READING INTERNATIONAL INC
Form 10-Q
May 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2012

OR

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

For the transition period from ___________ to ___________

Commission file 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.)
6100 Center Drive, Suite 900 Los Angeles, CA (Address of principal executive offices)	90045 (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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ 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 þ 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 May 8, 2012, there were 21,507,273 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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PART 1 - Financial Information

Item 1 - Financial Statements
Reading International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(U.S. dollars in thousands)

	March 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$29,097	$31,597
Receivables	6,391	6,973
Inventory	769	1,035
Investment in marketable securities	45	2,874
Restricted cash	2,404	2,379
Deferred tax asset	3,560	1,985
Prepaid and other current assets	6,091	3,781
Assets held for sale	--	1,848
Total current assets	48,357	52,472
Property held for and under development	99,203	91,698
Property & equipment, net	215,523	215,428
Investment in unconsolidated joint ventures and entities	7,766	7,839
Investment in Reading International Trust I	838	838
Goodwill	22,805	22,277
Intangible assets, net	17,417	17,999
Deferred tax asset, net	10,171	12,399
Other assets	9,444	9,814
Total assets	$431,524	$430,764
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	$16,071	$16,905
Film rent payable	6,225	6,162
Notes payable – current portion	29,888	29,630
Taxes payable	14,235	14,858
Deferred current revenue	9,147	10,271
Other current liabilities	172	137
Total current liabilities	75,738	77,963
Notes payable – long-term portion	140,661	143,071
Notes payable to related party – long-term portion	9,000	9,000
Subordinated debt	27,913	27,913
Noncurrent tax liabilities	11,293	12,191

Other liabilities	35,045	35,639
Total liabilities	299,650	305,777
Commitments and contingencies (Note 19)		
Stockholders' equity:		
Class A non-voting common stock, par value $0.01, 100,000,000 shares authorized, 31,887,536 issued and 21,507,273 outstanding at March 31, 2012 and 31,675,518 issued and 21,311,348 outstanding at December 31, 2011	220	220
Class B voting common stock, par value $0.01, 20,000,000 shares authorized and 1,495,490 issued and outstanding at March 31, 2012 and at December 31, 2011	15	15
Nonvoting preferred stock, par value $0.01, 12,000 shares authorized and no issued or outstanding shares at March 31, 2011 and December 31, 2011	--	--
Additional paid-in capital	135,351	135,171
Accumulated deficit	(66,318)	(66,079)
Treasury shares	(4,512)	(4,512)
Accumulated other comprehensive income	62,993	58,937
Total Reading International, Inc. stockholders' equity	127,749	123,752
Noncontrolling interests	4,125	1,235
Total stockholders' equity	131,874	124,987
Total liabilities and stockholders' equity	$431,524	$430,764

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Operating revenue		
Cinema	$57,402	$49,473
Real estate	5,250	4,769
Total operating revenue	62,652	54,242
Operating expense		
Cinema	46,333	41,473
Real estate	2,795	2,431
Depreciation and amortization	4,197	4,129
General and administrative	4,420	4,235
Total operating expense	57,745	52,268
Operating income	4,907	1,974
Interest income	201	433
Interest expense	(3,960)	(4,363)
Other expense	(45)	(19)
Income (loss) before income tax expense and equity earnings of unconsolidated joint ventures and entities	1,103	(1,975)
Income tax expense	(1,625)	(636)
Loss before equity earnings of unconsolidated joint ventures and entities	(522)	(2,611)
Equity earnings of unconsolidated joint ventures and entities	413	364
Net loss	$(109)	$(2,247)
Net income attributable to noncontrolling interests	(130)	(233)
Net loss attributable to Reading International, Inc. common shareholders	$(239)	$(2,480)
Basic and diluted loss per share attributable to Reading International, Inc. shareholders	$(0.01)	$(0.11)
Weighted average number of shares outstanding – basic	22,710,713	22,709,672
Weighted average number of shares outstanding – diluted	22,710,713	22,709,672

See accompanying notes to consolidated financial statements.

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Reading International, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(U.S. dollars in thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net loss	$(109)	$(2,247)
Foreign currency translation gain	3,997	2,656
Realized (gain) loss on available for sale investments	(111)	--
Unrealized gain (loss) on available for sale investments	99	325
Amortization of pension prior service costs	76	82
Comprehensive income	3,952	816
Net income attributable to noncontrolling interest	(130)	(233)
Comprehensive income attributable to noncontrolling interest	(5)	(7)
Comprehensive income attributable to Reading International, Inc.	$3,817	$576

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
Operating Activities		
Net loss	$(109)	$(2,247)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss recognized on foreign currency transactions	(1)	(3)
Equity earnings of unconsolidated joint ventures and entities	(413)	(364)
Distributions of earnings from unconsolidated joint ventures and entities	642	57
Change in valuation allowance on net deferred tax assets	831	--
Gain on sale of marketable securities	(111)	--
Depreciation and amortization	4,197	4,129
Amortization of prior service costs	76	82
Amortization of above and below market leases	102	312
Amortization of deferred financing costs	335	351
Amortization of straight-line rent	190	257
Stock based compensation expense	80	47
Changes in assets and liabilities:		
Decrease in receivables	667	1,299
(Increase) decrease in prepaid and other assets	(196)	201
Decrease in accounts payable and accrued expenses	(755)	(1,558)
Increase (decrease) in film rent payable	14	(1,424)
Increase (decrease) in taxes payable	(1,557)	451
Decrease in deferred revenue and other liabilities	(1,767)	(1,139)
Net cash provided by operating activities	2,225	451
Investing Activities		
Acquisition of property	(5,510)	--
Acquisition deposit paid	--	181
Purchases of and additions to property and equipment	(1,054)	(1,534)
Change in restricted cash	16	(85)
Purchase of notes receivable	(1,800)	(2,784)
Sale of marketable securities	2,974	--
Proceeds from sale of property	1,903	--
Net cash used in investing activities	(3,471)	(4,222)
Financing Activities		
Repayment of long-term borrowings	(4,329)	(5,518)
Proceeds from borrowings	--	1,133
Proceeds from the exercise of stock options	100	--
Noncontrolling interest contributions	2,500	--
Noncontrolling interest distributions	--	(141)
Net cash used in financing activities	(1,729)	(4,526)
Effect of exchange rate on cash	475	562
Decrease in cash and cash equivalents	(2,500)	(7,735)
Cash and cash equivalents at the beginning of the period	31,597	34,568
Cash and cash equivalents at the end of the period	$29,097	$26,833

Supplemental Disclosures		
Cash paid during the period for:		
Interest on borrowings, net of amounts capitalized	$3,910	$4,328
Income taxes	$2,571	$250
Non-Cash Transactions		
Foreclosure of a mortgage note to obtain title of the underlying property	--	1,125
Noncontrolling interest contribution from bonus accrual	255	--

See accompanying notes to consolidated financial statements.

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Reading International, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
For the Three Months Ended March 31, 2012

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 corporati 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.

The accompanying unaudited condensed 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 ("SEC") for interim reporting. As such, certain information and disclosures typically required by US GAAP for complete financial statements have been condensed or omitted. The financial information presented in this quarterly report on Form 10-Q for the period ended March 31, 2012 (the "March Report") should be read in conjunction with our Annual Report filed on Form 10-K for the year ended December 31, 2011 (our "2011 Annual Report") which contains the latest audited financial statements and related notes. The periods presented in this document are the three ("2012 Quarter") months ended March 31, 2012 and the three ("2011 Quarter") months ended March 31, 2011.

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 ended March 31, 2012 and 2011 have been made. The results of operations for the three months ended March 31, 2012 and 2011 are not necessarily indicative of the results of operations to be expected for the entire year.

Liquidity Requirements

Cinemas 1, 2, 3 Term Loan

As our Cinemas 1, 2, 3 loan is due to mature on July 1, 2012, the March 31, 2012 outstanding balance of this debt of $15.0 million is classified as current on our balance sheet. We intend to either refinance the property's debt with similar financing or a bridge loan until we have secured an agreement to sell the property.

Tax Settlement Liability

As indicated in our 2011 Annual Report, in accordance with the agreement between the U.S. Internal Revenue Service and our subsidiary, Craig Corporation, we are obligated to pay $290,000 per month, $3.5 million per year, in settlement for our tax liability for tax year ending June 30, 1997.

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For the abovementioned liabilities, we believe that we have sufficient borrowing capacity under our various credit facilities, together with our $29.1 million cash balance, to meet our anticipated short-term working capital requirements for the next twelve months.

Marketable Securities

We had investments in marketable securities of $45,000 and $2.9 million at March 31, 2012 and December 31, 2011, respectively. We account for these investments as available for sale investments. We assess our investment in marketable securities for other-than-temporary impairments in accordance with Accounting Standards Codification (“ASC”) 320-10 for each applicable reporting period. These investments have a cumulative loss of $1,000 and $11,000 included in accumulated other comprehensive income at March 31, 2012 and December 31, 2011, respectively. For the three months ended March 31, 2012, our net unrealized loss on marketable securities was $12,000. For the three months ended March 31, 2011, our net unrealized loss on marketable securities was $325,000. During the three months ended March 31, 2012, we sold $3.0 million of our marketable securities with a realized gain of $111,000.

Deferred Leasing Costs

We amortize direct costs incurred in connection with obtaining tenants over the respective term of the lease on a straight-line basis.

Deferred Financing Costs

We amortize direct costs incurred in connection with obtaining financing over the term of the loan using the effective interest method, or the straight-line method, if the result is not materially different. In addition, interest on loans with increasing interest rates and scheduled principal pre-payments, is also recognized using the effective interest method.

Accounting Pronouncements Adopted During 2012

FASB ASU No. 2011-05 - Comprehensive Income (Topic 220): Presentation of Comprehensive Income

ASU No. 2011-05 requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. This amendment is effective for our Company in 2012 and will be applied retrospectively. This amendment changes the manner in which the Company presents comprehensive income but will not change any of the balances or activity.

FASB ASU No. 2011-08 - Intangibles—Goodwill and Other

ASU No. 2011-08 relates to a change in the annual test of goodwill for impairment. The statement permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This amendment is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This amendment changes the manner in which the Company performs its goodwill impairment test.

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New Accounting Pronouncements

No new pronouncements were made pertaining to our Company's accounting during the 2012 Quarter.

Note 2 – Equity and Stock Based Compensation

Stock-Based Compensation

During the three months ended March 31, 2012 and 2011, we issued 155,925 and 174,825, respectively, of Class A Nonvoting shares to certain executive employees associated with the vesting of their prior years' stock grants. During the three months ended March 31, 2012 and 2011, we accrued $238,000 and $188,000, respectively, in compensation expense associated with the vesting of executive employee stock grants.

Employee/Director Stock Option Plan

We have a long-term incentive stock option plan that provides for the grant to eligible employees, directors, and consultants of incentive or nonstatutory options to purchase shares of our Class A Nonvoting Common Stock and Class B Voting Common Stock. Our 1999 Stock Option Plan expired in November 2009, and was replaced by our new 2010 Stock Incentive Plan, which was approved by the holders of our Class B Voting Common Stock in May 2010.

When the Company's tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. FASB ASC 718-20 relating to Stock-Based Compensation ("FASB ASC 718-20"), 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 March 31, 2012 and 2011, there was no impact to the unaudited condensed consolidated statement of cash flows because there were no recognized tax benefits from stock option exercises during these periods.

FASB ASC 718-20 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 FASB ASC 718-20, 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. As we intend to retain all earnings, we exclude the dividend yield from the calculation. We expense the estimated grant date fair values of options issued on a straight-line basis over the vesting period.

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For the 20,000 options granted during 2012, 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:

	2012
Stock option exercise price	$4.44
Risk-free interest rate	1.830%
Expected dividend yield	--
Expected option life	10 yrs
Expected volatility	31.88%
Weighted average fair value	$1.96

We did not grant any options during the three months ended March 31, 2011.

Based on prior years' assumptions, and, in accordance with the FASB ASC 718-20, we recorded compensation expense for the total estimated grant date fair value of stock options that vested of $80,000 for the three months ended March 31, 2012 and $47,000 for the three months ended March 31, 2011. At March 31, 2012, the total unrecognized estimated compensation cost related to non-vested stock options granted was $109,000, which we expect to recognize over a weighted average vesting period of 0.67 years. 40,000 options were exercised during the three months ended March 31, 2012 having a realized value of $179,000 for which we received $100,000 of cash. There were no options exercised during the three months ended March 31, 2011. The grant date fair value of options vesting during the three months ended March 31, 2012 and 2011 was $80,000 and $47,000, respectively. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at March 31, 2012 was $248,000 of which 81.7% are currently exercisable.

Pursuant to both our 1999 Stock Option Plan and our 2010 Stock Incentive Plan, all stock options expire within ten years of their 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 2010 Stock Incentive Plan is 1,250,000. At the discretion of our Compensation and Stock Options Committee, the vesting period of stock options is usually between zero and four years.

We had the following stock options outstanding and exercisable as of March 31, 2012 and December 31, 2011:

	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, 2011	622,350	185,100	$5.65	$9.90	449,750	150,000	$6.22	$10.24
No activity during the period	--	--	$--	$--				
Outstanding-December 31, 2011	622,350	185,100	$5.65	$9.90	544,383	167,550	$5.86	$10.05
Granted	20,000	--	$4.44	$--				
Exercised	(40,000)	--	$2.50	$--				
Outstanding-March 31, 2012	602,350	185,100	$5.82	$9.90	524,383	167,550	$6.06	$10.05

The weighted average remaining contractual life of all options outstanding, vested, and expected to vest at March 31, 2012 and December 31, 2011 was approximately 4.22 and 4.13 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at March 31, 2012 and December 31, 2011 was approximately 3.99 and 3.85 years, respectively.

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Note 3 – Business Segments

We organize our operations into two reportable business segments within the meaning of FASB ASC 280-10 - Segment Reporting. Our reportable segments are (1) cinema exhibition and (2) real estate. The cinema exhibition 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. 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.

The tables below summarize the results of operations for each of our principal business segments for the three months ended March 31, 2012 and 2011, respectively. Operating expense includes costs associated with the day-to-day operations of the cinemas and the management of rental properties including our live theater assets (dollars in thousands):

Three Months Ended March 31, 2012	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	$57,402	$7,132	$ (1,882)	$62,652
Operating expense	48,215	2,795	(1,882)	49,128
Depreciation & amortization	2,830	1,228		