

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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): **February 22, 2008**

READING INTERNATIONAL, INC.
(Exact Name of Registrant as Specified in its Charter)

Nevada
(State or Other Jurisdiction of Incorporation)

1-8625

(Commission File Number)

95-3885184

(I.R.S. Employer Identification No.)

**500 Citadel Drive
Suite 300
Commerce, California**

(Address of Principal Executive Offices)

90040

(Zip Code)

(213) 235-2240
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425).
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12).
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b)).
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c)).
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This Amendment No. 1 ("Amendment") amends the Current Report on Form 8-K of Reading International, Inc., ("we," "us," or the "Company") filed with the Securities and Exchange Commission on February 27, 2008 (the "Report") to include the financial statements and pro forma financial information required by Item 9.01 of Form 8-K relating to our acquisition of fifteen motion picture exhibition theaters and theater-related assets from Pacific Theatres Exhibition Corp. and its affiliates, Consolidated Amusement Theatres, Inc. and Kenmore Rohnert, LLC. The information reported in our original Form 8-K is incorporated by reference into this Amendment.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

Combined audited financial statements required by Item 9.01(a) of Form 8-K for Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates) (referred to hereafter as the "Business Unit" or "Acquired Circuit") as of June 28, 2007 and June 29, 2006 and for the years ended June 28, 2007, June 29, 2006, and June 30, 2005 are filed as Exhibit 99.1 to this Amendment and are incorporated by reference.

(b) Pro Forma Financial Information.

Unaudited pro forma consolidated balance sheet as of December 31, 2007 and unaudited pro forma consolidated statement of operations for the year ended December 31, 2007 are attached as Exhibit 99.3 to this Amendment and incorporated by reference.

(c) Exhibits.

23.1 Consent of Independent Auditors

99.1 Combined audited financial statements of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates)

99.2 Unaudited combined condensed financial statements of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates)

99.3 Unaudited pro forma consolidated financial statements

Signature

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

READING INTERNATIONAL, INC.

By: /s/ Andrzej Matyczynski
Andrzej Matyczynski
Chief Financial Officer

Dated: May 7, 2008

EXHIBIT INDEX

| Exhibit No. | Description |
|--------------------|---|
| 23.1 | Consent of Independent Auditors |
| 99.1 | Combined audited financial statements of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates) |
| 99.2 | Unaudited condensed combined financial statements of Pacific Theatres Full Circuit Business (a Business Unit of Pacific Theatres Entertainment Corporation and Certain of its Affiliates) |
| 99.3 | Unaudited pro forma consolidated financial statements |

CONSENT OF INDEPENDENT AUDITORS

The Board of Directors
Pacific Theatres Entertainment Corporation:

We consent to the incorporation by reference in the registration statement No. 333-36277 on Form S-8 of Reading International, Inc. of our report dated March 10, 2008, with respect to the combined balance sheets of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates) as of June 28, 2007 and June 29, 2006, and the related combined statements of operations, business unit equity, and cash flows for each of the years in the three-year period ended June 28, 2007, which report appears in the Form 8-K/A of Reading International, Inc. dated May 7, 2008.

(Signed) KPMG LLP

Los Angeles, California
May 7, 2008

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(a Business Unit of Pacific Theatres Entertainment Corporation and Certain of its Affiliates)

Audited Combined Financial Statements
As of June 28, 2007 and June 29 2006
And for the years ended June 28, 2007, June 29, 2006, and June 30, 2005

Independent Auditors' Report

Combined Balance Sheets — June 28, 2007 and June 29 2006

Combined Statements of Operations — Years Ended June 28, 2007, June 29, 2006, and June 30, 2005

Combined Statements of Business Unit's Equity — Years Ended June 28, 2007, June 29, 2006, and June 30, 2005

Combined Statements of Cash Flows — Years Ended June 28, 2007, June 29, 2006, and June 30, 2005

Notes to Combined Financial Statements

Independent Auditors' Report

The Board of Directors

Pacific Theatres Entertainment Corporation:

We have audited the accompanying combined balance sheets of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates) (the "Business Unit") as of June 28, 2007 and June 29, 2006, and the related combined statements of operations, business unit equity, and cash flows for each of the years in the three-year period ended June 28, 2007. These combined financial statements are the responsibility of the Business Unit's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Business Unit's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates) as of June 28, 2007 and June 29, 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended June 28, 2007 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

March 10, 2008
Los Angeles, California

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Combined Balance Sheets

June 28, 2007 and June 29, 2006

| Assets | 2007 | 2006 |
|---|----------------------|----------------------|
| Current assets: | | |
| Cash | \$ 87,311 | \$ 86,417 |
| Receivables, net | 631,399 | 718,512 |
| Inventory | 271,982 | 254,033 |
| Deferred income taxes | 142,852 | 179,453 |
| Prepaid and other current assets | 1,558,011 | 1,390,767 |
| Total current assets | 2,691,555 | 2,629,182 |
| Deferred income taxes | 12,777,619 | 12,145,800 |
| Property, equipment, and improvements, net | 32,569,420 | 35,275,919 |
| Other assets | 532,733 | 389,586 |
| Total assets | <u>\$ 48,571,327</u> | <u>\$ 50,440,487</u> |
| Liabilities and Business Unit Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 3,720,924 | \$ 4,797,661 |
| Film rent payable | 2,517,550 | 2,506,061 |
| Income taxes payable | 1,339,925 | 1,172,582 |
| Deferred revenue and other obligations | 4,524,115 | 3,916,612 |
| Total current liabilities | 12,102,514 | 12,392,916 |
| Deferred rent | 11,110,951 | 12,210,226 |
| Total liabilities | 23,213,465 | 24,603,142 |
| Business Unit equity | 25,357,862 | 25,837,345 |
| Commitments and contingencies | | |
| Total liabilities and Business Unit equity | <u>\$ 48,571,327</u> | <u>\$ 50,440,487</u> |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Combined Statements of Operations

Years ended June 28, 2007, June 29, 2006, and June 30, 2005

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|---------------------|---------------------|-------------------|
| Operating revenue: | | | |
| Admissions | \$ 52,455,710 | \$ 52,736,579 | \$ 54,566,368 |
| Concessions | 22,051,188 | 21,386,996 | 21,324,053 |
| Other income | 2,971,478 | 3,012,163 | 2,645,699 |
| Total operating revenue | <u>77,478,376</u> | <u>77,135,738</u> | <u>78,536,120</u> |
| Operating expense: | | | |
| Film rental | 25,731,724 | 25,219,898 | 26,953,597 |
| Cost of concessions | 3,423,975 | 3,569,740 | 3,338,722 |
| Other operating costs | 38,712,418 | 37,533,667 | 37,246,229 |
| General and administrative | 2,223,678 | 1,775,571 | 1,872,826 |
| Depreciation and amortization | 5,475,932 | 6,866,963 | 7,683,826 |
| Casualty loss | — | 1,635,509 | — |
| Impairment loss on long-lived assets | 78,749 | 1,169,339 | 943 |
| Total operating expense | <u>75,646,476</u> | <u>77,770,687</u> | <u>77,096,143</u> |
| Operating income (loss) | <u>1,831,900</u> | <u>(634,949)</u> | <u>1,439,977</u> |
| Nonoperating income: | | | |
| Interest income | 3,468 | 5,269 | 1,516 |
| Gain on disposition of property, equipment, and improvements | 43,368 | 4,434 | 1,555 |
| Total nonoperating income | <u>46,836</u> | <u>9,703</u> | <u>3,071</u> |
| Earnings (loss) before income taxes | 1,878,736 | (625,246) | 1,443,048 |
| Income tax expense (benefit) | 744,706 | (243,104) | 572,826 |
| Net income (loss) | <u>\$ 1,134,030</u> | <u>\$ (382,142)</u> | <u>\$ 870,222</u> |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Combined Statements of Business Unit Equity

Years ended June 28, 2007, June 29, 2006, and June 30, 2005

| | |
|---|-----------------------------|
| Balance, July 1, 2004 | \$ 37,254,494 |
| Net distributions to the Parent Company | (5,568,293) |
| Net income | <u>870,222</u> |
| Balance, June 30, 2005 | 32,556,423 |
| Net distributions to the Parent Company | (6,336,936) |
| Net loss | <u>(382,142)</u> |
| Balance, June 29, 2006 | 25,837,345 |
| Net distributions to the Parent Company | (1,613,513) |
| Net income | <u>1,134,030</u> |
| Balance, June 28, 2007 | <u><u>\$ 25,357,862</u></u> |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Combined Statements of Cash Flows

Years ended June 28, 2007, June 29, 2006, and June 30, 2005

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--|--------------------|--------------------|--------------------|
| Operating activities: | | | |
| Net income (loss) | \$ 1,134,030 | \$ (382,142) | \$ 870,222 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 5,464,676 | 6,855,006 | 7,669,552 |
| Deferred rent expense | (1,099,275) | (738,662) | (559,433) |
| Deferred income taxes | (595,218) | (1,415,686) | (786,445) |
| Impairment loss on long-lived assets | 78,749 | 1,169,339 | 943 |
| Gain on disposition of property, equipment, and improvements | (43,368) | (4,434) | (1,555) |
| Casualty loss on property, equipment, and improvements | — | 778,356 | — |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in receivables | 87,113 | (251,317) | 58,343 |
| (Increase) decrease in inventory | (17,949) | 19,389 | 12,945 |
| Increase in prepaid and other assets | (167,244) | (34,492) | (8,123) |
| Increase (decrease) in accounts payable and accrued liabilities | (1,076,737) | 809,020 | (53,286) |
| Increase (decrease) in film rent payable | 11,489 | (480,545) | 41,973 |
| Increase (decrease) in income taxes payable | 167,343 | (186,689) | (1,502,426) |
| Increase in deferred revenues and other obligations | 607,503 | 735,026 | 427,523 |
| Net cash provided by operating activities | <u>4,551,112</u> | <u>6,872,169</u> | <u>6,170,233</u> |
| Investing activities: | | | |
| Purchases of and additions to property, equipment, and improvements | (2,967,783) | (533,336) | (733,629) |
| Proceeds from sale of property, equipment, and improvements | 174,315 | 5,200 | 1,555 |
| Increase in other assets | (143,147) | (7,724) | 129,301 |
| Other, net | (90) | 1,844 | 833 |
| Net cash used in investing activities | <u>(2,936,705)</u> | <u>(534,016)</u> | <u>(601,940)</u> |
| Financing activities: | | | |
| Net distributions to the Parent Company | (1,613,513) | (6,336,936) | (5,568,293) |
| Net cash used in financing activities | <u>(1,613,513)</u> | <u>(6,336,936)</u> | <u>(5,568,293)</u> |
| Increase in cash | 894 | 1,217 | — |
| Cash at beginning of year | 86,417 | 85,200 | 85,200 |
| Cash at end of year | <u>\$ 87,311</u> | <u>\$ 86,417</u> | <u>\$ 85,200</u> |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and Certain of its Affiliates)

Notes to Combined Financial Statements

June 28, 2007, June 29, 2006, and June 30, 2005

(1) Description of Business

The accompanying combined financial statements represent the Pacific Theatres Full Circuit Business (the Business Unit), which is a circuit of fifteen walk-in theaters in California (excluding Los Angeles) and Hawaii that along with certain retail leases in Kapolei, Hawaii have been combined into a business unit, on a carved-out basis, from Pacific Theatres Entertainment Corporation and certain of its affiliates (PTENT or the Parent Company). The Business Unit comprises the specified retail leases as well as the following theaters (and number of screens): California theaters – Grossmont Center 10, Rohnert Park 16, Town Square 14, Valley Plaza 16, Carmel Mountain 12, and Gaslamp 15; Hawaii theaters – Kaahumanu 6, Kahala 8, Kapolei 16, Koko Marina 8, Ko’olau Stadium 10, Kukui Mall 4, Mililani 14, Pearlridge West 16, and Ward Cinemas 16.

On February 22, 2008, PTENT sold to Reading International, Inc. (Reading or the Buyer) the retail leases, motion picture exhibition theaters, and theater-related assets in the Business Unit.

(2) Significant Accounting Policies

(a) Basis of Presentation of Financial Statements

The accompanying combined financial statements have been prepared for the purpose of presenting the financial position, results of operations, and cash flows for the Business Unit. Since financial statements historically have not been prepared for the Business Unit, the accompanying combined financial statements have been derived from historical accounting records of the Parent Company. All significant transactions and balances between operations within the Business Unit have been eliminated in combination. The historical operating results and cash flows of the Business Unit may not be indicative of what they would have been had the business been a stand-alone entity, nor are they necessarily indicative of what the Business Unit’s operating results and cash flows may be in the future.

The Business Unit historically has utilized the services of the Parent Company for certain functions. The combined statement of operations includes allocations of certain costs from the Parent Company directly related to the operations of the Business Unit, including an allocation of central general and administrative costs for accounting, marketing, human resources, treasury, information systems, transaction services, risk management, legal, and other overhead costs. Included within general and administrative costs are Parent Company charges of approximately \$2,955,000, \$2,017,000, and \$2,462,000 for the years ended June 28, 2007, June 29, 2006, and June 30, 2005, respectively. These centralized costs were allocated to the Business Unit on the basis of direct usage when identifiable, with the remainder allocated on the basis of relative admissions revenue. In addition, the Business Unit has allocated income tax expense, as discussed below under note 2(m), *Income Taxes*.

Management believes the methodology used to allocate these costs is reasonable. Interest expense has not been allocated to the Business Unit.

Certain of the assets and liabilities are shared with other theater circuits owned and operated by the Parent Company. Allocations were performed in order to reflect the appropriate portion of each asset and liability in the accounts of the Business Unit. A substantial portion of these assets

and liabilities were identifiable to specific theater locations and carved out on that basis, with the remainder allocated on the basis of relative admissions revenue. Management believes the methodology used for the asset and liability allocations is reasonable.

Significant changes could have occurred in the funding and operation of the Business Unit if it operated as an independent, stand-alone entity, including the need for debt and the incurrence of interest expense, which could have a significant impact on its financial position and results of operations. The cash generated by the operations of the Business Unit is distributed to the Parent Company on a regular basis. The corresponding costs of the Business Unit are paid by the Parent.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the allocation of assets, liabilities, and costs as described in note 2(a); the assessment of impairment for property, equipment, and improvements; the estimate of film rental costs; and potential reserves relating to litigation matters, accrued liabilities, valuation of deferred tax assets, and other liabilities. On an ongoing basis, management reviews its estimates based on currently available information. Actual results could differ from those estimates.

(c) Fiscal Year End

The Business Unit operates on a fiscal year ending on the Thursday closest to June 30. The fiscal years ended June 28, 2007, June 29, 2006, and June 30, 2005 each contained 52 weeks.

(d) Business Unit Equity

Business Unit equity represents the Parent Company's interest in the carrying value of the net assets of the Business Unit. The Parent Company uses a centralized approach to cash management and financing of operations. As a result, none of the Parent Company's cash, cash equivalents, or direct indebtedness has been allocated to the Business Unit in the accompanying financial statements. All transactions between the Business Unit and the Parent Company, including the allocation of centralized costs, common assets and liabilities, and income taxes, flow through Business Unit equity.

(e) Revenue Recognition

Revenues are generated principally through admissions and concessions with proceeds received in cash at the point of sale. Other operating revenue consists primarily of product advertising (including vendor marketing programs) and other ancillary revenues, which are recognized as income in the period earned. The Business Unit recognizes payments received attributable to the marketing and advertising services provided by the Business Unit under certain vendor programs as revenue in the period in which the related impressions are delivered. Such impressions are measured using a mutually agreed upon proxy of attendance and reflect the Business Unit's marketing and advertising services delivered to its vendors.

Proceeds received from advance ticket sales and gift certificates are recorded as deferred revenue. The Business Unit recognizes revenue associated with gift certificates and advanced ticket sales at such time as the items are redeemed.

(f) Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, and reflected as a reduction in operating costs. Those allowances received as a result of attaining certain purchase levels are accrued over the incentive period based on estimates of purchases. During the years ended June 28, 2007, June 29, 2006, and June 30, 2005, respectively, the Business Unit recorded \$844,000, \$785,000, and \$817,000 of vendor allowances, of which \$204,000 and \$191,000 are due and payable to the Business Unit at June 28, 2007 and June 29, 2006, respectively.

(g) Cash

Cash represents the operating cash accounts maintained at each of the theater locations.

(h) Receivables

Receivables are comprised principally of amounts due from product advertising programs, vendor allowances (relating to rebate programs where the vendor has no right of offset), and credit card receivables from the sale of theater tickets or coupon books. Sales charged on customer credit cards are collected when the credit card transactions are processed. Receivables are stated at their net realizable value. The Business Unit provides an allowance for probable bad debt losses, which historically have not been significant. The allowance for doubtful accounts amounted to \$36,493 and \$0 at June 28, 2007, and June 29, 2006, respectively.

(i) Inventory

Inventory is composed of concession goods used in theater operations. The Business Unit states inventory on the basis of first-in, first-out (FIFO) cost, which is not in excess of net realizable value.

(j) Fair Value of Financial Instruments

The carrying amounts of the Business Unit's cash, receivables, accounts payable and accrued liabilities, and film rent payable approximate fair value due to their short-term maturities.

(k) Property, Equipment, and Improvements

Property, equipment, and improvements are stated at cost and consist of leasehold improvements, furniture, fixtures, and equipment. Major renewals and improvements are capitalized, while maintenance and repairs, which do not improve or extend the lives of the respective assets are expensed currently. Gains and losses from disposition of property and equipment are included in income and expense when realized. The Business Unit records depreciation and amortization using the straight-line method over the following estimated useful lives:

| | |
|------------------------------------|---------------------------------------|
| Furniture, fixtures, and equipment | 3 to 10 years |
| Leasehold improvements | Lesser of term of lease or asset life |

(l) Impairment of Long-Lived Assets

The Business Unit reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. The

Business Unit generally evaluates assets for impairment on an individual theater basis and within certain groupings, which management believes is the lowest level for which there are separately identifiable cash flows. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the assets, the Business Unit recognizes an impairment charge in the amount by which the carrying value of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. This analysis resulted in the recording of impairment charges amounting to \$78,749, \$1,169,339, and \$943 during the years ended June 28, 2007, June 29, 2006, and June 30, 2005, respectively.

(m) Income Taxes

The Business Unit is not a separate taxable entity for U.S. or international tax purposes and has not filed separate income tax returns, but rather was included in the income tax returns filed by the Business Unit's ultimate parent. For purposes of these financial statements, income tax expense has been calculated as if the Business Unit filed on a separate tax return basis. All income tax expense of the Business Unit is recorded in the statement of operations with the offset recorded in the current liability or deferred tax accounts. The current tax liability for the prior year is treated as having been paid to the Parent Company through the Business Unit equity account.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and are measured using the enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment rate.

(n) Leases

The majority of the Business Unit's operations are conducted in premises occupied under noncancelable lease agreements with initial base terms generally ranging from 15 to 20 years. The Business Unit, at its option, can renew a substantial portion of the leases at defined or then fair rental rates for various periods. Certain theater leases provide for contingent rentals based on the revenue of the underlying theater and require the payment of taxes, insurance, and other costs applicable to the property. Also, certain leases contain escalating minimum rental provisions.

The Business Unit accounts for leased properties under the provisions of Statement of Financial Accounting Standards No. 13, *Accounting for Leases* (SFAS No. 13), and other authoritative accounting literature. SFAS No. 13 requires that the Business Unit evaluate each lease for classification as either a capital lease or an operating lease. The Business Unit performs this evaluation at the inception of the lease and when a modification is made to a lease. Historically, all of the Business Unit's lease arrangements have been classified as operating leases.

The Business Unit records rent expense for its operating leases with contractual rent increases in accordance with Financial Accounting Standards Board (FASB) Technical Bulletin 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, on a straight-line basis from the "lease commencement date" as specified in the lease agreement until the end of the base term.

For leases in which the Business Unit is involved with construction of the theater, the Business Unit accounts for the lease during the construction period under the provisions of Emerging

Issues Task Force (EITF) Issue No. 97-10, *The Effect of Lessee Involvement in Asset Construction* (EITF 97-10). The landlord is typically responsible for constructing a theater using guidelines and specifications agreed to by the Business Unit and assumes substantially all of the risk of construction. In accordance with EITF 97-10, if the Business Unit concludes that it has substantially all of the construction period risks, it records a construction asset and related liability for the amount of total project costs incurred during the construction period. Once construction is completed, the Business Unit considers the requirements under SFAS No. 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases — an amendment of FASB Statements Nos. 13, 66, and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11* (SFAS No. 98), for sale-leaseback treatment, and if the arrangement does not meet such requirements, it records the project's construction costs funded by the landlord as a financing obligation. The obligation is amortized over the financing term based on the payments designated in the contract.

(o) *Deferred Revenue*

Deferred revenue relates primarily to gift certificates and advance ticket sales, and is recognized as revenue as described above under Section 2(e), *Revenue Recognition*.

(p) *Deferred Rent*

The Business Unit recognizes rent on a straight-line basis after considering the effect of rent escalation provisions resulting in a level monthly rent expense for each lease over its term. The current portion of the deferred rent liability amounted to \$1,099,273 and \$857,000 at June 28, 2007 and June 29, 2006, respectively, and is included in deferred revenue and other obligations.

(q) *Film Rental Costs*

The Business Unit estimates its film rental expense and related film rent payable based on management's best estimate of the ultimate settlement of the film costs with the distributors. Generally, less than one-third of the quarterly film expense is estimated at period-end. The length of time until these costs are known with certainty depends on the ultimate duration of the film play, but is typically "settled" within two to three months of a particular film's opening release. Upon settlement with film distributors, film rental expense and the related film rent payable are adjusted to the final film settlement.

(r) *Collective Bargaining Agreements*

The Business Unit's hourly wage employees and projectionists in Hawaii are each under collective bargaining agreements with local unions that expire on January 15, 2008 and October 28, 2009, respectively.

(s) *Segments*

The Business Unit has historically managed its operations under one reportable business segment: theater exhibition operations. The real estate operations within the Business Unit relating to the retail leases in Kapolei, Hawaii do not qualify as a reportable segment under SFAS No. 131, *Disclosures about Segments of Enterprise and Related Information*, the established standards for reporting information about operating segments in financial statements.

(t) Recent Accounting Pronouncements

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The provisions of FIN 48 will be effective for the Business Unit on July 1, 2008, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening accumulated deficit. The Business Unit is in the process of assessing the impact of adopting FIN 48 on its combined financial statements. However, the Business Unit's current policy is to recognize tax benefits of uncertain tax positions only if it is probable that the positions will be sustained. The Business Unit does not expect that the adoption of FIN 48 will result in any material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measures. The Business Unit is required to adopt SFAS No. 157 for its nonfinancial assets and liabilities, which do not require or permit measurement on a recurring basis, beginning on July 1, 2009. The Business Unit does not have any financial assets or liabilities. SFAS No. 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening accumulated deficit in the year of adoption. The Business Unit does not expect that the adoption of this statement will have a material effect on its consolidated financial statements.

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*. SFAS No. 159 provides companies the option to measure many financial instruments and certain other items at fair value. This provides companies the opportunity to mitigate volatility in earnings caused by measuring instruments differently without complex hedge accounting provisions. SFAS No. 159 is effective for the Business Unit beginning January 1, 2008. The Business Unit does not expect that the adoption of this statement will have a material effect on its consolidated financial statements.

(3) Property, Equipment, and Improvements, Net

A summary of property, equipment, and improvements at June 28, 2007 and June 29, 2006 is as follows:

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| Leasehold improvements | \$ 73,423,483 | \$ 70,470,086 |
| Furniture, fixtures, and equipment | 31,739,234 | 32,598,400 |
| | 105,162,717 | 103,068,486 |
| Less accumulated depreciation and amortization | (72,593,297) | (67,792,567) |
| Property, equipment, and improvements, net | <u>\$ 32,569,420</u> | <u>\$ 35,275,919</u> |

The Parent Company has granted a security interest in the personal property located in or on the leasehold interests of the Business Unit to its bank group as collateral under an amended and restated credit agreement dated November 19, 2004.

(4) Income Taxes

The components of the provision for income taxes for the years ended June 28, 2007, June 29, 2006, and June 30, 2005 are as follows:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|----------------------------|-------------------|---------------------|-------------------|
| Federal: | | | |
| Current | \$ 1,170,644 | \$ 1,042,240 | \$ 1,181,137 |
| Deferred | (554,354) | (1,243,423) | (707,088) |
| Total federal | <u>616,290</u> | <u>(201,183)</u> | <u>474,049</u> |
| State: | | | |
| Current | 169,281 | 130,342 | 178,134 |
| Deferred | (40,865) | (172,263) | (79,357) |
| Total state | <u>128,416</u> | <u>(41,921)</u> | <u>98,777</u> |
| Total income tax provision | <u>\$ 744,706</u> | <u>\$ (243,104)</u> | <u>\$ 572,826</u> |

A reconciliation of the provision for income taxes as reported and the amount computed by multiplying the income before taxes by the U.S. federal statutory rate of 35% for the years ended June 28, 2007, June 29, 2006, and June 30, 2005 are as follows:

| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|---|-------------------|---------------------|-------------------|
| Provision calculated at federal statutory income tax rate | \$ 657,557 | \$ (218,836) | \$ 505,067 |
| State income taxes, net of federal benefit | 83,470 | (27,248) | 64,205 |
| Other, net | 3,679 | 2,980 | 3,554 |
| Total income tax provision | <u>\$ 744,706</u> | <u>\$ (243,104)</u> | <u>\$ 572,826</u> |

Significant components of the Business Unit's deferred tax asset consist of the following as of June 28, 2007 and June 29, 2006:

| | <u>2007</u> | <u>2006</u> |
|--|----------------------|-------------------|
| Deferred tax assets: | | |
| Excess of tax basis over book basis of property, equipment, and improvements | \$ 7,937,647 | 7,012,101 |
| Deferred rent | 4,839,972 | 5,133,698 |
| Federal benefit on deferred state income tax | 59,248 | 45,620 |
| Other, net | 83,604 | 133,834 |
| Total deferred tax assets | <u>\$ 12,920,471</u> | <u>12,325,253</u> |

In assessing the realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The Business Unit determined that a valuation allowance against deferred tax assets was not deemed necessary.

(5) Commitments and Contingencies

The Business Unit accounts for all of its leases as operating leases. Minimum rentals payable under all noncancelable operating leases with terms in excess of one year as of June 28, 2007 are summarized as follows:

| Year ending: | <u>Related parties</u> | <u>Other</u> | <u>Total</u> |
|--------------|------------------------|-----------------------|-----------------------|
| 2008 | \$ 637,200 | \$ 13,483,966 | \$ 14,121,166 |
| 2009 | 637,200 | 13,531,633 | 14,168,833 |
| 2010 | 637,200 | 13,415,582 | 14,052,782 |
| 2011 | 637,200 | 13,210,713 | 13,847,913 |
| 2012 | 637,200 | 12,757,803 | 13,395,003 |
| Later years | 4,035,600 | 43,054,361 | 47,089,961 |
| | <u>\$ 7,221,600</u> | <u>\$ 109,454,058</u> | <u>\$ 116,675,658</u> |

Rent expense under such operating leases during the years ended June 28, 2007, June 29, 2006 and June 30, 2005 amounted to \$13,776,916, \$13,643,365, and \$13,596,228, respectively. At June 28, 2007 and June 29, 2006, the Business Unit has \$1,414,148 and \$1,350,657 of prepaid rent and common area maintenance expense included in prepaid and other current assets, respectively.

The Business Unit is indirectly party to various lawsuits in which the Parent Company is involved, both as plaintiff and defendant. The ultimate outcome of these lawsuits is not presently determinable; however, in the opinion of management, based in part upon advice of counsel, the amount of losses that might be sustained, if any, would not materially affect the financial position, results of operations, or liquidity of the Business Unit.

(6) Related-Party Transactions

Related-party transactions between the Business Unit and affiliates for the years ended June 28, 2007, June 29, 2006, and June 30, 2005 comprise rental expense of \$637,200 per year.

Accounts payable and accrued expenses included amounts due to an affiliate of \$81,000 and \$171,000 at June 28, 2007 and June 29, 2006, respectively.

(7) Pension Plan

The Business Unit participates in a pension plan sponsored by an affiliate that covers substantially all employees who are not included in a union-sponsored pension plan. The plan sponsor does not directly allocate pension costs of nonunion employees to the Business Unit. The Business Unit's share of pension cost is not significant.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(a Business Unit of Pacific Theatres Entertainment Corporation and Certain of its Affiliates)

Unaudited Condensed Combined Financial Statements
As of December 27, 2007
Six Months Ended December 27, 2007 and December 28, 2006

Unaudited Condensed Combined Balance Sheet — December 27, 2007

Unaudited Condensed Combined Statements of Operations — Six Months Ended December 27, 2007 and December 28, 2006

Unaudited Condensed Combined Statements of Stockholder's Equity — Six Months Ended December 27, 2007 and December 28, 2006

Unaudited Condensed Combined Statements of Cash Flows — Six Months Ended December 27, 2007 and December 28, 2006

Notes to Combined Financial Statements

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Unaudited Condensed Combined Balance Sheets

December 27, 2007

Assets

Current assets:

| | | |
|--|----|------------|
| Cash | \$ | 129,380 |
| Receivables, net | | 808,411 |
| Inventory | | 257,554 |
| Deferred income taxes | | 142,852 |
| Prepaid and other current assets | | 1,513,178 |
| Total current assets | | 2,851,375 |
| Deferred income taxes | | 12,777,619 |
| Property, equipment, and improvements, net | | 30,100,753 |
| Other assets | | 367,834 |
| Total assets | \$ | 46,097,581 |

Liabilities and Business Unit Equity

Current liabilities:

| | | |
|--|----|------------|
| Accounts payable and accrued liabilities | \$ | 4,162,527 |
| Film rent payable | | 2,344,993 |
| Income taxes payable | | 314,100 |
| Deferred revenue and other obligations | | 5,392,644 |
| Total current liabilities | | 12,214,264 |
| Deferred rent | | 10,121,949 |
| Total liabilities | | 22,336,213 |
| Business Unit equity | | 23,761,368 |
| Commitments and contingencies | | |
| Total liabilities and Business Unit equity | \$ | 46,097,581 |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Unaudited Condensed Combined Statements of Operations

For the Six Months Ended December 27, 2007 and December 28, 2006

| | 2007 | 2006 |
|-------------------------------|---------------|---------------|
| Operating revenue: | | |
| Admissions | \$ 27,856,068 | \$ 26,024,375 |
| Concessions | 11,493,245 | 10,596,788 |
| Other income | 1,543,991 | 1,558,346 |
| Total operating revenue | 40,893,304 | 38,179,509 |
| Operating expense: | | |
| Film rental | 13,814,385 | 12,807,182 |
| Cost of concessions | 1,892,565 | 1,707,103 |
| Other operating costs | 20,409,456 | 19,038,308 |
| General and administrative | 1,411,936 | 1,110,878 |
| Depreciation and amortization | 2,573,369 | 2,528,242 |
| Total operating expense | 40,101,711 | 37,191,713 |
| Operating income | 791,593 | 987,796 |
| Nonoperating income: | | |
| Interest income | 1,651 | 1,609 |
| Total nonoperating income | 1,651 | 1,609 |
| Earnings before income taxes | 793,244 | 989,405 |
| Income tax expense | 314,100 | 391,800 |
| Net income | \$ 479,144 | \$ 597,605 |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Unaudited Condensed Combined Statements of Business Unit Equity

For the Six Months Ended December 27, 2007

| | |
|---|----------------------|
| Balance, June 29, 2007 | \$ 25,357,862 |
| Net distributions to the Parent Company | (2,075,638) |
| Net income | 479,144 |
| Balance, December 27, 2007 | <u>\$ 23,761,368</u> |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Unaudited Condensed Combined Statements of Cash Flows

For the Six Months Ended December 27, 2007 and December 28, 2006

| | 2007 | 2006 |
|---|-------------|-------------|
| Operating activities: | | |
| Net income | \$ 479,144 | \$ 597,605 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,573,369 | 2,528,242 |
| Deferred rent expense | 110,998 | 671,338 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in receivables | (177,012) | 121,276 |
| (Increase) decrease in inventory | 14,428 | 34,113 |
| Increase in prepaid and other assets | 209,732 | (137,117) |
| Increase (decrease) in accounts payable and accrued liabilities | 441,603 | (2,949,379) |
| Increase (decrease) in film rent payable | (172,557) | 1,403,406 |
| Increase (decrease) in income taxes payable | (1,025,825) | (780,782) |
| Increase in deferred revenues and other obligations | (231,471) | (131,060) |
| Net cash provided by operating activities | 2,222,409 | 1,357,642 |
| Investing activities: | | |
| Purchases of and additions to property, equipment, and improvements | (104,702) | (732,526) |
| Net cash used in investing activities | (104,702) | (732,526) |
| Financing activities: | | |
| Net distributions to the Parent Company | (2,075,638) | (621,306) |
| Net cash used in financing activities | (2,075,638) | (621,306) |
| Increase in cash | 42,069 | 3,810 |
| Cash at beginning of year | 87,311 | 86,417 |
| Cash at end of year | \$ 129,380 | \$ 90,227 |

See accompanying notes to combined financial statements.

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and

Certain of its Affiliates)

Notes to Condensed Combined Financial Statements

For the Six months ended December 27, 2007 and December 28, 2006

(1) Description of Business

The accompanying combined financial statements represent the Pacific Theatres Full Circuit Business (the Business Unit), which is a circuit of fifteen walk-in theaters in California (excluding Los Angeles) and Hawaii that along with certain retail leases in Kapolei, Hawaii have been combined into a business unit, on a carved-out basis, from Pacific Theatres Entertainment Corporation and certain of its affiliates (PTENT or the Parent Company). The Business Unit comprises the specified retail leases as well as the following theaters (and number of screens): California theaters – Grossmont Center 10, Rohnert Park 16, Town Square 14, Valley Plaza 16, Carmel Mountain 12, and Gaslamp 15; Hawaii theaters – Kaahumanu 6, Kahala 8, Kapolei 16, Koko Marina 8, Ko’olau Stadium 10, Kukui Mall 4, Mililani 14, Pearlridge West 16, and Ward Cinemas 16.

On February 22, 2008, PTENT sold to Reading International, Inc. (Reading or the Buyer) the retail leases, motion picture exhibition theaters, and theater-related assets in the Business Unit.

(2) Significant Accounting Policies

(a) Basis of Presentation of Financial Statements

The accompanying combined financial statements have been prepared for the purpose of presenting the financial position, results of operations, and cash flows for the Business Unit. Since financial statements historically have not been prepared for the Business Unit, the accompanying combined financial statements have been derived from historical accounting records of the Parent Company. All significant transactions and balances between operations within the Business Unit have been eliminated in combination. The historical operating results and cash flows of the Business Unit may not be indicative of what they would have been had the business been a stand-alone entity, nor are they necessarily indicative of what the Business Unit’s operating results and cash flows may be in the future.

The Business Unit historically has utilized the services of the Parent Company for certain functions. The combined statement of operations includes allocations of certain costs from the Parent Company directly related to the operations of the Business Unit, including an allocation of central general and administrative costs for accounting, marketing, human resources, treasury, information systems, transaction services, risk management, legal, and other overhead costs. Included within general and administrative costs are Parent Company charges of approximately \$485,586 and \$443,895 for the six months ended December 27, 2007 and December 28, 2006, respectively. These centralized costs were allocated to the Business Unit on the basis of direct usage when identifiable, with the remainder allocated on the basis of relative admissions revenue. In addition, the Business Unit has allocated income tax expense, as discussed below under note 2(m), *Income Taxes*.

Management believes the methodology used to allocate these costs is reasonable. Interest expense has not been allocated to the Business Unit.

Certain of the assets and liabilities are shared with other theater circuits owned and operated by the Parent Company. Allocations were performed in order to reflect the appropriate portion of

each asset and liability in the accounts of the Business Unit. A substantial portion of these assets and liabilities were identifiable to specific theater locations and carved out on that basis, with the remainder allocated on the basis of relative admissions revenue. Management believes the methodology used for the asset and liability allocations is reasonable.

Significant changes could have occurred in the funding and operation of the Business Unit if it operated as an independent, stand-alone entity, including the need for debt and the incurrence of interest expense, which could have a significant impact on its financial position and results of operations. The cash generated by the operations of the Business Unit is distributed to the Parent Company on a regular basis. The corresponding costs of the Business Unit are paid by the Parent.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of estimates include the allocation of assets, liabilities, and costs as described in note 2(a); the assessment of impairment for property, equipment, and improvements; the estimate of film rental costs; and potential reserves relating to litigation matters, accrued liabilities, valuation of deferred tax assets, and other liabilities. On an ongoing basis, management reviews its estimates based on currently available information. Actual results could differ from those estimates.

(c) Fiscal Year End and Interim Period End

The Business Unit operates on a fiscal year ending on the Thursday closest to June 30. The fiscal years ended June 28, 2007 and June 29, 2006 each contained 52 weeks. The interim periods presented in this report are for the 26 week periods ended December 27, 2007 and December 28, 2006.

(d) Business Unit Equity

Business Unit equity represents the Parent Company's interest in the carrying value of the net assets of the Business Unit. The Parent Company uses a centralized approach to cash management and financing of operations. As a result, none of the Parent Company's cash, cash equivalents, or direct indebtedness has been allocated to the Business Unit in the accompanying financial statements. All transactions between the Business Unit and the Parent Company, including the allocation of centralized costs, common assets and liabilities, and income taxes, flow through Business Unit equity.

(e) Revenue Recognition

Revenues are generated principally through admissions and concessions with proceeds received in cash at the point of sale. Other operating revenue consists primarily of product advertising (including vendor marketing programs) and other ancillary revenues, which are recognized as income in the period earned. The Business Unit recognizes payments received attributable to the marketing and advertising services provided by the Business Unit under certain vendor programs as revenue in the period in which the related impressions are delivered. Such impressions are measured using a mutually agreed upon proxy of attendance and reflect the Business Unit's marketing and advertising services delivered to its vendors.

Proceeds received from advance ticket sales and gift certificates are recorded as deferred revenue. The Business Unit recognizes revenue associated with gift certificates and advanced ticket sales at such time as the items are redeemed.

(f) Vendor Allowances

Vendor allowances primarily consist of volume rebates that are earned as a result of attaining certain purchase levels for the promotion of vendors' products that are typically based on guaranteed minimum amounts with additional amounts being earned for attaining certain purchase levels. These vendor allowances are accrued as earned, and reflected as a reduction in operating costs. Those allowances received as a result of attaining certain purchase levels are accrued over the incentive period based on estimates of purchases. During the six months ended December 27, 2007, and December 26, 2008, respectively, the Business Unit recorded \$356,793, and \$364,940 of vendor allowances, of which \$134,581 are due and payable to the Business Unit at December 27, 2007.

(g) Cash

Cash represents the operating cash accounts maintained at each of the theater locations.

(h) Receivables

Receivables are comprised principally of amounts due from product advertising programs, vendor allowances (relating to rebate programs where the vendor has no right of offset), and credit card receivables from the sale of theater tickets or coupon books. Sales charged on customer credit cards are collected when the credit card transactions are processed. Receivables are stated at their net realizable value. The Business Unit provides an allowance for probable bad debt losses, which historically have not been significant. The allowance for doubtful accounts was not significant at December 27, 2007.

(i) Inventory

Inventory is composed of concession goods used in theater operations. The Business Unit states inventory on the basis of first-in, first-out (FIFO) cost, which is not in excess of net realizable value.

(j) Fair Value of Financial Instruments

The carrying amounts of the Business Unit's cash, receivables, accounts payable and accrued liabilities, and film rent payable approximate fair value due to their short-term maturities.

(k) Property, Equipment, and Improvements

Property, equipment, and improvements are stated at cost and consist of leasehold improvements, furniture, fixtures, and equipment. Major renewals and improvements are capitalized, while maintenance and repairs, which do not improve or extend the lives of the respective assets, are expensed currently. Gains and losses from disposition of property and equipment are included in income and expense when realized. The Business Unit records depreciation and amortization using the straight-line method over the following estimated useful lives:

| | |
|------------------------------------|---------------------------------------|
| Furniture, fixtures, and equipment | 3 to 10 years |
| Leasehold improvements | Lesser of term of lease or asset life |

(l) Impairment of Long-Lived Assets

The Business Unit reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be fully recoverable. The Business Unit generally evaluates assets for impairment on an individual theater basis and within certain groupings, which management believes is the lowest level for which there are separately identifiable cash flows. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the assets, the Business Unit recognizes an impairment charge in the amount by which the carrying value of the assets exceeds their fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. This analysis resulted in no impairment charges for either the six months ended December 27, 2007 or December 28, 2006.

(m) Income Taxes

The Business Unit is not a separate taxable entity for U.S. or international tax purposes and has not filed separate income tax returns, but rather was included in the income tax returns filed by the Business Unit's ultimate parent. For purposes of these financial statements, income tax expense has been calculated as if the Business Unit filed on a separate tax return basis. All income tax expense of the Business Unit is recorded in the statement of operations with the offset recorded in the current liability or deferred tax accounts. The current tax liability for the prior year is treated as having been paid to the Parent Company through the Business Unit equity account.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and are measured using the enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment rate.

(n) Leases

The majority of the Business Unit's operations are conducted in premises occupied under noncancelable lease agreements with initial base terms generally ranging from 15 to 20 years. The Business Unit, at its option, can renew a substantial portion of the leases at defined or then fair rental rates for various periods. Certain theater leases provide for contingent rentals based on the revenue of the underlying theater and require the payment of taxes, insurance, and other costs applicable to the property. Also, certain leases contain escalating minimum rental provisions.

The Business Unit accounts for leased properties under the provisions of Statement of Financial Accounting Standards No. 13, *Accounting for Leases* (SFAS No. 13), and other authoritative accounting literature. SFAS No. 13 requires that the Business Unit evaluate each lease for classification as either a capital lease or an operating lease. The Business Unit performs this evaluation at the inception of the lease and when a modification is made to a lease. Historically, all of the Business Unit's lease arrangements have been classified as operating leases.

The Business Unit records rent expense for its operating leases with contractual rent increases in accordance with Financial Accounting Standards Board (FASB) Technical Bulletin 85-3, *Accounting for Operating Leases with Scheduled Rent Increases*, on a straight-line basis from the "lease commencement date" as specified in the lease agreement until the end of the base term.

For leases in which the Business Unit is involved with construction of the theater, the Business Unit accounts for the lease during the construction period under the provisions of Emerging Issues Task Force (EITF) Issue No. 97-10, *The Effect of Lessee Involvement in Asset Construction* (EITF 97-10). The landlord is typically responsible for constructing a theater using guidelines and specifications agreed to by the Business Unit and assumes substantially all of the risk of construction. In accordance with EITF 97-10, if the Business Unit concludes that it has substantially all of the construction period risks, it records a construction asset and related liability for the amount of total project costs incurred during the construction period. Once construction is completed, the Business Unit considers the requirements under SFAS No. 98, *Accounting for Leases: Sale-Leaseback Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases — an amendment of FASB Statements Nos. 13, 66, and 91 and a rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11* (SFAS No. 98), for sale-leaseback treatment, and if the arrangement does not meet such requirements, it records the project's construction costs funded by the landlord as a financing obligation. The obligation is amortized over the financing term based on the payments designated in the contract.

(o) *Deferred Revenue*

Deferred revenue relates primarily to gift certificates and advance ticket sales, and is recognized as revenue as described above under Section 2(e), *Revenue Recognition*.

(p) *Deferred Rent*

The Business Unit recognizes rent on a straight-line basis after considering the effect of rent escalation provisions resulting in a level monthly rent expense for each lease over its term. The current portion of the deferred rent liability amounted to \$1,100,000 at December 27, 2007 and is included in deferred revenue and other obligations.

(q) *Film Rental Costs*

The Business Unit estimates its film rental expense and related film rent payable based on management's best estimate of the ultimate settlement of the film costs with the distributors. Generally, less than one-third of the quarterly film expense is estimated at period-end. The length of time until these costs are known with certainty depends on the ultimate duration of the film play, but is typically "settled" within two to three months of a particular film's opening release. Upon settlement with film distributors, film rental expense and the related film rent payable are adjusted to the final film settlement.

(r) *Collective Bargaining Agreements*

The Business Unit's hourly wage employees and projectionists in Hawaii are each under collective bargaining agreements with local unions that expire on January 15, 2008 and October 28, 2009, respectively.

(s) *Segments*

The Business Unit has historically managed its operations under one reportable business segment: theater exhibition operations. The real estate operations within the Business Unit relating to the retail leases in Kapolei, Hawaii do not qualify as a reportable segment under SFAS No. 131, *Disclosures about Segments of Enterprise and Related Information*, the established standards for reporting information about operating segments in financial statements.

(t) **Recent Accounting Pronouncements**

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The provisions of FIN 48 will be effective for the Business Unit on July 1, 2008, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening accumulated deficit. The Business Unit is in the process of assessing the impact of adopting FIN 48 on its combined financial statements. However, the Business Unit's current policy is to recognize tax benefits of uncertain tax positions only if it is probable that the positions will be sustained. The Business Unit does not expect that the adoption of FIN 48 will result in any material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measures. The Business Unit is required to adopt SFAS No. 157 for its nonfinancial assets and liabilities, which do not require or permit measurement on a recurring basis, beginning on July 1, 2009. The Business Unit does not have any financial assets or liabilities. SFAS No. 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening accumulated deficit in the year of adoption. The Business Unit does not expect that the adoption of this statement will have a material effect on its consolidated financial statements.

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*. SFAS No. 159 provides companies the option to measure many financial instruments and certain other items at fair value. This provides companies the opportunity to mitigate volatility in earnings caused by measuring instruments differently without complex hedge accounting provisions. SFAS No. 159 is effective for the Business Unit beginning January 1, 2008. The Business Unit does not expect that the adoption of this statement will have a material effect on its consolidated financial statements.

(3) **Property, Equipment, and Improvements, Net**

A summary of property, equipment, and improvements at December 27, 2007 is as follows:

| | 2007 |
|--|----------------------|
| Leasehold improvements | \$ 73,644,629 |
| Furniture, fixtures, and equipment | 31,841,534 |
| | <u>105,486,163</u> |
| Less accumulated depreciation and amortization | (75,385,410) |
| Property, equipment, and improvements, net | <u>\$ 30,100,753</u> |

The Parent Company has granted a security interest in the personal property located in or on the leasehold interests of the Business Unit to its bank group as collateral under an amended and restated credit agreement dated November 19, 2004.

(4) Income Taxes

The components of the provision for income taxes for the six months ended December 27, 2007 consisted of a federal tax provision of \$277,635 and a state tax provision of \$36,465, and for the six months ended December 28, 2006 consisted of a federal tax provision of \$346,292 and a state tax provision of \$45,508.

In assessing the realizable value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which these temporary differences become deductible. The Business Unit determined that a valuation allowance against deferred tax assets was not deemed necessary.

(5) Commitments and Contingencies

The Business Unit accounts for all of its leases as operating leases.

Rent expense under such operating leases during the six months ended December 27, 2007 and the six months ended December 28, 2006 amounted to \$7,104,356, and \$6,777,171 respectively. At December 27, 2007 the Business Unit has \$1,390,937 of prepaid rent and common area maintenance expense included in prepaid and other current assets.

The Business Unit is indirectly party to various lawsuits in which the Parent Company is involved, both as plaintiff and defendant. The ultimate outcome of these lawsuits is not presently determinable; however, in the opinion of management, based in part upon advice of counsel, the amount of losses that might be sustained, if any, would not materially affect the financial position, results of operations, or liquidity of the Business Unit.

(6) Related-Party Transactions

Related-party transactions between the Business Unit and affiliates for the six months ended December 27, 2007 and December 28, 2006 comprise rental expense of \$318,600 per six month period.

Accounts payable and accrued expenses included amounts due to an affiliate of \$156,279 at December 27, 2007.

(7) Pension Plan

The Business Unit participates in a pension plan sponsored by an affiliate that covers substantially all employees who are not included in a union-sponsored pension plan. The plan sponsor does not directly allocate pension costs of nonunion employees to the Business Unit. The Business Unit's share of pension cost is not significant.

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma condensed consolidated financial statements are presented to illustrate the effects of our acquisition of the certain cinema assets of Pacific Theatres Full Circuit Business (a business unit of Pacific Theatres Entertainment Corporation and certain of its affiliates) referred to in this document as the "Acquired Circuit." This acquisition has been accounted for using the purchase method of accounting. The unaudited pro forma condensed consolidated balance sheet and statement of operations have been derived from the historical audited consolidated financial statements and notes thereto of Reading International, Inc. ("Reading," "we," or "our") and the Pacific Theaters Full Circuit Business (A Business Unit of Pacific Theatres Entertainment Corporation and Certain of its Affiliates) (referred to hereafter as the "Acquired Circuit") included elsewhere in this filing and should be read in conjunction therewith.

On February 22, 2008, we completed the acquisition. Pursuant to the asset purchase agreement and related documents, Reading acquired 15 cinemas for \$49.2 million in cash (financed in part through a \$50.0 million bank loan with GE Capital) and \$21.0 million in seller financing for a total purchase price of \$70.2 million. The acquisition price is subject to certain contingencies that may reduce the total acquisition price if certain financial targets for the Acquired Circuit are not achieved and when theater level capital improvements reach prescribed thresholds for designated theaters. The reductions in the acquisition price can range from \$0 to as much as \$27.7 million if all contingencies were met.

The unaudited pro forma condensed consolidated balance sheet as of December 31, 2007 gives pro forma effect to the acquisition as if it occurred on December 31, 2007 and, due to the different fiscal period ends, combines the historical audited condensed consolidated balance sheet of Reading International, Inc. at December 31, 2007 to the unaudited condensed combined balance sheet of the Acquired Circuit at December 27, 2007. The Reading International, Inc. condensed consolidated balance sheet information was derived from its audited consolidated balance sheet as of December 31, 2007. The condensed combined balance sheet of the Acquired Circuit was derived from the unaudited combined balance sheet of the Acquired Circuit as of December 27, 2007.

The unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2007 gives pro forma effect as if the acquisition had been consummated on January 1, 2007. The Reading condensed consolidated statement of operations for the year ended December 31, 2007 was derived from its audited consolidated statement of operations for the year ended December 31, 2007. The condensed combined statement of operations of the Acquired Circuit for the year ended December 27, 2007 was derived from the audited combined statement of operations of the Acquired Circuit for the year ended June 28, 2007 and its unaudited combined statement of operations for the years ended December 27, 2007 and December 28, 2006 (see Note 5 – Acquired Circuit Historical Results of Operations).

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated as of the dates indicated, nor is it necessarily indicative of future operating results. The pro forma information should be read in conjunction with the accompanying notes hereto, Reading's historical consolidated financial statements as of and for the year ended December 31, 2007 and related notes thereto which are included in our December 31, 2007 Annual Report on Form 10-K.

The unaudited pro forma adjustments give effect to events that are considered to be directly attributable to the acquisition, are factually supportable and are expected to have a continuing impact.

The pro forma information presented, including allocations of purchase price, is based on preliminary estimates of the fair values of assets acquired, available information and assumptions, and will be revised as additional information becomes available. The final purchase price allocation related to the acquisition is

dependent on, among other things, the finalization of asset valuations. As of the date of this filing, we have not completed the valuation studies necessary to fully apportion the fair values of the assets we acquired and the related allocation of purchase price. We have allocated the total estimated purchase price, calculated as described in Note 2 under "Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements," to the assets acquired based on preliminary estimates of their fair values. A final determination of these fair values will reflect our consideration of a final valuation based in part on a valuation prepared by our appraisers. This final valuation will be based on the actual net tangible and intangible assets that existed as of the closing date of the acquisition. Therefore, the actual purchase accounting adjustments may differ from the pro forma adjustments and such differences may be material.

Reading International, Inc. and Subsidiaries
Unaudited Pro Forma Condensed Consolidated Balance Sheet
As of December 31, 2007
(U.S. dollars in thousands)

| | Historical at December 31, 2007 | | Pro Forma Adjustments | | Pro Forma Condensed Consolidated Reading International, Inc. |
|--|---------------------------------|------------------|-----------------------------------|--------------------------------|--|
| | Reading International, Inc. | Acquired Circuit | Net assets not acquired (Note 3a) | Pro forma adjustments (Note 3) | |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 20,782 | \$ 129 | \$ (129) | \$ 1,194 b | \$ 21,976 |
| Receivables | 5,671 | 808 | (808) | -- | 5,671 |
| Inventory | 654 | 258 | -- | 13 c | 925 |
| Investment in marketable securities | 4,533 | -- | -- | -- | 4,533 |
| Restricted cash | 59 | -- | -- | -- | 59 |
| Deferred income taxes | -- | 143 | (143) | -- | -- |
| Prepaid and other current assets | 3,800 | 1,513 | -- | (970)d | 4,343 |
| Total current assets | 35,499 | 2,851 | (1,080) | 237 | 37,507 |
| Land held for sale | 1,984 | -- | -- | -- | 1,984 |
| Property held for development | 11,068 | -- | -- | -- | 11,068 |
| Property under development | 66,787 | -- | -- | -- | 66,787 |
| Property & equipment, net | 178,174 | 30,101 | -- | 9,232 e | 217,507 |
| Investment in unconsolidated joint ventures and entities | 15,480 | -- | -- | -- | 15,480 |
| Investment in Reading International Trust I | 1,547 | -- | -- | -- | 1,547 |
| Goodwill | 19,100 | -- | -- | 12,556 f | 31,656 |
| Intangible assets, net | 8,448 | -- | -- | 17,619 g | 26,067 |
| Deferred income taxes | -- | 12,778 | (12,778) | -- | -- |
| Other assets | 7,984 | 368 | (368) | (393)h | 7,591 |
| Total assets | \$ 346,071 | \$ 46,098 | \$ (14,226) | \$ 39,251 | \$ 417,194 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 12,331 | \$ 4,163 | \$ (4,163) | \$ 123 i | \$ 12,454 |
| Film rent payable | 3,275 | 2,345 | (2,345) | -- | 3,275 |
| Notes payable – current portion | 395 | -- | -- | -- | 395 |
| Note payable to related party – current portion | 5,000 | -- | -- | -- | 5,000 |
| Taxes payable | 4,770 | 314 | (314) | -- | 4,770 |
| Deferred current revenue | 3,214 | -- | -- | -- | 3,214 |
| Other current liabilities | 169 | 5,393 | (5,393) | -- | 169 |
| Total current liabilities | 29,154 | 12,215 | (12,215) | 123 | 29,277 |
| Notes payable – long-term portion | 111,253 | -- | -- | 71,000 j | 182,253 |
| Notes payable to related party – long-term portion | 9,000 | -- | -- | -- | 9,000 |
| Subordinated debt | 51,547 | -- | -- | -- | 51,547 |
| Noncurrent tax liabilities | 5,418 | -- | -- | -- | 5,418 |
| Deferred non-current revenue | 566 | -- | -- | -- | 566 |
| Other liabilities | 14,936 | 10,122 | (10,122) | -- | 14,936 |
| Total liabilities | 221,874 | 22,337 | (22,337) | 71,123 | 292,997 |
| Commitments and contingencies (Note 19) | | | | | |
| Minority interest in consolidated affiliates | 2,835 | -- | -- | -- | 2,835 |
| Stockholders' equity: | | | | | |
| Class A Nonvoting Common Stock, par value \$0.01, 100,000,000 shares authorized, 35,564,339 issued and 20,987,115 outstanding at December 31, 2007 and 35,558,089 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 December 31, 2007 and at December 31, 2006 | 15 | -- | -- | -- | 15 |
| Additional paid-in capital | 131,930 | 23,761 | (23,761) | -- | 131,930 |
| Accumulated deficit | (52,670) | -- | -- | -- | (52,670) |
| Treasury shares | (4,306) | -- | -- | -- | (4,306) |
| Accumulated other comprehensive income | 46,177 | -- | -- | -- | 46,177 |
| Total stockholders' equity | 121,362 | 23,761 | (23,761) | -- | 121,362 |
| Total liabilities and stockholders' equity | \$ 346,071 | \$ 46,098 | \$ (46,098) | \$ 71,123 | \$ 417,194 |

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

Reading International, Inc. and Subsidiaries
Unaudited Pro Forma Condensed Consolidated Statement of Operations
For the year ended December 31, 2007
(U.S. dollars in thousands)

| | Historical for Year End December 31, 2007 | | | Pro forma Condensed Consolidated Reading International, Inc. |
|--|---|---|--------------------------|---|
| | December 31, 2007 Reading International, Inc. | December 27, 2007 Acquired Circuit | Pro forma Adjustments | |
| Operating revenue | | | | |
| Cinema | \$ 103,467 | \$ 80,191 | \$ (2,155)k | \$ 181,503 |
| Real estate | 15,768 | -- | -- | 15,768 |
| Total operating revenue | 119,235 | 80,191 | (2,155) | 197,271 |
| Operating expense | | | | |
| Cinema | 77,756 | 70,432 | 229 l | 148,417 |
| Real estate | 8,324 | -- | -- | 8,324 |
| Depreciation and amortization | 11,921 | 5,521 | 3,475 m | 20,917 |
| General and administrative | 16,085 | 2,603 | -- | 18,688 |
| Total operating expense | 114,086 | 78,556 | 3,704 | 196,346 |
| Operating income (loss) | 5,149 | 1,635 | (5,859) | 925 |
| Non-operating income (expense) | | | | |
| Interest income | 798 | 3 | (3)n | 798 |
| Interest expense | (8,961) | -- | (5,913)o | (14,874) |
| Net loss on sale of assets | (185) | -- | -- | (185) |
| Other income (expense) | (320) | 43 | -- | (277) |
| Loss before minority interest, income tax expense and equity earnings of unconsolidated joint ventures and entities | (3,519) | 1,681 | (11,775) | (13,613) |
| Minority interest | (1,003) | -- | -- | (1,003) |
| Income tax expense | (2,038) | (666) | 666 p | (2,038) |
| Equity earnings of unconsolidated joint ventures and entities | 2,545 | -- | -- | 2,545 |
| Net income (loss) from continuing operations | \$ (4,015) | \$ 1,015 | \$ (11,109) | \$ (14,109) |
| Basic and diluted earnings (loss) from continuing operations per share | \$ (0.18) | | | \$ (0.63) |
| Weighted average number of shares outstanding – basic and diluted | 22,478,145 | | | 22,478,145 |

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

1. Basis of presentation

The unaudited pro forma condensed consolidated financial information gives the effect of the acquisition of the Acquired Circuit based on the assumptions set forth in the notes hereto. The acquisition has been accounted for in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" using the purchase method of accounting under which we are the acquiring entity. Under the this method of accounting, the total estimated purchase price, calculated as described in Note 2 to these unaudited pro forma condensed consolidated financial statements, is allocated to the net tangible and intangible assets of Acquired Circuit acquired in connection with the asset purchase agreement based on the estimated fair values as of the completion date of the acquisition. We have estimated the fair value of the assets acquired. In determining these fair values, we have considered the net realizable value attributable to net tangible and intangible assets of Acquired Circuit. Our valuation of the fair value of assets acquired was based in part on the preliminary valuation prepared by our appraisers as of this report date. Actual results may vary once the valuation has been completed.

2. Preliminary purchase price allocation

On February 22, 2008, we purchased the Acquired Circuit for \$70.2 million: \$49.2 million of cash and \$21.0 million of seller's financing.

Under the purchase method of accounting, the total estimated purchase price as shown in the table is allocated to the Acquired Circuit's net tangible and intangible assets based on their estimated fair values as of the date of the completion of the acquisition. The estimated purchase price allocation is as follows:

| | | |
|-----------------------------|-----------|---------------|
| Inventory | \$ | 271 |
| Prepaid assets | | 543 |
| Property & Equipment: | | |
| Leasehold improvements | | 32,303 |
| Machinery and equipment | | 4,329 |
| Furniture and fixtures | | 2,701 |
| Intangibles: | | |
| Trade name | | 7,220 |
| Non-compete agreement | | 400 |
| Below market leases | | 9,999 |
| Goodwill | | 12,556 |
| Trade payables | | (123) |
| Total Purchase Price | \$ | 70,199 |

Amortizable Intangible Assets

The intangible assets associated with the purchase included

- the trade name "Consolidated Theatres" which is the name commonly used for the acquired cinemas in Hawaii;
- a noncompete agreement with the sellers requiring them to not compete in certain geographic markets for a period of five years; and
- five favorable cinema lease agreements determined to be favorable by our analysis of below market leases, performed as part of the preliminary valuation of all leases acquired as performed by our appraiser.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," goodwill resulting from business combinations will not be amortized but instead will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of impairment during the fiscal quarter in which the determination is made.

3. Pro forma adjustments

The pro forma adjustments included in the unaudited pro forma condensed consolidated financial statements are as follows:

- a. Represents an adjustment for assets and liabilities not acquired as part of the terms of the acquisition agreement.
- b. The sources and uses of cash for the acquisition are as follows (dollars in thousands):

Sources:

| | | |
|-------------------------------|----|--------|
| Return of acquisition deposit | \$ | 2,000 |
| Proceeds from GE Capital loan | | 50,000 |
| Proceeds on seller's note | | 21,000 |
| | \$ | 73,000 |

Uses:

| | | |
|---|----|--------|
| Acquisition of the Acquired Circuit | | 70,199 |
| Costs associated with GE Capital loan | | 1,607 |
| Net change in cash and cash equivalents | \$ | 1,194 |

- c. Represents an adjustment to record inventories at fair value of \$271,000.
- d. Represents an adjustment to record prepaid and other assets at a fair value of \$543,000.
- e. The acquired property and equipment at fair market value is as follows (dollars in thousands):

| | | |
|---------------------------------------|----|--------|
| Leasehold interests | \$ | 32,303 |
| Fixtures and equipment | | 7,030 |
| Total property and equipment acquired | \$ | 39,333 |

Leasehold improvements are amortized to expense over the shorter of their remaining useful life or the remaining applicable lease term. Fixtures and equipment are depreciated over their remaining useful life not to exceed seven years.

- f. Represents an adjustment to record goodwill of \$12.6 million based on the excess of purchase price over net assets acquired at February 22, 2008.
- g. Represents purchase accounting adjustments to record acquired intangible assets of (dollars in thousands):

| | | |
|----------------------------------|----|--------|
| Below market leases | \$ | 9,999 |
| Trade name | | 7,220 |
| Noncompete agreement | | 400 |
| Total intangible assets acquired | \$ | 17,619 |

- h. The change in other asset includes a decrease in the deposit balance of \$2.0 million related to the acquisition deposit offset by an increase of deferred financing costs of \$1.6 million.
- i. Accounts payable and accrued liabilities of \$4.0 million were not assumed in the acquisition.
- j. Represents an adjustment to record the \$71.0 million of debt incurred to acquire the assets including \$50.0 million of bank financing and \$21.0 million of seller's note.
- k. Represents an adjustment to present excise taxes included in operating expense in the audited financials of the Acquired Circuit on a net basis consistent with the accounting policies of Reading.
- l. Represents adjustments to cinemas costs of (dollars in thousands):

| | |
|---|---------------|
| Excise tax | \$ (2,155) |
| Straight-line rent expense | 1,398 |
| Amortization of below market rents | 986 |
| Total cinema expense adjustments | \$ 229 |

- m. Represents an adjustment to record the fair value depreciation of the acquired fixed assets based on the useful lives in 3.e. noted above. Also included in this adjustment is the intangible amortization of the acquired trade name is amortized as a declining period expense over 30 years while the noncompete agreement is amortized straight line over its five year life.
- n. Represents an adjustment to remove interest income earned by the Acquired Circuit.
- o. The increase in pro forma interest expense as a result of the acquisition for the year ended December 31, 2007 would be as follows (dollars in thousands):

| | |
|---|-----------------|
| Interest on the \$50.0 million note payable to GE Capital at the current rate of 6.98% which is based on a 3 month LIBOR plus a 4% spread | \$ 3,421 |
| Interest on the \$13.0 million portion of the note payable to the seller at an effective interest rate of 7.85% | 1,025 |
| Interest on the \$8.0 million portion of the note payable to the seller at an effective interest rate of 8.05% | 645 |
| Amortization of loan costs related to the \$50.0 million note payable to GE Capital | 822 |
| Total increase in interest expense | \$ 5,913 |

For the year ended December 31, 2007, a change in interest rates by 1/8 percent would result in an increase or decrease in interest expense of

| | |
|--|-------|
| | \$ 63 |
|--|-------|

- p. Reversal of income tax expense from Acquired Assets to reflect the tax effect of a proforma consolidated U.S. income tax loss. Reading International Inc does not record the benefit of income tax losses when facts do not indicate a benefit is more likely than not to be realized.

4. Acquired Circuit historical balance sheet

The pro forma balance sheet presents the condensed combined unaudited historical balance sheet of the Acquired Circuit as of December 27, 2007.

5. Acquired Circuit historical results of operations

The following table demonstrates how the historical results of operations of the Acquired Circuit were conformed to our fiscal year-end for purposes of the pro forma consolidated statement of operations for the year ended December 31, 2007 (dollars in thousands).

PACIFIC THEATRES FULL CIRCUIT BUSINESS
(A Business Unit of Pacific Theatres Entertainment Corporation and
Certain of its Affiliates)

Combined Statements of Operations

| | Year ended June 28, 2007 A | Six Months Ending Dec 28, 2006 B | Six Months Ending June 28, 2007 C = A - B | Six Months Ending Dec 27, 2007 D | 12 Months Ending Dec 27, 2007 C + D |
|--|----------------------------------|---|--|---|--|
| Operating revenue: | | | | | |
| Admissions | \$ 52,456 | 26,024 | 26,432 | 27,856 | 54,288 |
| Concessions | 22,051 | 10,597 | 11,454 | 11,493 | 22,947 |
| Other income | 2,971 | 1,558 | 1,413 | 1,543 | 2,956 |
| Total operating revenue | <u>77,478</u> | <u>38,179</u> | <u>39,299</u> | <u>40,892</u> | <u>80,191</u> |
| Operating expense: | | | | | |
| Film rental | 25,732 | 12,807 | 12,925 | 13,814 | 26,739 |
| Cost of concessions | 3,424 | 1,707 | 1,717 | 1,893 | 3,610 |
| Other operating costs | 38,712 | 19,038 | 19,674 | 20,409 | 40,083 |
| General and administrative | 2,223 | 1,111 | 1,112 | 1,412 | 2,524 |
| Depreciation and amortization | 5,476 | 2,528 | 2,948 | 2,573 | 5,521 |
| Casualty loss | — | — | — | — | — |
| Impairment loss on long-lived assets | 79 | — | 79 | — | 79 |
| Total operating expense | <u>75,646</u> | <u>37,191</u> | <u>38,455</u> | <u>40,101</u> | <u>78,556</u> |
| Operating income | <u>1,832</u> | <u>988</u> | <u>844</u> | <u>791</u> | <u>1,635</u> |
| Nonoperating income: | | | | | |
| Interest income | 3 | 2 | 1 | 2 | 3 |
| Gain on disposition of property, equipment, and improvements | 43 | — | 43 | — | 43 |
| Total nonoperating income | <u>46</u> | <u>2</u> | <u>44</u> | <u>2</u> | <u>46</u> |
| Earnings before income taxes | 1,878 | 990 | 888 | 793 | 1,681 |
| Income tax expense | 744 | 392 | 352 | 314 | 666 |
| Net income | <u>\$ 1,134</u> | <u>598</u> | <u>536</u> | <u>479</u> | <u>1,015</u> |

