

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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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 Compensation

Stock 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