

READING INTERNATIONAL INC
Form 10-Q
August 08, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-8625

READING INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

95-3885184

(IRS Employer Identification No.)

500 Citadel Drive, Suite 300
Commerce CA

(Address of principal executive offices)

90040
(Zip Code)

Registrant's telephone number, including area code: (213) 235-2240

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes " No þ

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of August 6, 2007, there were 20,992,453 shares of Class A Nonvoting Common Stock, \$0.01 par value per share and 1,495,490 shares of Class B Voting Common Stock, \$0.01 par value per share outstanding.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

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Table of Contents**PART I – Financial Information****Item 1 – Financial Statements**

Reading International, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)
(U.S. dollars in thousands)

| | June 30, 2007 | December 31, 2006 |
|--|--------------------------|----------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 22,391 | \$ 11,008 |
| Receivables | 7,619 | 6,612 |
| Inventory | 529 | 606 |
| Investment in marketable securities | 15,653 | 8,436 |
| Restricted cash | 714 | 1,040 |
| Prepaid and other current assets | 3,002 | 2,589 |
| Total current assets | 49,908 | 30,291 |
| Land held for sale | 1,985 | -- |
| Property held for development | 1,721 | 1,598 |
| Property under development | 55,464 | 38,876 |
| Property & equipment, net | 179,939 | 170,667 |
| Investment in unconsolidated joint ventures and entities | 16,179 | 19,067 |
| Investment in Reading International Trust I | 1,547 | -- |
| Goodwill | 19,027 | 17,919 |
| Intangible assets, net | 8,038 | 7,954 |
| Other assets | 5,214 | 2,859 |
| Total assets | \$ 339,022 | \$ 289,231 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued liabilities | \$ 12,176 | \$ 13,539 |
| Film rent payable | 3,691 | 4,642 |
| Notes payable – current portion | 2,140 | 2,237 |
| Note payable to related party – current portion | 5,000 | 5,000 |
| Current tax liabilities | 4,376 | 9,128 |
| Deferred current revenue | 1,985 | 2,565 |
| Other current liabilities | 170 | 177 |
| Total current liabilities | 29,538 | 37,288 |
| Notes payable – long-term portion | 101,317 | 113,975 |
| Note payable to related parties | 9,000 | 9,000 |
| Subordinated debt | 51,547 | -- |
| Noncurrent tax liabilities | 4,954 | -- |
| Deferred non-current revenue | 532 | 528 |
| Other liabilities | 15,099 | 18,178 |
| Total liabilities | 211,987 | 178,969 |
| Commitments and contingencies | -- | -- |
| Minority interest in consolidated affiliates | 5,292 | 2,603 |

Stockholders' equity:

| | | |
|--|------------|------------|
| Class A Nonvoting Common Stock, par value \$0.01, 100,000,000 shares authorized, 35,495,729 issued and 20,992,453 outstanding at June 30, 2007 and 35,468,733 issued and 20,980,865 outstanding at December 31, 2006 | 216 | 216 |
| Class B Voting Common Stock, par value \$0.01, 20,000,000 shares authorized and 1,495,490 issued and outstanding at June 30, 2007 and December 31, 2006 | 15 | 15 |
| Nonvoting Preferred Stock, par value \$0.01, 12,000 shares authorized and no outstanding shares | -- | -- |
| Additional paid-in capital | 131,449 | 128,399 |
| Accumulated deficit | (49,579) | (50,058) |
| Treasury shares | (4,306) | (4,306) |
| Accumulated other comprehensive income | 43,948 | 33,393 |
| Total stockholders' equity | 121,743 | 107,659 |
| Total liabilities and stockholders' equity | \$ 339,022 | \$ 289,231 |

See accompanying notes to consolidated financial statements.

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Reading International, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)
(U.S. dollars in thousands, except per share amounts)

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenue | | | | |
| Cinema | \$ 26,034 | \$ 23,954 | \$ 50,540 | \$ 46,463 |
| Real estate | 4,105 | 2,824 | 7,575 | 5,515 |
| | 30,139 | 26,778 | 58,115 | 51,978 |
| Operating expense | | | | |
| Cinema | 19,931 | 18,004 | 38,051 | 35,144 |
| Real estate | 1,864 | 1,756 | 3,865 | 3,468 |
| Depreciation and amortization | 3,047 | 3,337 | 6,016 | 6,577 |
| General and administrative | 3,879 | 3,076 | 7,555 | 6,441 |
| | 28,721 | 26,173 | 55,487 | 51,630 |
| Operating income | 1,418 | 605 | 2,628 | 348 |
| Non-operating income (expense) | | | | |
| Interest income | 84 | 26 | 229 | 87 |
| Interest expense | (2,034) | (1,537) | (3,930) | (3,382) |
| Net gain (loss) on sale of assets | -- | -- | (185) | 3 |
| Other income (expense) | 465 | 1 | (271) | (1,157) |
| Loss before minority interest expense, income tax expense, and equity earnings of unconsolidated joint ventures and entities | (67) | (905) | (1,529) | (4,101) |
| Minority interest expense | (154) | (192) | (495) | (272) |
| Loss from continuing operations | (221) | (1,097) | (2,024) | (4,373) |
| Gain on sale of a discontinued operation | 1,912 | -- | 1,912 | -- |
| Income (loss) before income tax expense and equity earnings of unconsolidated joint ventures and entities | 1,691 | (1,097) | (112) | (4,373) |
| Income tax expense | (443) | (344) | (942) | (681) |
| Income (loss) before equity earnings of unconsolidated joint ventures and entities | 1,248 | (1,441) | (1,054) | (5,054) |
| Equity earnings of unconsolidated joint ventures and entities | 386 | 1,207 | 2,042 | 1,674 |
| Net income (loss) | \$ 1,634 | \$ (234) | \$ 988 | \$ (3,380) |
| Earnings (loss) per common share – basic and diluted: | | | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.01) | \$ (0.04) | \$ (0.15) |
| Earnings from discontinued operations | 0.08 | -- | 0.08 | -- |
| Basic and diluted earnings (loss) per share | \$ 0.07 | \$ (0.01) | \$ 0.04 | \$ (0.15) |
| Weighted average number of shares outstanding – basic and diluted | 22,487,943 | 22,413,995 | 22,485,480 | 22,431,834 |

See accompanying notes to consolidated financial statements.

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Reading International, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
(U.S. dollars in thousands)

| | Six Months Ended | |
|---|-------------------------|----------------|
| | June 30, | |
| | 2007 | 2006 |
| Operating Activities | | |
| Net income (loss) | \$ 988 | \$ (3,380) |
| <i>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</i> | | |
| (Gain) loss recognized on foreign currency transactions | (132) | 6 |
| Equity earnings of unconsolidated joint ventures and entities | (2,042) | (1,674) |
| Distributions of earnings from unconsolidated joint ventures and entities | 4,318 | 483 |
| Gain on sale of marketable securities | (224) | -- |
| Gain on sale of a discontinued operation | (1,912) | -- |
| Gain (loss) on disposal of assets | 185 | (3) |
| Loss on extinguishment of debt | 97 | -- |
| Depreciation and amortization | 6,016 | 6,577 |
| Stock based compensation expense | 539 | 45 |
| Minority interest | 495 | 272 |
| <i>Changes in operating assets and liabilities:</i> | | |
| Decrease (increase) in receivables | 1,617 | 1,062 |
| Increase in prepaid and other assets | (183) | (780) |
| Decrease in accounts payable and accrued expenses | (2,645) | (1,134) |
| Decrease in film rent payable | (1,167) | (220) |
| Increase in deferred revenues and other liabilities | 1,207 | 450 |
| Net cash provided by operating activities | 7,157 | 1,704 |
| Investing activities | | |
| Acquisitions | (11,768) | (3,689) |
| Purchase of property and equipment | (7,944) | (4,645) |
| Change in restricted cash | 326 | 193 |
| Investment in Reading International Trust I | (1,547) | -- |
| Distributions of investment in unconsolidated joint ventures and entities | 1,434 | -- |
| Investments in unconsolidated joint ventures and entities | -- | (1,800) |
| Purchase of marketable securities | (11,861) | (219) |
| Sale of marketable securities | 4,010 | -- |
| Net cash used in investing activities | (27,350) | (10,160) |
| Financing activities | | |
| Repayment of long-term borrowings | (43,539) | (2,907) |
| Proceeds from borrowings | 78,204 | 8,038 |
| Capitalized borrowing costs | (2,254) | -- |
| Option deposit received | -- | 3,000 |
| Proceeds from exercise of stock options | -- | 87 |
| Repurchase of Class A Nonvoting Common Stock | -- | (792) |
| Minority interest distributions | (838) | (1,489) |
| Net cash provided by financing activities | 31,573 | 5,937 |
| Effect of exchange rate changes on cash and cash equivalents | 3 | 86 |
| Increase (decrease) in cash and cash equivalents | 11,383 | (2,433) |

| | | |
|---|------------|----------|
| Cash and cash equivalents at beginning of period | 11,008 | 8,548 |
| Cash and cash equivalents at end of period | \$ 22,391 | \$ 6,115 |
| Supplemental Disclosures | | |
| Interest paid | \$ 5,208 | \$ 4,021 |
| Income taxes paid | \$ 123 | \$ 166 |
| Non-cash transactions | | |
| Increase (decrease) in cost basis of Cinemas 1, 2, & 3 related to the purchase price adjustment of the call option liability to related party | \$ (2,100) | \$ 1,037 |
| Adjustment to retained earnings related to adoption of FIN 48 (Note 10) | \$ 509 | \$ -- |
| Decrease in deposit payable and increase in minority interest liability related to the exercise of the Cinemas 1, 2 & 3 call option by a related party | \$ (3,000) | \$ -- |
| Decrease in call option liability and increase in additional paid in capital related to the exercise of the Cinemas 1, 2 & 3 call option by a related party | \$ (2,513) | \$ -- |
| Accrued construction-in-progress costs | \$ (2,440) | \$ -- |

See accompanying notes to consolidated financial statements.

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Reading International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
For the Six Months Ended June 30, 2007

Note 1 – Basis of Presentation

Reading International, Inc., a Nevada corporation (“RDI” and collectively with our consolidated subsidiaries and corporate predecessors, the “Company,” “Reading” and “we,” “us,” or “our”), was founded in 1983 as a Delaware corporation and reincorporated in 1999 in Nevada. Our businesses consist primarily of:

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

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission for interim reporting. As such, certain information and footnote disclosures typically required by US GAAP for complete financial statements have been condensed or omitted. There have been no material changes in the information disclosed in the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2006 (“2006 Annual Report”). The financial information presented in this quarterly report on Form 10-Q for the period ended June 30, 2007 (the “June Report”), including the information under the heading, Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with our 2006 Annual Report which contains the latest audited financial statements and related footnotes.

In the opinion of management, all adjustments of a normal recurring nature considered necessary to present fairly in all material respects our financial position, results of our operations and cash flows as of and for the three months and six months ended June 30, 2007 have been made. The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results of operations to be expected for the entire year.

Marketable Securities

We have investments in marketable securities of \$15.7 million at June 30, 2007. These investments are accounted for as available for sale investments in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “*Accounting for Certain Investments in Debt and Equity Securities.*” In accordance with the Financial Accounting Standards Board’s Emerging Issues Task Force (“EITF”) 03-1, “*The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,*” assessments of potential impairment for these investments are performed for each applicable reporting period. We have determined that there was no impairment for these investments at June 30, 2007. These investments have a cumulative unrealized gain of \$639,000 included in accumulated other comprehensive income at June 30, 2007. For the three months and six months ended June 30, 2007 our net unrealized gain on marketable securities was \$385,000 and \$738,000, respectively. During the three months ended June 30, 2007, we sold \$5.7 million of our marketable securities resulting in realized gain on sale of \$224,000.

Adjustments

Subsequent to the issuance of our June 30, 2006 consolidated financial statements, we determined that we had overstated our real estate revenue and cinema operating expense by \$1.2 million and \$1.9 million for the three and six months ended June 30, 2006, respectively, due to an error in the elimination of intercompany rental

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charges among our international subsidiaries. We have adjusted our consolidated statements of operations for the three and six months ended June 30, 2006 to correctly present consolidated real estate revenue and cinema operating expenses. The effects of the adjustment on our originally reported statements of operations are summarized below (dollars in thousands):

| | Three months ended June 30, 2006 | | Six months ended June 30, 2006 | |
|---------------------------|---|---------------------------|---|---------------------------|
| | Real Estate Revenue | Cinema Expense | Real Estate Revenue | Cinema Expense |
| As originally reported | \$ 4,007 | \$ 19,187 | \$ 7,435 | \$ 37,064 |
| Intercompany eliminations | (1,183) | (1,183) | (1,920) | (1,920) |
| As adjusted | \$ 2,824 | \$ 18,004 | \$ 5,515 | \$ 35,144 |

This adjustment had no impact on our operating income, on our losses from continuing operations, or on our net loss for the three and six months ended June 30, 2006. These adjustments were not material to the presentation of our consolidated financial statements for the three and six months ended June 30, 2006.

Changes in Accounting Policies

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 158, “*Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158)*.” SFAS No. 158 requires an employer to recognize the funded status of each pension and other postretirement benefit plan as an asset or liability on their balance sheet with all unrecognized amounts to be recorded in other comprehensive income. SFAS No. 158 also ultimately requires an employer to measure the funded status of a plan as of the date of the employer’s fiscal year-end statement of financial position. As required, we adopted the provisions of SFAS No. 158 and initially applied it to the funded status of our defined benefit pension plan as of March 1, 2007 (the inception date of the pension plan). The adoption of SFAS No. 158 had no effect on net earnings or cash flows.

New Accounting Pronouncements*Statement of Financial Accounting Standards No. 159*

In February 2007, the FASB issued SFAS No. 159 - *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. The provisions of SFAS 159 are effective at the beginning of each reporting entity’s first fiscal year that begins after November 15, 2007. If adopted, we do not anticipate the application of this pronouncement will have a material impact on our results of operations or financial condition.

Statement of Financial Accounting Standards No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal

years beginning after November 15, 2007. We do not anticipate the

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application of this pronouncement will have a material impact on our results of operations or financial condition.

FASB Interpretation No. 48

In June 2006, the FASB issued FASB Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*” (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “*Accounting for Income Taxes.*” FIN 48 prescribes rules for financial statement recognition and measurement of a tax positions taken or expected to be taken in a tax return. We adopted FIN 48 on January 1, 2007. As a result, we recognized a \$509,000 cumulative increase to reserves for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of accumulated deficit in 2007. Overall, we had approximately \$12.5 million of gross tax benefits unrecognized on the financial statements as of the date of adoption.

Note 2 – Stock-Based CompensationStock Based Compensation

As part of his compensation package, Mr. John Hunter, our Chief Operating Officer, was granted \$100,000 of restricted Class A Non-Voting Common Stock on February 12, 2007. This stock grant has a vesting period of two years and a stock grant exercise price of \$8.63. During the three months and six months ended June 30, 2007, we recorded compensation expense of \$59,000 and \$119,000, respectively, for the vesting of all our restricted stock grants. The following table details the grants and vesting of restricted stock to our employees (dollars in thousands):

| | Non-Vested Restricted Stock | Weighted Average Share Price |
|---------------------------------|--|---|
| Outstanding – December 31, 2006 | 46,313 | \$ 8.10 |
| Granted | 11,587 | \$ 8.63 |
| Outstanding – June 30, 2007 | 57,900 | \$ 8.20 |

We have formed two new wholly owned subsidiaries, Landplan Property Partners, Pty Ltd and Landplan Property Partners New Zealand, Ltd collectively referred to as Landplan Property Partners (“LPP”), to engage in the real estate development business under the leadership of Mr. Doug Osborne. We have an agreement with Mr. Osborne pursuant to which he has a contingent interest in certain property trusts, owned by LPP, ranging between 27.5% and 15%, depending on a number of factors including the amount and duration of the investments of LPP. Mr. Osborne’s interest is subordinated to (i) the repayment of all third party indebtedness, (ii) the repayment of all funds invested or advanced by Reading, and (iii) the realization by Reading of an 11% annual compounded preferred return on its capital. Based on SFAS 123(R), we have calculated the fair value of Mr. Osborne’s interest for book purposes at \$171,000 with respect to property acquired by LPP in the first quarter. During the three and six months ended June 30, 2007, we expensed \$57,000 and \$97,000, respectively, associated with Mr. Osborne’s interests. At June 30, 2006, the total unrecognized compensation expense related to the LPP equity awards was \$138,000, which is expected to be recognized over the remaining weighted average period of approximately 12 months.

Table of ContentsEmployee/Director Stock Option Plan

We have a long-term incentive stock option plan that provides for the grant to eligible employees and non-employee directors of incentive stock options and non-qualified stock options to purchase shares of the Company's Class A Nonvoting Common Stock.

When the Company's tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. SFAS 123(R) requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the three months ended June 30, 2007 and 2006, there was no impact to the consolidated statement of cash flows because there were no recognized tax benefits from stock option exercises during these periods.

SFAS No. 123(R) requires companies to estimate forfeitures. Based on our historical experience and the relative market price to strike price of the options, we do not currently estimate any forfeitures of vested or unvested options.

In accordance with SFAS No. 123(R), we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility, and the expected life of the options. The dividend yield is excluded from the calculation, as it is our present intention to retain all earnings. We expense the estimated grant date fair values of options issued on a straight-line basis over the vesting period.

We granted 231,250 and 301,250 of options during the three and six months ended June 30, 2007, respectively. Of these options, 70,000 were granted to our directors as fully vested options during the six months ended June 30, 2007. Also, there were 20,000 options granted to our employees during the three and six months ended June 30, 2006. We estimated the fair value of these options at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2007 | 2006 |
|-----------------------------|------------------|-------------|
| Stock option exercise price | \$8.35 - \$10.30 | \$8.10 |
| Risk-free interest rate | 4.636 - 4.824% | 4.220% |
| Expected dividend yield | -- | -- |
| Expected option life | 9.60 - 9.96 yrs | 9.66 yrs |
| Expected volatility | 33.64 - 33.74% | 34.70% |
| Weighted average fair value | \$4.42 - \$4.82 | \$4.33 |

Using the above assumptions and in accordance with the SFAS No. 123(R) modified prospective method, we recorded \$92,000 and \$418,000 in compensation expense for the total estimated grant date fair value of stock options that vested during the three and six months ended June 30, 2007, respectively. We also recorded \$25,000 and \$45,000 in compensation expense for the total estimated grant date fair value of stock options that vested during the three and six months ended June 30, 2006, respectively. At June 30, 2007, the total unrecognized estimated compensation cost related to non-vested stock options granted was \$1.0 million, which is expected to be recognized over a weighted average vesting period of 1.44 years. We recorded cash received from stock options exercised of \$88,000 for the six months ended June 30, 2006 and the total realized value of these exercised stock options was \$131,000. No options were exercised during the three or six months ended June 30, 2007 or during the three months ended June 30, 2006; therefore, no cash was received from the exercising of stock options and no value was realized from the exercise of options during those periods. Except for the 70,000 fully vested options granted to our directors during the first quarter, only 5,000 options vested during the three and six months ended June 30, 2007; therefore, the grant date fair value of options vesting during the three and six months ended June 30, 2007 was \$41,000. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at June 30, 2007 was \$2.3 million of which 98.9% are

currently exercisable.

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All stock options granted have a contractual life of 10 years at the grant date. The aggregate total number of shares of Class A Nonvoting Common Stock and Class B Voting Common Stock authorized for issuance under our 1999 Stock Option Plan is 1,293,400. At the time that options are exercised, at the discretion of management, we will either issue treasury shares or make a new issuance of shares to the employee or board member. Dependent on the grant letter to the employee or board member, the required service period for option vesting is between zero and four years.

We had the following stock options outstanding and exercisable as of June 30, 2007 and December 31, 2006:

| | Common Stock Options Outstanding | | Weighted Average Exercise Price of Options Outstanding | | Common Stock Exercisable Options | | Weighted Average Price of Exercisable Options | |
|----------------------------------|--|-----------|---|----------|--|---------|--|---------|
| | Class A | Class B | Class A | Class B | Class A | Class B | Class A | Class B |
| | | | | | | | | |
| Outstanding-January 1, 2006 | 521,100 | 185,100 | \$ 5.00 | \$ 9.90 | 474,600 | 185,100 | \$ 5.04 | \$ 9.90 |
| Exercised | (27,000) | -- | \$ 3.22 | \$ -- | | | | |
| Granted | 20,000 | -- | \$ 8.10 | \$ -- | | | | |
| Outstanding-December 31, 2006 | 514,100 | 185,100 | \$ 5.21 | \$ 9.90 | 488,475 | 185,100 | \$ 5.06 | \$ 9.90 |
| Granted | 151,250 | 150,000 | \$ 9.37 | \$ 10.24 | | | | |
| Expired | (81,250) | (150,000) | \$ 10.25 | \$ 10.24 | | | | |
| Outstanding-June 30, 2007 | 584,100 | 185,100 | \$ 5.59 | \$ 9.90 | 482,225 | 35,100 | \$ 4.70 | \$ 8.47 |

The weighted average remaining contractual life of all options outstanding, vested and expected to vest, at June 30, 2007 and December 31, 2006 was approximately 6.72 and 3.60 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at June 30, 2007 and December 31, 2006 was approximately 5.24 and 3.39 years, respectively.

Note 3 – Business Segments

Our operations are organized into two reportable business segments within the meaning of SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Our reportable segments are (1) cinema exhibition and (2) real estate. The cinema segment is engaged in the development, ownership, and operation of multiplex cinemas. The real estate segment is engaged in the development, ownership, and operation of commercial properties, including ETRC's in Australia and New Zealand and live theatres in the United States. Historically, our development projects have included a cinema component. Incident to our real estate operations we have acquired, and continue to hold, raw land in urban and suburban centers in Australia and New Zealand.

Effective the fourth quarter of 2006, we changed the presentation of our segment reporting such that our intersegment revenues and expenses are reported separately from our segments' operating activity. The effect of this change is to include intercompany rent revenues and rent expenses into their respective cinema and real estate business segments. The revenues and expenses for the six months ending June 30, 2006 have been adjusted to conform to the current year presentation. We believe that this presentation more accurately portrays how our operating decision makers' view the operations, how they assess segment performance, and how they make decisions about allocating resources to the segments.

The tables below summarize the results of operations for each of our principal business segments for the three ("2007 Quarter") and six ("2007 Six Months") months ended June 30, 2007 and the three ("2006 Quarter") and six ("2006 Six Months") months ended December 31, 2006.

Months") months ended June 30, 2006, respectively. Operating expenses include costs associated with the day-to-day operations of the cinemas and live theatres and the management of rental properties.

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All operating results from discontinued operations are included in “Loss from discontinued operations” (dollars in thousands):

| Three months ended June 30, 2007 | Cinema | Real Estate | Intersegment Eliminations | Total |
|---|---------------|--------------------|----------------------------------|--------------|
| Revenue | \$ 26,034 | \$ 5,564 | \$ (1,459) | \$ 30,139 |
| Operating expense | 21,390 | 1,864 | (1,459) | 21,795 |
| Depreciation & amortization | 1,798 | 1,108 | -- | 2,906 |
| General & administrative expense | 761 | 271 | -- | 1,032 |
| Segment operating income | \$ 2,085 | \$ 2,321 | \$ -- | \$ 4,406 |

| Three months ended June 30, 2006 | Cinema | Real Estate | Intersegment Eliminations | Total |
|---|---------------|--------------------|----------------------------------|--------------|
| Revenue ¹ | \$ 23,954 | \$ 4,164 | \$ (1,340) | \$ 26,778 |
| Operating expense ¹ | 19,344 | 1,756 | (1,340) | 19,760 |
| Depreciation & amortization | 2,271 | 999 | -- | 3,270 |
| General & administrative expense | 732 | 312 | -- | 1,044 |
| Segment operating income | \$ 1,607 | \$ 1,097 | \$ -- | \$ 2,704 |

| Reconciliation to consolidated net loss: | 2007 Quarter | 2006 Quarter |
|---|---------------------|---------------------|
| Total segment operating income | \$ 4,406 | \$ 2,704 |
| Non-segment: | | |
| Depreciation and amortization expense | 141 | 67 |
| General and administrative expense | 2,847 | 2,032 |
| Operating income | 1,418 | 605 |
| Interest expense, net | (1,950) | (1,511) |
| Other income | 465 | 1 |
| Minority interest | (154) | (192) |
| Gain on sale of a discontinued operation | 1,912 | -- |
| Income tax expense | (443) | (344) |
| Equity earnings of unconsolidated joint ventures and entities | 386 | 1,207 |
| Net income (loss) | \$ 1,634 | \$ (234) |

| Six months ended June 30, 2007 | Cinema | Real Estate | Intersegment Eliminations | Total |
|---------------------------------------|---------------|--------------------|----------------------------------|--------------|
| Revenue | \$ 50,540 | \$ 10,405 | \$ (2,830) | \$ 58,115 |
| Operating expense | 40,881 | 3,865 | (2,830) | 41,916 |
| Depreciation & amortization | 3,592 | 2,146 | -- | 5,738 |
| General & administrative expense | 1,525 | 457 | -- | 1,982 |
| Segment operating income | \$ 4,542 | \$ 3,937 | \$ -- | \$ 8,479 |

¹ For the three months ended June 30, 2006, the real estate revenues and cinema operating expenses have been adjusted from the amounts previously reported. See Note 1 – *Basis of Presentation*.

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| Six months ended June 30, 2006 | Cinema | Real Estate | Intersegment Eliminations | Total |
|---------------------------------------|---------------|--------------------|----------------------------------|--------------|
| Revenue ² | \$ 46,463 | \$ 8,164 | \$ (2,649) | \$ 51,978 |
| Operating expense ² | 37,793 | 3,468 | (2,649) | 38,612 |
| Depreciation & amortization | 4,355 | 2,019 | -- | 6,374 |
| General & administrative expense | 1,899 | 412 | -- | 2,311 |
| Segment operating income | \$ 2,416 | \$ 2,265 | \$ -- | \$ 4,681 |

| Reconciliation to consolidated net loss: | 2007 Six Months | 2006 Six Months |
|---|------------------------|------------------------|
| Total segment operating income | \$ 8,479 | \$ 4,681 |
| Non-segment: | | |
| Depreciation and amortization expense | 278 | 203 |
| General and administrative expense | 5,573 | 4,130 |
| Operating income | 2,628 | 348 |
| Interest expense, net | (3,701) | (3,295) |
| Other income (expense) | (456) | (1,154) |
| Minority interest | (495) | (272) |
| Gain on sale of a discontinued operation | 1,912 | -- |
| Income tax expense | (942) | (681) |
| Equity earnings of unconsolidated joint ventures and entities | 2,042 | 1,674 |
| Net income (loss) | \$ 988 | \$ (3,380) |

Note 4 – Operations in Foreign Currency

We have significant assets in Australia and New Zealand. To the extent possible, we conduct our Australian and New Zealand operations on a self-funding basis. The carrying value of our Australian and New Zealand assets fluctuate due to changes in the exchange rates between the US dollar and the functional currency of Australia (Australian dollar) and New Zealand (New Zealand dollar). We have no derivative financial instruments to hedge foreign currency exposure.

Presented in the table below are the currency exchange rates for Australia and New Zealand as of June 30, 2007 and December 31, 2006:

| | US Dollar | |
|--------------------|----------------------|--------------------------|
| | June 30, 2007 | December 31, 2006 |
| Australian Dollar | \$ 0.8491 | \$ 0.7884 |
| New Zealand Dollar | \$ 0.7730 | \$ 0.7046 |

Note 5 – Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net income (loss) to common stockholders by the weighted average number of common shares outstanding during the period after giving effect to all potentially dilutive common shares that would have

² For the six months ended June 30, 2006, the real estate revenues and cinema operating expenses have been adjusted from the amounts previously reported. See Note 1 – *Basis of Presentation*.

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been outstanding if the dilutive common shares had been issued. Stock options give rise to potentially dilutive common shares. In accordance with SFAS No. 128, "Earnings Per Share" these shares are included in the dilutive loss per share calculation under the treasury stock method. The following is a calculation of earnings (loss) per share (dollars in thousands, except share data):

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Loss from continuing operations | \$ (278) | \$ (234) | \$ (924) | \$ (3,380) |
| Gain on sale of a discontinued operation | 1,912 | -- | 1,912 | -- |
| Net income (loss) | \$ 1,634 | \$ (234) | \$ 988 | \$ (3,380) |
| Earnings (loss) per common share – basic: | | | | |
| Loss from continuing operations | \$ (0.01) | \$ (0.01) | \$ (0.04) | \$ (0.15) |
| Gain on sale of a discontinued operation | 0.08 | -- | 0.08 | -- |
| Basic earnings (loss) per share | \$ 0.07 | \$ (0.01) | \$ 0.04 | \$ (0.15) |
| Weighted average common stock – basic and diluted | 22,487,943 | 22,413,995 | 22,485,480 | 22,431,834 |

For the three and six months ended June 30, 2007 and 2006, we recorded losses from continuing operations. As such, the incremental shares of 262,428 and 204,055 in 2007 and 2006 from stock options to purchase shares of common stock were excluded from the computation of diluted loss per share because they were anti-dilutive in those periods.

Note 6 - Property Under Development and Property and Equipment

As of June 30, 2007 and December 31, 2006, we owned property under development summarized as follows (dollars in thousands):

| | June 30, 2007 | December 31, 2006 |
|---|------------------|-------------------------|
| Property Under Development | | |
| Land | \$ 35,975 | \$ 30,296 |
| Construction-in-progress (including capitalized interest) | 19,489 | 8,580 |
| Property Under Development | \$ 55,464 | \$ 38,876 |

We recorded capitalized interest related to our properties under development for the three months ended June 30, 2007 and 2006 of \$900,000 and \$354,000, respectively, and \$2.0 million and \$705,000 for six months ended June 30, 2007 and 2006, respectively.

Incident to the development of our Burwood property, in late 2006, we began various fill and earth moving operations. In late February 2007, it became apparent that our cost estimates with respect to site preparation were low, as the extent of the contaminated soil present at the site – a former brickworks – was greater than we had originally believed. Our previous estimated cost of \$500 million included the approximately \$1.4 million (AUS\$1.8 million) of estimated cost to remove the contaminated soil. As we were not the source of this contamination, we are not currently under any legal obligation to remove this contaminated soil from the site. However, as a practical matter we intend to address these issues in connection with our planned redevelopment of the site as a mixed-use retail, entertainment, commercial and residential complex. As of June 30, 2007, we estimate that the total site preparation costs associated with the removal of this contaminated soil will be \$7.5 million (AUS\$8.9 million) and as of that date we had incurred a total of \$4.1 million (AUS\$4.8 million) of these costs. In accordance with EITF 90-8 *Capitalization of Costs to Treat Environmental*

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Contamination, contamination clean up costs that improve the property from its original acquisition state are capitalized as part of the property's overall development costs.

As of June 30, 2007 and December 31, 2006, we owned investments in property and equipment as follows (dollars in thousands):

| | June 30, 2007 | December 31, 2006 |
|------------------------------------|-------------------|-------------------------|
| Property and equipment | | |
| Land | \$ 57,766 | \$ 56,830 |
| Building | 111,928 | 99,285 |
| Leasehold interest | 11,770 | 11,138 |
| Construction-in-progress | 651 | 425 |
| Fixtures and equipment | 62,796 | 58,164 |
| | 244,911 | 225,842 |
| Less accumulated depreciation | (64,972) | (55,175) |
| Property and equipment, net | \$ 179,939 | \$ 170,667 |

Depreciation expense for property and equipment was \$2.8 million and \$3.1 million for the three months ended June 30, 2007 and 2006, respectively, and \$5.5 million and \$6.2 million for the six months ended June 30, 2007 and 2006, respectively.

Note 7 – Investments in Unconsolidated Joint Ventures and Entities

Except as noted below regarding our investment in Malulani Investments, Limited, investments in unconsolidated joint ventures and entities are accounted for under the equity method of accounting, and, as of June 30, 2007 and December 31, 2006, include the following (dollars in thousands):

| | Interest | June 30, 2007 | December 31, 2006 |
|--|----------|------------------|----------------------|
| Malulani Investments, Ltd. | 18.4% | \$ 1,800 | \$ 1,800 |
| Rialto Distribution | 33.3% | 953 | 782 |
| Rialto Cinemas | 50.0% | 6,131 | 5,608 |
| 205-209 East 57 th Street Associates, LLC | 25.0% | 1,761 | 5,557 |
| Mt. Gravatt Cinema | 33.3% | 4,888 | 4,713 |
| Berkeley Cinemas – Botany | 50.0% | 646 | 607 |
| Total | | \$ 16,179 | \$ 19,067 |

For the three months and six months ended June 30, 2007 and 2006, we recorded our share of equity earnings (loss) from our investments in unconsolidated joint ventures and entities as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|-------|------------------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| Malulani Investments, Ltd. | \$ -- | \$ -- | \$ -- | \$ -- |
| Rialto Distribution | 63 | (22) | 88 | (22) |
| Rialto Cinemas | 3 | -- | (20) | -- |
| 205-209 East 57 th Street Associates, LLC | 39 | 918 | 1,349 | 918 |
| Mt. Gravatt Cinema | 211 | 97 | 427 | 285 |

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| | | | | |
|----------------------------------|--------|----------|----------|----------|
| Berkeley Cinemas – Group & Palms | -- | 196 | -- | 278 |
| Berkeley Cinema – Botany | 70 | 18 | 198 | 215 |
| | \$ 386 | \$ 1,207 | \$ 2,042 | \$ 1,674 |

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We continue to treat this investment on a cost basis by recognizing earnings as they are distributed to us.

205-209 East 57th Street Associates, LLC

During 2007, this joint venture has been in the process of completing the development of a predominately-residential condominium complex in midtown Manhattan called Place 57. During the three and six months ending June 30, 2007, the partnership closed on the sale of one and seven of its remaining eight residential condominiums resulting in gross sales of \$2.3 million and \$22.6 million, respectively, which resulted in equity earnings from unconsolidated joint ventures and entities to us of \$39,000 and \$1.3 million, respectively. One remaining residential condominium is under contract to be sold and the retail condominium is still available to be sold. The condensed statement of operations for 205-209 East 57th Street Associates, LLC (Unaudited) is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net revenue | \$ 2,347 | \$ 15,820 | \$ 22,597 | \$ 15,820 |
| Operating expense | 2,193 | 12,146 | 16,832 | 12,146 |
| Net income | \$ 154 | \$ 3,674 | \$ 5,765 | \$ 3,674 |

Note 8 – Goodwill and Intangible Assets

Subsequent to January 1, 2002, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill. Instead, we perform an annual impairment review of our goodwill and other intangible assets in the fourth quarter unless changes in circumstances indicate that an asset may be impaired. As of June 30, 2007 and December 31, 2006, we had goodwill consisting of the following (dollars in thousands):

| | Cinema | Real Estate | Total |
|---|-----------|-------------|-----------|
| Balance as of January 1, 2007 | \$ 12,713 | \$ 5,206 | \$ 17,919 |
| Foreign currency translation adjustment | 1,036 | 72 | 1,108 |
| Balance at June 30, 2007 | \$ 13,749 | \$ 5,278 | \$ 19,027 |

We have intangible assets other than goodwill that are subject to amortization and are being amortized over various periods. We amortize our beneficial leases over the lease period, the longest of which is 20 years, and our option fee and other intangible assets over 10 years. For the three months ended June 30, 2007 and 2006, amortization expense totaled \$248,000 and \$218,000, respectively; and for the six months ended June 30, 2007 and 2006, amortization expense totaled \$475,000 and \$414,000, respectively.

Intangible assets subject to amortization consist of the following (dollars in thousands):

| As of June 30, 2007 | Beneficial | | Other | Total |
|--------------------------------|------------|------------|-------------------|-----------|
| | Leases | Option Fee | Intangible Assets | |
| Gross carrying amount | \$ 11,523 | \$ 2,773 | \$ 239 | \$ 14,535 |
| Less: Accumulated amortization | 4,000 | 2,474 | 23 | 6,497 |
| Total, net | \$ 7,523 | \$ 299 | \$ 216 | \$ 8,038 |

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| As of December 31, 2006 | Beneficial Leases | Option Fee | Other Intangible Assets | Total |
|--------------------------------|------------------------------|-------------------|--|--------------|
| Gross carrying amount | \$ 10,984 | \$ 2,773 | \$ 219 | \$ 13,976 |
| Less: Accumulated amortization | 3,577 | 2,426 | 19 | 6,022 |
| Total, net | \$ 7,407 | \$ 347 | \$ 200 | \$ 7,954 |

Note 9 – Prepaid and Other Assets

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

| | June 30, 2007 | December 31, 2006 |
|--|--------------------------|----------------------------------|
| Prepaid and other current assets | | |
| Prepaid expenses | \$ 880 | \$ 1,214 |
| Prepaid taxes | 551 | 552 |
| Deposits | 1,053 | 534 |
| Other | 518 | 289 |
| Total prepaid and other current assets | \$ 3,002 | \$ 2,589 |
| Other non-current assets | | |
| Other non-cinema and non-rental real estate assets | \$ 1,270 | \$ 1,270 |
| Deferred financing costs, net | 2,923 | 898 |
| Interest rate swaps | 317 | 206 |
| Other | 704 | 485 |
| Total non-current assets | \$ 5,214 | \$ 2,859 |

Note 10 – Income Tax

The income tax provision for the three months and six months ended June 30, 2007 and 2006 was composed of the following amounts (dollars in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|--|-------------|--------------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Foreign income tax provision | \$ 73 | \$ 30 | \$ 160 | \$ 59 |
| Foreign withholding tax | 172 | 137 | 312 | 273 |
| Federal tax provision | 128 | 128 | 255 | 255 |
| Other income tax | 70 | 49 | 215 | 94 |
| Net tax provision | \$ 443 | \$ 344 | \$ 942 | \$ 681 |

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109” (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes.” FIN 48 prescribes rules for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return.

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The incremental effects of applying FIN 48 on line items in the accompanying consolidated balance sheet at January 1, 2007 was as follows (dollars in thousands):

| | Before Application of FIN 48 on January 1, 2007 | FIN 48 Adjustments as of January 1, 2007 | After Application of FIN 48 on January 1, 2007 |
|----------------------------|--|---|---|
| Current tax liabilities | \$ 9,128 | \$ (4,000) | \$ 5,128 |
| Noncurrent tax liabilities | \$ -- | \$ 4,509 | \$ 4,509 |
| Accumulated deficit | \$ (50,058) | \$ (509) | \$ (50,567) |

We adopted FIN 48 on January 1, 2007. As a result, we recognized a \$509,000 cumulative increase to reserves for uncertain tax positions, which was accounted for as an adjustment to the beginning balance of accumulated deficit in 2007. As of that date, we also reclassified approximately \$4.0 million in reserves from current taxes liabilities to noncurrent tax liabilities. We had approximately \$12.5 million of gross tax benefits unrecognized on the financial statements as of the date of adoption, mostly reflecting operating loss carry forwards and the IRS litigation matter described below. Of the \$12.5 million total gross unrecognized tax benefits at January 1, 2007, \$4.5 million would impact the effective tax rate if recognized. The remaining balance consists of items that would not impact the effective tax rate due to the existence of the valuation allowance. We recorded an increase to our gross unrecognized tax benefits of approximately \$390,000 during the period January 1, 2007 to June 30, 2007, and the total balance at June 30, 2007 was approximately \$12.9 million.

Interest and/or penalty related to income tax matters are recorded as part of income tax expense. Of the total reserve for uncertain tax positions as of the date of adoption, approximately \$1.7 million represented accrued interest and penalties. Approximately \$370,000 of additional interest and penalties were accrued for the period January 1, 2007 to June 30, 2007, mostly related to the IRS assessment described below.

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

Generally, changes to our federal and most state income tax returns for the calendar year 2002 and earlier are barred by statutes of limitations. Certain domestic subsidiaries filed federal and state tax returns for periods before these entities became consolidated with us. These subsidiaries were examined by IRS for the years 1996 to 1999 and significant tax deficiencies were assessed for those years. We are contesting these deficiencies in Tax Court. Our income tax returns of Australia filed since inception in 1995 are currently open for examination. The income tax returns filed in New Zealand and Puerto Rico for calendar year 2002 and afterward are also currently open for examination.

We do not anticipate that within 12 months following June 30, 2007 our total unrecognized tax benefits will change significantly because of settlement of audits and expiration of statutes of limitations.

Table of Contents**Note 11 – Notes Payable**

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

| Name of Note Payable or Security | Interest Rates as of | | Maturity Date | Balance as of | |
|---|-----------------------------|--------------------------|----------------------|----------------------|--------------------------|
| | June 30, 2007 | December 31, 2006 | | June 30, 2007 | December 31, 2006 |
| Australian Corporate Credit Facility | 7.34% | 7.33% | January 1, 2009 | \$ 73,023 | \$ 70,516 |
| Australian Shopping Center Loans | -- | -- | 2007-2013 | 1,099 | 1,147 |
| Euro-Hypo Loan | 6.73% | -- | July 1, 2012 | 15,000 | -- |
| New Zealand Corporate Credit Facility | 9.50% | 9.15% | November 23, 2010 | 5,179 | 35,230 |
| Trust Preferred Securities | 9.22% | -- | April 30, 2027 | 51,547 | -- |
| US Sutton Hill Capital Note 1 – Related Party | 9.69% | 9.69% | July 28, 2007 | 5,000 | 5,000 |
| US Royal George Theatre Term Loan | 7.86% | 7.86% | November 29, 2007 | 1,736 | 1,819 |
| US Sutton Hill Capital Note 2 – Related Party | | | | | |