave);

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

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

- o Changes in applicable accounting policies and practices.

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

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

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

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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

READING INTERNATIONAL, INC.
(Registrant)

Date: December 22, 2005 By: /s/ Andrzej Matyczynski

Andrzej Matyczynski
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)