READING INTERNATIONAL INC
Form 10-K
March 18, 2019
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2018 or

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

For the transition period from _______ to ______

Commission File No. 1-8625

READING INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| NEVADA | 95-3885184 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 5995 Sepulveda Boulevard, Suite 300 | |
| Culver City, CA | 90230 |

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for shorter period than the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K of any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of June 29, 2018 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates based on the closing price on that date as reported by the Nasdaq Stock Market was $383,954,817. As of March 15, 2019, there were 21,240,044 shares of class A non-voting common stock, par value $0.01 per share and 1,680,590 shares of class B voting common stock, par value $0.01 per share, outstanding.

Documents Incorporated by Reference

Portion of the registrant's definitive Proxy Statement for the 2019 annual meeting of the stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 31, 2018 are incorporated by reference into Part III of this Annual Report on Form 10-K.

READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

YEAR ENDED DECEMBER 31, 2018

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The information in this Annual Report on Form 10-K for the year ended December 31, 2018 ("2018 Form 10-K" or “2018 Annual Report”) contains certain forward-looking statements, including statements related to trends in the Company's business. The Company's actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include those discussed in "Item 1 – Our Business," "Item 1A – Risk Factors," and "Item 7 – Management's Discussions and Analysis of Financial Condition and Results of Operations" as well as those discussed elsewhere in this 2018 Form 10-K.

# PART I

## Item 1 – Our Business

### GENERAL

Reading International, Inc. (“RDI” and collectively with our consolidated subsidiaries and corporate predecessors, the “Company,” “Reading”, “we,” “us,” or “our”) was incorporated in 1999 incident to our reincorporation in the State of Nevada. Our class A non-voting common stock (“Class A Stock”) and class B voting common stock (“Class B Stock”) are listed for trading on the NASDAQ Capital Market (Nasdaq-CM) under the symbols RDI and RDIB, respectively. Our Corporate Headquarters is located in the Silicon Beach area of Los Angeles County, at 5995 Sepulveda Blvd, Suite 300, Culver City, California, United States 90230.

Our corporate website address is www.ReadingRDI.com. We provide, free of charge on our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we have electronically filed such material with or furnished it to the Securities and Exchange Commission (www.sec.gov). The contents of our Company website are not incorporated into this report. Our corporate governance charters for our Audit and Conflicts Committee and Compensation and Stock Options Committee are available on our website.

### BUSINESS DESCRIPTION

#### Synergistic Diversification and Branding

We are a diversified company focused on the development, ownership and operation of entertainment and real property assets in three jurisdictions: (i) United States (“U.S.”), (ii) Australia, and (iii) New Zealand. We group our businesses in two (2) operating segments:

- Theatrical Motion Picture Exhibition ("Cinema Exhibition"), through our 59 cinemas as of December 31, 2018, and,
- Real Estate, including real estate development and the rental or licensing of retail, commercial and live theater assets comprising some 22,101,800 square feet of land and approximately 879,000 square feet of net rentable area.

Set forth below is a brief description of the various brands under which we organize our business operations:

| Business Segment / Unit | Our Commercial Brands | Country | Description | Website Link |
|---|---|---|---|---|
| Cinema Exhibition / All Countries | | United States, Australia, New Zealand | Our Reading Cinemas tradename is derived from our over 180 year history as the "Reading Railroad" featured on the Monopoly game board. Under this brand, we deliver beyond-the-home entertainment (principally mainstream movies and alternative content and attendant food and beverage) across our three operating jurisdictions. All our cinemas are equipped with the latest state-of-the-art digital equipment, and 19 Reading Cinemas feature at least one TITAN LUXE, TITAN XC or IMAX premium auditorium. | Reading Cinemas US<br><br>Reading Cinemas AU<br><br>Reading Cinemas NZ |
| | | United States | Since its opening in 1989, our New York City Angelika Film Center has and consistently continues to be one of the most popular and influential arthouse cinemas in the U.S., featuring principally independent and foreign films. To date, we have expanded our Angelika Film Center Group to include 5 other Angelikas: two in the Dallas area, two in the Washington DC area and one in San Diego, CA. We are actively looking for more locations. | Angelika Film Center |
| | | United States | In 2017, our Consolidated Theatres celebrated 100 years of providing cinematic entertainment in the state of Hawaii. We are the oldest and largest circuit in Hawaii with 9 cinemas on the islands of Oahu and Maui, including our new state-of-the-art 8-screen concept cinema: Olino by Consolidated Theatres in West Oahu. | Consolidated Theatres |

| Business Segment / Unit | Our Commercial Brands | Country | Description | Description |
|---|---|---|---|---|
| | | United States | Our City Cinemas circuit, which consists of five cinemas in the Manhattan area of New York City features an eclectic mix of programming, from mainstream blockbusters to independent films. | City Cinemas |
| Real Estate / Leasing | | United States | Our 44 Union Square property – the historic Tammany Hall, located overlooking Union Square in New York City -- is currently in the final stages of a complete re-development. We are currently in exclusive lease negotiations for long term leases with respect to approximately 90% of the net rentable area of the building and, while no assurances can be given, it is currently anticipated that our base building will be ready for tenant improvement work before the end of the second quarter of this year. | 44 Union Square |
| | | Australia | Located on 203,287 square feet of land in suburban Brisbane, the center is currently comprised of approximately 146,905 square feet of net rentable area and is 98% leased. At the end of 2017, we completed a major expansion that added a new 8-screen Reading Cinemas with TITAN LUXE, an additional 10,150 square feet (943m2) of restaurant tenant space and 124 parking spaces. | Newmarket Village |
| | | Australia | Anchored by a 10-screen Reading Cinemas, Auburn/Redyard is an outdoor retail center located in a suburb of Sydney. The center is currently comprised of approximately 519,992 square feet of land and 75,492 square feet of net rentable area, serviced by a 727 space subterranean parking garage, and is 83% leased. In 2018, we added to the center approximately 20,870 square foot of land currently improved with a 16,830 square foot office building, rented to Telstra through July 2022, and over the past two years have added an additional 15,000 rentable square feet of fully leased restaurant and retail space. | Auburn/Redyard |
| | | Australia | Anchored by a six-screen Reading Cinemas, Cannon Park is located in Townsville, Australia, and is currently comprised of 245,266 square feet of land and 104,744 square feet of net rentable area, which is currently 85% leased. We are working on plans to add approximately 13,100 square feet of net rentable area to the center. | Cannon Park Townsville |
| | | Australia | Anchored by a 10-screen Reading Cinema and four F&B or retail tenancies, the Belmont Common is located in Perth, Australia, and is currently comprised of 103,204 square feet of land and 59,395 square feet of net rentable area, which is currently 96% leased. | The Belmont Common |

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|---|---|---|---|
| | New Zealand | Located in the heart of Wellington – New Zealand's capital city – this center is comprised of 161,071 square feet of land situated proximate to the Te Papa Tongarewa Museum (attracting over 1.5 million visitors annually), across the street from the site of Wellington's newly announced convention center (estimated to open its doors in 2022) and at a major public transit hub. Damage from the 2016 earthquake necessitated demolition of our nine-story parking garage at the site, and unrelated seismic issues have caused us to close portions of the existing cinema and retail structure while we reevaluate the center for redevelopment as an entertainment themed urban center with a major food and grocery component. | Courtenay Central |
| | | Wellington continues to be rated as one of the top cities in the world in which to live, and we continue to believe that the Courtenay Central site is located in one of the most vibrant and growing commercial and entertainment sections of Wellington. | |
| Real Estate / Live Theatre | United States | We continue to operate three (3) off-Broadway live theatres, one (1) in Chicago and two (2) in Manhattan, New York, under the Liberty Theatres tradename. In 2018, we entered into a license with Audible, a subsidiary of Amazon, pursuant to which our Minetta Lane Theatre serves as Audible's live theatre home in New York City. | Liberty Theatres |

We synergistically bring together cinema based entertainment and real estate and believe that these two business segments complement one another, as our cinemas have historically provided the steady cash flows that allow us to be opportunistic in acquiring and holding real estate assets (including non-income producing land) and support our real estate development activities. Our real estate allows us to develop an asset base that we believe will stand the test of time and one that is capable of providing financial leverage. More specifically, the combination of these two segments provides a variety of business advantages including the following:

- Cinema Anchor Tenancy. Cinemas can be used as anchors for larger retail developments (referred to as entertainment-themed centers, or "ETCs"), and our involvement in the cinema business can give us an advantage over other real estate developers or redevelopers who must identify and negotiate with third party anchor tenants. We have used cinemas to create our own anchors at our five (5) ETCs.
- Reduced Pressure to Deliver Cinema Business Growth. Pure cinema operators can encounter financial difficulty as demands upon them to produce cinema-based earnings growth tempt them into reinvesting their cash flow into increasingly marginal cinema sites, overpaying for existing cinemas or entering into high-rent leases. While we believe that there will continue to be attractive opportunities to acquire cinema assets and/or to develop upper-end specialty type theaters in the future, we do not feel pressure to build or acquire cinemas for the sake of adding units or building gross cinema revenues. This

strategy has, over the years, allowed us to acquire cinemas at multiples of trailing theater cash flow below those paid by third parties in recent acquisitions. We intend to focus our use of cash flow on our real estate development and operating activities, to the extent that attractive cinema opportunities are not available to us or that such funds are not needed for reinvestment to maintain our cinemas in a competitive position. In 2018, we invested approximately $24.0 million in the upgrading and repositioning of our historic cinema assets or adding new cinemas, and approximately $30.7 million in the acquisition or development of our non-cinema real estate assets.

· Flexibility in Property Use. We are always open to the idea of converting an entertainment property to another use, if there is a higher and better use for the property, or to sell individual assets if an attractive opportunity presents itself. Our Union Square property, which is in the final stages of redevelopment was initially acquired as an entertainment property.

Insofar as we are aware, we are the only publicly traded company in the world to apply this two-track, synergistic approach to the cinema and real estate development businesses on an international basis. None of the major cinema exhibition companies (other than Marcus Theatres) have any material landholdings as they operate predominantly on a leased-facility model.

Business Mix and Impact of Foreign Currency Fluctuations

We have worked to maintain a balance both between our cinema and real estate assets and between our U.S. and our Australian and New Zealand assets. In 2018, we invested approximately $40.6 million in our U.S. assets: $23.4 million for the development of our real estate assets (principally construction of our Union Square property) and $17.2 million for the improvements of our cinema assets (principally upgrading our offerings at our existing cinemas). We invested approximately $12.3 million in our Australian assets: $6.4 million for the development of our real estate assets (principally at our Auburn (Sydney) shopping centers), and $6.0 million for the development of our cinema assets (principally renovations of our cinemas at Auburn, Elizabeth, and Charlestown and the upgrade of certain other cinemas). We invested approximately $1.8 million in our New Zealand assets: $1.0 million for the development of real estate assets (principally towards the redevelopment of our Courtenay Central assets), and approximately $817,000 for the development of cinema assets (principally upgrades).

As shown in the chart set forth the International Business Risks section below, exchange rates for the currencies of these jurisdictions have varied, sometimes materially. These ratios naturally have an impact on our revenues and asset values, which are reported in USD. Notwithstanding these fluctuations, we continue to believe that, over the long term, operating in Australia and New Zealand is a prudent diversification of risk. Australia has been identified by the United Nations as among the Top 10 countries in the World in terms of natural resources per person. Deutsche Bank has twice named Wellington the best place in the world to live. In 2013, the Organization for Economic Co-operation and Development rated Australia as the best place to live and work in the world. In our view, the economies of Australian and New Zealand are stable economies and their lifestyles support our entertainment/lifestyle focus.

At December 31, 2018, the book value of our assets was $439.0 million, and, as of that same date, we had a consolidated stockholders' book equity of $180.5 million. Calculated based on book value, $138.9 million, or 32% of our assets, relate to our cinema exhibition activities and $263.8 million, or 60%, of our assets, relate to our real estate activities.

For additional segment financial information, please see Note 1 – Description of Business and Segment Reporting to our 2018 consolidated financial statements.

We have diversified our assets among three countries: the United States, Australia, and New Zealand. Based on book value, at December 31, 2018, we had approximately 50% of our assets in the United States, 36% in Australia and 14% in New Zealand compared to 45%, 40%, and 15% respectively, at the end of 2017. This increase in U.S. assets is principally due to our investments in the redevelopment of Union Square and the upgrades to our domestic cinema assets, as well as the continued strengthening of the U.S. dollar compared to the Australian and the New Zealand dollar.

At December 31, 2018, we had cash and cash equivalents of $13.1 million, which are treated as a corporate assets. Our cash included $7.6 million denominated in U.S. dollars, $3.5 million (AU $4.9 million) in Australian dollars, and $2.0 million (NZ$3.0 million) in New Zealand dollars. We had total worldwide non-current assets of $408.7 million, distributed as follows: $203.8 million in the United States, $147.4 million (AU$209.2 million) in Australia and $57.5 million (NZ$85.7 million) in New Zealand. We had $55.6 unused capacity of available and unrestricted corporate credit facilities at December 31, 2018.

For 2018, our gross revenues in the United States, Australia, and New Zealand were $165.8 million, $111.7 million, and $31.9 million, respectively, compared to $143.8 million, $106.5 million, and $29.7 million for 2017. All three countries posted revenue increases in 2018 as a result of higher cinema attendance in all three of our circuits.

CINEMA EXHIBITION

Overall

We are dedicated to creating engaging cinema experiences for our guests through hospitality-styled comfort and service, cinematic presentation, uniquely designed venues, curated film and event programming, and crafted food and beverage options. As discussed previously, we manage our worldwide cinema exhibition business under various brands.

Shown in the following table are the number of locations and theatre screens in our theatre circuit in each country, by state/territory/ region and indicating our cinema brands and our interest in the underlying asset as of December 31, 2018: