
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2006

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)

500 Citadel Drive, Suite 300
Commerce CA

(Address of principal executive offices)

95-3885184

(IRS Employer Identification No.)

90040
(Zip Code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 6, 2006, there were 20,918,505 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 I – Financial Information

Item 1 – Financial Statements

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

	September 30, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 8,050	\$ 8,548
Receivables	4,353	5,272
Inventory	437	468
Investment in marketable securities	634	401
Restricted cash	300	--
Prepaid and other current assets	1,803	996
Total current assets	15,577	15,685
Property held for development	3,265	6,889
Property under development	33,644	23,069
Property & equipment, net	165,590	167,389
Investment in unconsolidated entities	21,861	14,025
Capitalized leasing costs	12	15
Goodwill	17,099	14,653
Intangible assets, net	8,136	8,788
Other assets	2,254	2,544
Total assets	\$ 267,438	\$ 253,057
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 11,627	\$ 13,538
Film rent payable	3,320	4,580
Notes payable – current portion	1,617	1,776
Note payable to related party – current portion	5,000	--
Income taxes payable	8,303	7,504
Deferred current revenue	1,970	2,319
Other current liabilities	200	250
Total current liabilities	32,037	29,967
Notes payable – long-term portion	103,944	93,544
Note payable to related parties	9,000	14,000
Deferred non-current revenue	545	554
Other liabilities	18,011	12,509
Total liabilities	163,537	150,574
Commitments and contingencies	--	--
Minority interest in consolidated affiliates	2,015	3,079
Stockholders' equity:		
Class A Nonvoting Common Stock, par value \$0.01, 100,000,000 shares authorized, 35,495,729 issued and 20,918,505 outstanding at September 30, 2006 and 35,468,733 issued and 20,990,458 outstanding at December 31, 2005	215	215
Class B Voting Common Stock, par value \$0.01, 20,000,000 shares authorized and 1,495,490 issued and outstanding at September 30, 2006 and December 31, 2005	15	15
Nonvoting Preferred Stock, par value \$0.01, 12,000 shares authorized and no outstanding shares	--	--
Additional paid-in capital	128,184	128,028
Accumulated deficit	(51,202)	(53,914)
Treasury shares	(4,307)	(3,515)
Accumulated other comprehensive income	28,981	28,575
Total stockholders' equity	101,886	99,404
Total liabilities and stockholders' equity	\$ 267,438	\$ 253,057

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Revenue				
Cinema	\$ 21,806	\$ 21,429	\$ 68,269	\$ 64,328
Real estate	3,236	3,380	10,672	10,858
	<u>25,042</u>	<u>24,809</u>	<u>78,941</u>	<u>75,186</u>
Operating expense				
Cinema	16,812	17,140	53,876	52,375
Real estate	2,161	1,484	5,628	5,148
Depreciation and amortization	3,385	3,242	9,963	9,409
General and administrative	3,047	5,600	9,489	13,479
	<u>25,405</u>	<u>27,466</u>	<u>78,956</u>	<u>80,411</u>
Operating loss	(363)	(2,657)	(15)	(5,225)
Non-operating income (expense)				
Interest income	70	40	157	149
Interest expense	(1,835)	(1,783)	(5,217)	(3,465)
Other income (loss)	209	(265)	(945)	24
Loss before minority interest expense, discontinued operations, income tax expense, and equity earnings of unconsolidated entities	(1,919)	(4,665)	(6,020)	(8,517)
Minority interest expense	153	140	425	559
Loss from continuing operations	(2,072)	(4,805)	(6,445)	(9,076)
Discontinued operations:				
Gain on disposal of business operations	--	--	--	13,610
Loss from discontinued operations	--	--	--	(1,379)
Income (loss) before income tax expense and equity earnings of unconsolidated entities	(2,072)	(4,805)	(6,445)	3,155
Income tax expense	540	190	1,222	643
Income (loss) before equity earnings of unconsolidated entities and gain on sale of unconsolidated entity	(2,612)	(4,995)	(7,667)	2,512
Equity earnings of unconsolidated entities	5,263	423	6,937	1,013
Gain on sale of unconsolidated entity	3,442	--	3,442	--
Net income (loss)	<u>\$ 6,093</u>	<u>\$ (4,572)</u>	<u>\$ 2,712</u>	<u>\$ 3,525</u>
Earnings (loss) per common share – basic:				
Earnings (loss) from continuing operations	\$ 0.27	\$ (0.20)	\$ 0.12	\$ (0.39)
Earnings (loss) from discontinued operations, net	0.00	0.00	0.00	0.55
Basic earnings (loss) per share	<u>\$ 0.27</u>	<u>\$ (0.20)</u>	<u>\$ 0.12</u>	<u>\$ 0.16</u>
Weighted average number of shares outstanding – basic	22,413,995	22,437,569	22,425,941	22,168,652
Earnings (loss) per common share – diluted:				
Earnings (loss) from continuing operations	\$ 0.27	\$ (0.20)	\$ 0.12	\$ (0.39)
Earnings from discontinued operations, net	0.00	0.00	0.00	0.55
Diluted earnings (loss) per share	<u>\$ 0.27</u>	<u>\$ (0.20)</u>	<u>\$ 0.12</u>	<u>\$ 0.16</u>
Weighted average number of shares outstanding – diluted	22,616,560	22,437,569	22,628,505	22,168,652

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended	
	September 30,	
	2006	2005
Operating Activities		
Net income	\$ 2,712	\$ 3,525
<i>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</i>		
(Gain) loss recognized on foreign currency transactions	22	(398)
Equity earnings of unconsolidated entities	(6,937)	(1,013)
Gain on sale of unconsolidated entity	(3,442)	--
Distributions of earnings from unconsolidated entities	481	754
Gain on sale of Puerto Rico Cinema Circuit	--	(1,597)
Gain on sale of Glendale Office Building	--	(12,013)
(Gain) loss on disposal of other assets	8	5
Depreciation and amortization	9,963	9,409
Stock based compensation expense	70	--
Minority interest	425	559
<i>Changes in operating assets and liabilities:</i>		
Decrease in receivables	1,442	695
Decrease (increase) in prepaid and other assets	(629)	673
Decrease in accounts payable and accrued expenses	(1,281)	(1,343)
Decrease in film rent payable	(1,257)	(907)
Increase (decrease) in deferred revenues and other liabilities	858	(1,224)
Net cash provided by (used in) operating activities	2,435	(2,875)
Investing activities		
Proceeds from sale of an unconsolidated joint venture	4,573	--
Proceeds from the sale of Puerto Rico Circuit	--	2,335
Proceeds from the sale of Glendale Office Building	--	10,300
Acquisitions	(8,087)	(14,354)
Purchase of property and equipment	(6,359)	(23,244)
Investments in unconsolidated entities	(2,676)	(905)
Change in restricted cash	(106)	1,020
Purchase of marketable securities	(215)	(78)
Proceeds from disposal of assets	--	515
Net cash used in investing activities	(12,870)	(24,411)
Financing activities		
Repayment of long-term borrowings	(2,957)	(305)
Proceeds from borrowings	11,797	25,707
Option deposit received	3,000	--
Proceeds from exercise of stock options	87	91
Repurchase of Class A Nonvoting Common Stock	(792)	--
Minority interest distributions	(1,496)	(557)
Net cash provided by financing activities	9,639	24,936
Effect of exchange rate changes on cash and cash equivalents	298	260
Decrease in cash and cash equivalents	(498)	(2,090)
Cash and cash equivalents at beginning of period	8,548	12,292
Cash and cash equivalents at end of period	\$ 8,050	\$ 10,202
Supplemental Disclosures		
Interest paid	\$ 6,402	\$ 4,411
Income taxes paid	\$ 369	\$ 254
Non-cash transactions		
Common stock issued for note receivable (Note 2)	\$ --	\$ 55
Increase in cost basis of Cinemas 1, 2, & 3 related to the purchase price adjustment of the call option liability to related party	\$ 1,087	--
Buyer assumption of note payable on Glendale Office Building	\$ --	\$ 10,103
Non-cash financing of acquisition	\$ --	\$ 9,000
Property addition from purchase option asset	\$ --	\$ 1,337
Treasury shares received	\$ --	\$ (3,515)
Stock options exercised in exchange for treasury shares received	\$ --	\$ 3,515

See accompanying notes to consolidated financial statements.

Reading International, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
For the Nine Months Ended September 30, 2006

Note 1 – Basis of Presentation

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

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

The accompanying unaudited consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission for interim reporting. As such, certain information and footnote disclosures typically required by US GAAP for complete financial statements have been condensed or omitted. There have been no material changes in the information disclosed in the notes to the consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2005 (“2005 Annual Report”). The financial information presented in this quarterly report on Form 10-Q for the period ended September 30, 2006 (the “September Report”), including the information under the heading, Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with our 2005 Annual Report which contains the latest audited financial statements and related footnotes.

In the opinion of management, all adjustments of a normal recurring nature considered necessary to present fairly in all material respects our financial position, results of our operations and cash flows as of and for the three months and nine months ended September 30, 2006 have been made. The results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of the results of operations to be expected for the entire year.

Marketable Securities

We have available for sale investments in marketable securities primarily in Australia of \$634,000 at September 30, 2006 with a cumulative unrealized gain of \$35,000 at September 30, 2006. For the three months and nine months ended September 30, 2006 our net unrealized gain on marketable securities was \$7,000 and \$24,000.

New Accounting and Tax Pronouncements

Statement of Financial Accounting Standard No. 157

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. We are evaluating SFAS 157 and have not yet determined the impact the adoption will have on the consolidated financial statements.

Financial Interpretation No. 48

In June 2006, the Financial Accounting Standards Board issued Financial Interpretation No. 48 *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. As the Interpretation will not affect our financials until the first quarter of 2007, we have not yet evaluated the impact of this statement on our consolidated financial statements.

Staff Accounting Bulletin (SAB) 108

The SEC staff's recently issued Staff Accounting Bulletin (SAB) 108 provides guidance on quantifying and evaluating the materiality of unrecorded misstatements. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006.

SAB 108 requires that a company use both the "iron curtain" and "rollover" approaches when quantifying misstatement amounts. The determination that an error is material in a current year that includes prior-year effects may result in the need to correct prior-year financial statements, even if the misstatement in the prior year or years is considered immaterial. When companies correct prior-year financial statements for immaterial errors, SAB 108 does not require previously filed reports to be amended. Such correction may be made the next time the company files the prior year financial statements.

When preparing its financial statements for fiscal years ending on or before November 15, 2006, a company may have quantified errors by using either the iron curtain or rollover approach, but not both. Based on the guidance in SAB 108, after applying both approaches, a company may now conclude that errors existing in the previously issued financial statements are material. For some companies, the adoption of SAB 108 may result in the need to record corrections for errors that were properly determined to be immaterial prior to SAB 108's adoption. In these circumstances, SAB 108 permits registrants to record the correcting amount as an adjustment to the opening balance of assets and liabilities, with an offsetting cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. We have not yet determined the impact of adopting SAB 108 on our consolidated financial statements.

Note 2 – Stock-Based Compensation

We have a long-term incentive stock option plan that provides for the grant to eligible employees and non-employee directors of incentive stock options and non-qualified stock options to purchase shares of the Company's Class A Nonvoting Common Stock. During the nine months ending September 30, 2006, we issued for cash to an employee of the corporation under this stock based compensation plan 12,000 shares and 15,000 shares of Class A Nonvoting Common Stock at exercise prices of \$3.80 and \$2.76 per share, respectively. During the nine months ending September 30, 2005, we did not issue any shares under this stock based compensation plan.

Prior to January 1, 2006, we accounted for stock-based employee compensation under the intrinsic value method as outlined in the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations while disclosing pro-forma net income and pro-forma net income per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*. Under the intrinsic value method, we did not recognize any

compensation expense when the exercise price of the stock options equaled or exceeded the market price of the underlying stock on the date of grant. We issued all stock option grants with exercise prices equal to, or greater than, the market value of the common stock on the date of grant. No stock compensation expense was recognized in the consolidated statements of operations through December 31, 2005.

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)) which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such costs be measured at the fair value of the award. This statement was adopted using the modified prospective method, which requires the Company to recognize compensation expense on a prospective basis for all newly granted options and any modifications or cancellations of previously granted awards. Therefore, prior period consolidated financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based payment awards, modifications to awards, and cancellations of awards, expense is also recognized to reflect the remaining vesting period of awards that had been included in pro-forma disclosures in prior periods. We estimate the valuation of stock based compensation using a Black-Scholes option pricing formula.

When the Company's tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. SFAS 123(R) requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. Had we previously adopted SFAS 123(R), there would have been no impact on our presentation of the consolidated statement of cash flows because there were no recognized tax benefits relating to the three months and nine months ended September 30, 2005. For the three months and nine months ended September 30, 2006, there also was no impact to the consolidated statement of cash flows because there were no recognized tax benefits during this period.

SFAS No. 123(R) requires Companies to estimate forfeitures. Based on our historical experience and the relative market price to strike price of the options, we do not currently estimate any forfeitures of vested or unvested options that would result in a cumulative adjustment from a change in accounting principle for the nine months ended September 30, 2006.

In November 2005, the FASB issued FASB Staff Position No. SFAS 123(R)-3, *Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards*. The Company has elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to SFAS No. 123(R). The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool or APIC pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123(R).

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

There were 7,500 options granted during the nine months ended September 30, 2005. In accordance with SFAS No. 123, we used the intrinsic value method and did not recognize any compensation expense when the exercise price of the stock options equaled or exceeded the market price of the underlying stock on the date of grant. For the 20,000 options granted during 2006, we estimated the fair value of these options at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2006
Stock option exercise price	\$ 8.10
Risk-free interest rate	4.22%

Expected dividend yield	--
Expected option life	5.97 yrs
Expected volatility	34.70%
Weighted average fair value	\$ 4.33

Using the above assumptions and in accordance with the SFAS No. 123(R) modified prospective method, we recorded \$25,000 and \$70,000 in compensation expense for the total estimated grant date fair value of stock options that vested for the three months and nine months ended September 30, 2006, respectively. At September 30, 2006, the total unrecognized estimated compensation cost related to non-vested stock options granted was \$118,000, which is expected to be recognized over a weighted average vesting period of 1.84 years. The total realized value of stock options exercised during the nine months ended September 30, 2006 was \$131,000. We recorded cash received from stock options exercised of \$87,000 during the nine months ended September 30, 2006. No options were exercised; therefore, no cash was received from the exercising of stock options during the three months ending September 30, 2006. The intrinsic, unrealized value of all options outstanding at September 30, 2006 was \$1.6 million of which 99% are currently exercisable. The total fair value of the stock options that are vesting for the remainder of this year, but have not yet reached their vesting date, is \$15,000 as of September 30, 2006.

All stock options granted have a contractual life of 10 years at the grant date. The aggregate total number of shares of Class A Nonvoting Common Stock and Class B Voting Common Stock authorized for issuance under our 1999 Stock Option Plan is 1,350,000. At the time that options are exercised, at the discretion of management, we will either issue treasury shares or make a new issuance of shares to the employee or board member. Dependent on the grant letter to the employee or board member, the required service period for option vesting is between zero and four years.

We had the following stock options outstanding and exercisable as of September 30, 2006 and December 31, 2005:

	<u>Common Stock</u>		<u>Weighted</u>		<u>Common Stock</u>		<u>Weighted Average</u>	
	<u>Options</u>		<u>Average</u>		<u>Exercisable</u>		<u>Price of</u>	
	<u>Outstanding</u>		<u>Price of Options</u>		<u>Options</u>		<u>Exercisable</u>	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Outstanding-December 31, 2004	1,488,200	185,100	\$ 4.19	\$ 9.90	1,377,700	185,100	\$ 4.80	\$ 9.90
Exercised	(974,600)	--	\$ 3.78	\$ --				
Granted	7,500	--	\$ 7.86	\$ --				
Outstanding-December 31, 2005	521,100	185,100	\$ 5.00	\$ 9.90	474,600	185,100	\$ 5.04	\$ 9.90
Exercised	(27,000)	--	\$ 3.22	\$ --				
Granted	20,000	--	\$ 8.10	\$ --				
Outstanding-September 30, 2006	514,100	185,100	\$ 5.21	\$ 9.90	488,475	185,100	\$ 5.06	\$ 9.90

The weighted average remaining contractual life of all options outstanding at September 30, 2006 and 2005 were approximately 3.85 and 4.79 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at September 30, 2006 and 2005 was approximately 3.64 and 4.53 years, respectively.

The following table illustrates the effect on net income per common share for the three months and nine months ended September 30, 2005 as if we had consistently measured the compensation cost for stock option programs under the fair value method adopted on January 1, 2006 (dollars in thousands):

Three Months	Nine Months
Ended September 30,	Ended September 30,
2005	2005

Net income (loss), as reported	\$	(4,572)	\$	3,525
Add: Stock-based employee/director compensation expense included in reported net income		--		--
Less: Total stock-based employee compensation expense determined under fair value based method for all awards		20		61
Pro forma net income (loss)	\$	(4,592)	\$	3,464
Earnings (loss) per share:				
Basic and diluted—as reported	\$	(0.20)	\$	0.16
Basic and diluted—pro forma	\$	(0.20)	\$	0.16

Note 3 – Business Segments

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

The tables below summarize the results of operations for each of our principal business segments for the three (“2006 Quarter”) and nine (“2006 Nine Months”) months ended September 30, 2006 and the three (“2005 Quarter”) and nine (“2005 Nine Months”) months ended September 30, 2005, respectively. Operating expenses include costs associated with the day-to-day operations of the cinemas and live theatres and the management of rental properties. All operating results from discontinued operations are included in “Loss from discontinued operations” (dollars in thousands):

Three Months Ended September 30, 2006	Cinema	Real Estate	Total
Revenue	\$ 21,806	\$ 3,236	\$ 25,042
Operating expense	16,812	2,161	18,973
Depreciation & amortization	2,245	989	3,234
General & administrative expense	1,306	577	1,883
Segment operating income (loss)	\$ 1,443	\$ (491)	\$ 952

Three Months Ended September 30, 2005	Cinema	Real Estate	Total
Revenue	\$ 21,429	\$ 3,380	\$ 24,809
Operating expense	17,140	1,484	18,624
Depreciation & amortization	2,140	930	3,070
General & administrative expense	1,840	79	1,919
Segment operating income	\$ 309	\$ 887	\$ 1,196

Reconciliation to consolidated net income (loss):	2006 Quarter	2005 Quarter
Total segment operating income	\$ 952	\$ 1,196
Non-segment:		
Depreciation and amortization expense	151	172
General and administrative expense	1,164	3,681
Operating loss	(363)	(2,657)

Interest expense, net	(1,765)	(1,743)
Other income (loss)	209	(265)
Minority interest expense	(153)	(140)
Income tax expense	(540)	(190)
Equity earnings of unconsolidated entities	5,263	423
Gain on sale of unconsolidated entity	3,442	--
Net income (loss)	\$ 6,093	\$ (4,572)

Nine Months Ended September 30, 2006	Cinema	Real Estate	Total
Revenue	\$ 68,269	\$10,672	\$ 78,941
Operating expense	53,876	5,628	59,504
Depreciation & amortization	6,600	3,009	9,609
General & administrative expense	2,815	578	3,393
Segment operating income	\$ 4,978	\$ 1,457	\$ 6,435

Nine Months Ended September 30, 2005	Cinema	Real Estate	Total
Revenue	\$ 64,328	\$10,858	\$ 75,186
Operating expense	52,375	5,148	57,523
Depreciation & amortization	6,371	2,794	9,165
General & administrative expense	5,405	255	5,660
Segment operating income	\$ 177	\$ 2,661	\$ 2,838

Reconciliation to consolidated net income:	2006 Nine Months	2005 Nine Months
Total segment operating income	\$ 6,435	\$ 2,838
Non-segment:		
Depreciation and amortization expense	354	244
General and administrative expense	6,096	7,819
Operating loss	(15)	(5,225)
Interest expense, net	(5,060)	(3,316)
Other income (loss)	(945)	24
Minority interest expense	(425)	(559)
Gain on disposal of discontinued operations	--	13,610
Loss from discontinued operations	--	(1,379)
Income tax expense	(1,222)	(643)
Equity earnings of unconsolidated entities	6,937	1,013
Gain on sale of unconsolidated entity	3,442	--
Net income	\$ 2,712	\$ 3,525

Note 4 – Operations in Foreign Currency

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

Presented in the table below are the currency exchange rates for Australia and New Zealand as of September 30, 2006 and December 31, 2005:

	US Dollar	
	September 30, 2006	December 31, 2005
Australian Dollar	\$ 0.7461	\$ 0.7342
New Zealand Dollar	\$ 0.6530	\$ 0.6845

Note 5 – Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net earnings (loss) to common stockholders by the weighted average number of common shares outstanding during the period after giving effect to all potentially dilutive common shares that would have been outstanding if the dilutive common shares had been issued. Stock options give rise to potentially dilutive common shares. In accordance with SFAS No. 128, “*Earnings Per Share*,” these shares are included in the dilutive earnings per share calculation under the treasury stock method. The following is a calculation of earnings per share (dollars in thousands, except share data):

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2006	2005	2006	2005
Income (loss) from continuing operations	\$ 6,093	\$ (4,572)	\$ 2,712	\$ (8,706)
Income from discontinued operations	--	--	--	12,231
Net income (loss)	6,093	(4,572)	2,712	3,525
Weighted average shares of common stock - basic	22,413,995	22,437,569	22,425,941	22,168,652
Weighted average shares of common stock - dilutive	22,616,560	22,437,569	22,628,505	22,168,652
Earnings (loss) per share:				
Earnings (loss) from continuing operations – basic and diluted	\$ 0.27	\$ (0.20)	\$ 0.12	\$ (0.39)
Earnings from discontinued operations – basic and diluted	\$ --	\$ --	\$ --	\$ 0.55
Earnings (loss) per share – basic and diluted	\$ 0.27	\$ (0.20)	\$ 0.12	\$ 0.16

For the three months and nine months ended September 30, 2005, we recorded operating losses. As such, the incremental shares of 215,056 in 2005 from stock options to purchase shares of common stock were excluded from the computation of diluted earnings (loss) per share because they were anti-dilutive in those periods.

Note 6 - Property Under Development and Property and Equipment

As of September 30, 2006 and December 31, 2005, we owned property under development summarized as follows (dollars in thousands):

Property Under Development	September 30, 2006	December 31, 2005
Land	\$ 26,885	\$ 18,585
Construction-in-progress (including capitalized interest)	6,759	4,484
Property Under Development	\$ 33,644	\$ 23,069

We recorded capitalized interest related to our properties under development for the three months ended September 30, 2006 and 2005 of \$449,000 and \$706,000, respectively, and \$1.2 million and \$1.8 million for nine months ended September 30, 2006 and 2005, respectively.

As of September 30, 2006 and December 31, 2005, we owned investments in property and equipment as follows (dollars in thousands):

Property and equipment	September 30, 2006	December 31, 2005
Land	\$ 55,502	\$ 54,476
Building	94,312	92,188
Leasehold interest	9,727	9,075
Construction-in-progress	1,088	863
Fixtures and equipment	54,420	51,221
	215,049	207,823
Less accumulated depreciation	(49,459)	(40,434)
Property and equipment, net	\$ 165,590	\$ 167,389

Depreciation expense for property and equipment was \$3.2 million and \$2.9 million for the three months ended September 30, 2006 and 2005, respectively, and \$9.3 million and \$8.5 million for the nine months ended September 30, 2006 and 2005, respectively.

Note 7 – Investments in Unconsolidated Entities

Investments in unconsolidated entities are accounted for under the equity method of accounting, and, as of September 30, 2006 and December 31, 2005, include the following (dollars in thousands):

	Interest	September 30, 2006	December 31, 2005
Malulani Investments, Ltd.	18.4 %	\$ 1,800	\$ --
Rialto Distribution	33.3 %	646	734
Rialto Cinemas	50.0 %	5,241	4,691
205-209 East 57 th Street Associates, LLC	25.0 %	9,085	3,139
Mt. Gravatt	33.3 %	4,593	4,052
Berkeley Cinemas	50.0 %	496	1,409
Total		\$ 21,861	\$ 14,025

For the three months and nine months ending September 30, 2006 and 2005, we recorded our share of equity earnings (loss) from our investments in unconsolidated entities as follows:

	Three Months Ending September 30,		Nine Months Ending September 30,	
	2006	2005	2006	2005
Rialto Distribution	\$ (31)	\$ --	\$ (53)	\$ --
Rialto Cinemas	(123)	--	(123)	--
205-209 East 57 th Street Associates, LLC	5,027	--	5,946	--
Mt. Gravatt	194	92	473	310
Berkeley Cinemas	196	331	694	703
	\$ 5,263	\$ 423	\$ 6,937	\$ 1,013

Rialto Cinemas

As noted in our 2005 Annual Report, we were in dispute with our joint venture partner, which precluded us from receiving timely financial reporting which required us to treat our ownership of Rialto Cinemas on a cost basis. We have now resolved the dispute and are receiving regular financial reporting on the results of the cinemas. As such, for the three and nine months ending September 30, 2006, we recorded equity losses \$123,000 (NZ\$192,000) related to the cinemas' operations. Also during the three months ended September 30, 2006, we contributed an additional \$876,000 (NZ\$1.4 million) to the partnership that was used to pay off the bank loans owed by the cinemas.

205-209 East 57th Street Associates, LLC

During 2006, this joint venture has been developing a residential condominium complex in midtown Manhattan called Place 57. This partnership has closed on the sales of 36 and 47 condominiums during the three and nine months ending September 30, 2006, respectively, resulting in gross sales of \$71.2 million and \$87.0 million, respectively, and equity earnings from unconsolidated entities to us of \$5.0 million and \$5.9 million, respectively. The condensed statement of operations for 205-209 East 57th Street Associates, LLC (Unaudited) is as follows:

	2006 Nine Months
Net revenue	\$ 86,998
Operating expense	63,214
Net income	23,784

Malulani Investments, Ltd.

On June 26, 2006, we acquired for \$1.8 million, an 18.4% interest in a private real estate company with holdings principally in California, Texas and Hawaii, including the Guenoc Winery located on approximately 22,000 acres of land located in Napa and Lake Counties in Northern California. We are still in the process of determining the purchase price allocation for this acquisition. We have been in contact with the controlling shareholder of Malulani Investments, Ltd. and requested quarterly or annual operating financials. To date, he has not responded to our request for relevant financial information. Based on this situation, we do not believe that we can assert significant influence over the dealings of this joint venture. As such and in accordance with FASB Interpretation No. 35 – *Criteria for Applying the Equity Method of Accounting for Investments in Common Stock – an Interpretation of APB Opinion No. 18*, we are treating this investment on a cost basis by recognizing earnings as they are distributed to us.

Berkeley Cinemas

On August 28, 2006, we sold to our Joint Venture Partner our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand for \$4.6 million (NZ\$7.2 million) in cash and the assumption of \$1.6 million (NZ\$2.5 million) in debt. The sale resulted in a gain on sale of unconsolidated entity for the three months and nine months ending September 30, 2006 of \$3.4 million (NZ\$5.4 million).

Additionally, effective April 1, 2006, we purchased from our Joint Venture partner the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand for cash of \$2.8 million (NZ\$4.5 million) and the proportionate share of assumed debt which amounted to \$993,000 (NZ\$1.6 million). This 8-screen, leasehold cinema had previously been included in our Berkeley Cinemas Joint Venture investment and was not previously consolidated for accounting purposes. Subsequent to April 1, 2006, we have consolidated this entity into our financial statements.

As of September 30, 2006, the only remaining cinema owned by this joint venture is the Botany Downs cinema, located in suburban Auckland.

Note 8 – Goodwill and Intangible Assets

Subsequent to January 1, 2002, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill. Instead, we perform an annual impairment review of our goodwill and other intangible assets in the fourth quarter unless changes in circumstances indicate that an asset may be impaired. As of September 30, 2006 and December 31, 2005, we had goodwill consisting of the following (dollars in thousands):

	September 30, 2006	December 31, 2005
Segments		
Cinema	\$ 11,963	\$ 9,489
Real estate	5,136	5,164
Total	\$ 17,099	\$ 14,653

The increase in goodwill in the cinema segment of \$2.5 million was primarily related to the purchase of the Queenstown and Palms Cinemas (see Note 18 – *Acquisitions and Dispositions*). We have finalized the purchase price allocation for these acquisitions in accordance with SFAS No. 141 *Business Combinations*.

We have intangible assets other than goodwill that are subject to amortization and are being amortized over various periods. We amortize our beneficial leases over the lease period, the longest of which is 20 years, and our option fee and other intangible assets over 10 years. For the three months ended September 30, 2006 and 2005, amortization expense totaled \$223,000 and \$297,000, respectively, and for the nine months ended September 30, 2006 and 2005, the amortization expense totaled \$638,000 and \$909,000, respectively.

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

As of September 30, 2006	Beneficial Leases	Option Fee	Other Intangible Assets	Total
Gross carrying amount	\$ 10,953	\$ 2,773	\$ 202	\$ 13,928
Less: Accumulated amortization	3,373	2,403	16	5,792
Total, net	\$ 7,580	\$ 370	\$ 186	\$ 8,136

As of December 31, 2005	Beneficial		Other	
	Leases	Option Fee	Intangible	Total
			Assets	
Gross carrying amount	\$ 10,957	\$ 2,773	\$ 212	\$ 13,942
Less: Accumulated amortization	2,809	2,332	13	5,154
Total, net	\$ 8,148	\$ 441	\$ 199	\$ 8,788

Note 9 – Prepaid and Other Assets

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

	September 30,	December 31,
	2006	2005
Prepaid and other current assets		
Prepaid expenses	\$ 971	\$ 246
Prepaid taxes	452	370
Deposits	161	157
Other	219	223
Total prepaid and other current assets	\$ 1,803	\$ 996
Other non-current assets		
Other non-cinema and non-rental real estate assets	\$ 1,314	\$ 1,314
Long-term restricted cash	--	191
Deferred financing costs, net	604	847
Other	336	192
Total non-current assets	\$ 2,254	\$ 2,544

Note 10 – Income Tax

The income tax expense for the three months and nine months ended September 30, 2006 and 2005 was composed of the following amounts (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2006	2005	2006	2005
Foreign income tax provision	\$ 76	\$ 31	\$ 135	\$ 103
Foreign withholding tax	138	126	411	371
Federal tax provision	235	--	490	51
Other income tax	91	33	186	118
Income tax expense	\$ 540	\$ 190	\$ 1,222	\$ 643

Note 11 – Notes Payable

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

Name of Note Payable	Interest Rates as of		Maturity Date	Balance as of	
	September 30, 2006	December 31, 2005		September 30, 2006	December 31, 2005
Australian Corporate Credit Facility	7.13%	6.96%	January 1, 2009	\$ 66,733	\$ 32,442
Australian Newmarket Construction Loan	N/A	7.34%	N/A	--	21,701
Australian Shopping Center Loans	6.53%	6.53%	2007-2013	1,108	1,169
New Zealand Corporate Credit Facility	9.05%	9.15%	November 23, 2009	32,650	34,225
New Zealand Movieland Note Payable	N/A	5.50%	February 27, 2006	--	537
US Sutton Hill Capital Note 1 – Related Party	9.26%	9.26%	July 28, 2007	5,000	5,000
US Royal George Theatre Term Loan	7.99%	6.97%	November 29, 2007	1,861	1,986
US Sutton Hill Capital Note 2 – Related Party	8.25%	8.25%	December 31, 2010	9,000	9,000
US Union Square Theatre Term Loan	7.31%	7.31%	October 1, 2011	3,209	3,260
Total Notes Payable				\$ 119,561	\$ 109,320

During the first nine months of 2006, we drew down \$5.7 million (AUS\$7.6 million) to purchase the Palms – Christchurch Cinema (*see Note 18 – Acquisitions and Dispositions*) and to make other capital improvements to our existing cinema sites, \$2.0 million (NZ\$3.1 million) to payoff the Palms – Christchurch Cinema bank debt, \$2.2 million (AUS\$3.0 million) to purchase a 0.4 acre commercial site adjacent to our Moonee Ponds property in Melbourne, Australia, and \$1.6 million (AUS\$2.2 million) to purchase a commercial development in Indooroopilly a suburb of Brisbane, Australia. Additionally, we drew down \$2.3 million (AUS\$3.1 million) on our Newmarket Construction Loan used to finance the completion of the retail portions of our Newmarket Shopping Centre development in Brisbane, Australia. As prescribed by the credit agreement, upon completion of the retail portions of our Newmarket ETRC, our Newmarket Construction Loan was combined with our Australian Corporate Credit Facility during the first quarter of 2006. The combined total borrowing limit of our Australian Corporate Credit Facility is \$74.3 million (AUS\$99.6 million) which reflects a principal repayment on the facility of \$280,000 (AUS\$377,500) made on June 30, 2006. As of September 30, 2006, we had drawn a total of \$66.7 million (AUS\$89.4 million) against this facility and issued lease guarantees as the lessee of \$3.0 million (AUS\$4.0 million) leaving an available, undrawn balance of \$4.6 million (AUS\$6.2 million).

Effective September 30, 2006, we renegotiated our Australian Corporate Credit Facility. Under the new terms, it is unlikely that we will be required to make any further principal payments on the loan until the facility comes to term on January 1, 2009.

At September 30, 2006, we were in the process of renegotiating the rate, term and amount of our Union Square Theatre Term Loan (*see Note 20 - Subsequent Events*).

On February 27, 2006, we paid off the balance of our New Zealand Movieland Note Payable that we had issued in August 2004 in connection with the purchase of our Movieland Circuit. The balance of this purchase money promissory note was paid in full for \$520,000 (NZ\$784,000) plus \$14,000 (NZ\$22,000) of accrued interest.

Note 12 – Other Liabilities

Other liabilities are summarized as follows (dollars in thousands):

	September 30, 2006	December 31, 2005
Current liabilities		
Security deposit payable	\$ 199	\$ 174
Other	1	76
Other current liabilities	\$ 200	\$ 250
Other liabilities		
Foreign withholding taxes	\$ 5,145	\$ 4,944
Straight-line rent liability	3,644	3,541
Option liability	3,581	1,055
Environmental reserve	1,656	1,656
Interest rate swap	86	635
Option deposit	3,000	--
Other	899	678
Other liabilities	\$ 18,011	\$ 12,509

As part of the purchase of the real property underlying our leasehold interest in the Cinemas 1, 2, & 3 we have granted an option to Sutton Hill Capital, LLC, a limited liability company beneficially owned in equal 50/50 shares by Messrs. James J. Cotter and Michael Forman, to acquire, at cost, up to a 25% non-managing membership interest in the limited liability company that we formed to acquire these interests. That limited liability company is called Sutton Hill Properties LLC, a subsidiary of Reading International, Inc. In June 2006, Sutton Hill Capital, LLC gave us \$3.0 million as a deposit on the exercise price of this option.

In relation to this option, we had previously recorded a \$1.0 million call option liability in other liabilities and a corresponding increase in purchase price paid for the land by Sutton Hill Properties LLC at December 31, 2005. We have adjusted our purchase price allocation relating to the completed valuation of the option as of September 19, 2005 and have recorded an additional \$1.1 million as land acquisition costs and option liability. Any change in the option value subsequent to the issuance date is recorded as other income or expense in the statement of operations. As part of our quarterly valuation procedures and with the input from our real estate appraisers, we updated the valuation of these property interests in Cinemas 1, 2, & 3. Because of an increase in the value of the underlying real property assets, the value of the option at September 30, 2006 increased to \$3.6 million, resulting in a charge for the three months and nine months ended September 30, 2006 of \$100,000 and \$1.5 million, respectively.

During the first quarter of 2006, the Motion Picture Projectionists, Video Technicians and Allied Crafts Union asserted that due to the Company's reduced reliance on union labor in New York City, there was a partial withdrawal from the union pension plan by the Company in 2003 resulting in a funding liability on the part of the Company of approximately \$342,000. We believe that the estimated amount of our obligation to the Union for their pension plan is in question and disputable. For this reason, we intend to discuss further the matter with the Union. However, to reflect the Union's asserted assessment at this time, we have recorded the \$342,000 liability in our other liabilities as of September 30, 2006.

Note 13 – Commitments and Contingencies

Unconsolidated Debt

Total debt of unconsolidated entities was \$5.2 million and \$69.8 million as of September 30, 2006 and December 31, 2005, respectively. Our share of unconsolidated debt, based on our ownership percentage, was \$2.2 million and \$20.4 million as of September 30, 2006 and December 31, 2005, respectively.

Except for what is noted below regarding Tax/Audit Litigation, there have been no material changes to our litigation exposure since our Company's 2005 Annual Report.

Mackie Dispute

In November 2005, Mackie Group Pty Ltd ("Mackie") filed in the Supreme Court of Victoria at Melbourne as action No. 9121 of 2005, a lawsuit against Reading Properties Pty Ltd, an indirectly wholly owned subsidiary of our Company ("Reading Properties"), asserting that it was owed \$746,000 (AUS\$1.0 million), under an agreement dated May 25, 1998. We dispute this claim and have filed a response denying liability. On or about July 21, 2006, plaintiffs filed a motion for summary judgment in that case. The response of Reading Properties is due in late November. Having reviewed the plaintiff's motion for summary judgment, we continue to be of the view that we have no liability to Mackie under the May 1998 agreement, and intend to continue to dispute Mackie's claim.

Tax Audit/Litigation

The Internal Revenue Service (the "IRS") completed its audits of the tax return of Reading Entertainment Inc. (RDGE) for its tax years ended December 31, 1996 through December 31, 1999 and the tax return of Craig Corporation (CRG) for its tax year ended September 30, 1997. With respect to both of these companies, the principal focus of these audits was the treatment of the contribution by RDGE to our wholly owned subsidiary, Reading Australia, and thereafter the subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the "Stater Stock") received by RDGE from CRG as a part of a private placement of securities by RDGE which closed in October 1996. A second issue involving equipment leasing transactions entered into by RDGE (discussed below) is also involved.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of RDGE and CRG for the years in question (the "Examination Reports"). The Examination Report for each of RDGE and CRG proposed that the gains on the disposition by RDGE of Stater Stock, reported as taxable on the RDGE return, should be allocated to CRG. As reported, the gain resulted in no additional tax to RDGE inasmuch as the gain was entirely offset by a net operating loss carry forward of RDGE. This proposed change would result in an additional tax liability for CRG of approximately \$20.9 million plus interest of approximately \$11.0 million as of September 30, 2006. In addition, this proposal would result in California tax liability of approximately \$5.3 million plus interest of approximately \$3.0 million as of September 30, 2006. Accordingly, this proposed change represented, as of September 30, 2006, an exposure of approximately \$40.2 million.

Moreover, California has "amnesty" provisions imposing additional liability on taxpayers who are determined to have materially underreported their taxable income. While these provisions have been criticized by a number of corporate taxpayers to the extent that they apply to tax liabilities that are being contested in good faith, no assurances can be given that these new provisions will be applied in a manner that would mitigate the impact on such taxpayers. Accordingly, these provisions may cause an additional \$4.0 million exposure to CRG, for a total exposure of approximately \$44.2 million. We have accrued \$3.8 million as a probable loss in relation to this exposure and believe that the possible total settlement amount will be between \$3.8 million and \$44.2 million.

In early February 2005, we had a mediation conference with the IRS concerning this proposed change. The mediation was conducted by two mediators, one of whom was selected by the taxpayer from the private sector and one of whom was an employee of the IRS. In connection with this mediation, we and the IRS each prepared written submissions to the mediators setting forth our respective cases. In its written submission, the IRS noted that it had offered to settle its claims against us at 30% of the proposed change, and reiterated this offer at the mediation. This offer constituted, in effect, an offer to settle for a payment of \$5.5 million federal tax, plus interest, for an aggregate settlement amount of approximately \$8.0 million. Based on advice of counsel given after reviewing the materials submitted by the IRS to the mediation panel, and the oral presentation made by the IRS to the mediation panel and the comments of the mediators (including the IRS mediator), we determined not to accept this offer.

Notices of deficiency (“N/D”) dated June 29, 2006 were received with respect to each of RDGE and CRG determining proposed deficiencies of \$20.9 million for CRG and a total of \$349,000 for RDGE for the tax years 1997, 1998 and 1999.

We intend to litigate aggressively these matters in the U.S. Tax Court and an appeal was filed with the court on September 26, 2006. While there are always risks in litigation, we believe that a settlement at the level currently offered by the IRS would substantially understate the strength of our position and the likelihood that we would prevail in a trial of these matters.

Since these tax liabilities relate to time periods prior to the Consolidation of CDL, RDGE, and CRG into Reading International, Inc. and since RDGE and CRG continue to exist as wholly owned subsidiaries of RII, it is expected that any adverse determination would be limited in recourse to the assets of RDGE or CRG, as the case may be, and not to the general assets of RII. At the present time, the assets of these subsidiaries are comprised principally of RII securities. Accordingly, we do not anticipate, even if there were to be an adverse judgment in favor of the IRS that the satisfaction of that judgment would interfere with the internal operation or result in any levy upon or loss of any of our material operating assets. The satisfaction of any such adverse judgment would, however, result in a material dilution to existing stockholder interests.

The N/D issued to RDGE does not cover its tax year 1996 which will be held in abeyance pending the resolution of the CRG case. An adjustment to 1996 taxable income for RDGE would result in a refund of alternative minimum tax paid that year. The N/D issued to RDGE eliminated the gains booked by RDGE in 1996 as a consequence of its acquisition certain computer equipment and sale of the anticipated income stream from the lease of such equipment to third parties and disallowed depreciation deductions that we took with respect to that equipment in 1997, 1998 and 1999. Such disallowance has the effect of decreasing net operating losses but did not result in any additional regular federal income tax for such years. However, the depreciation disallowance would increase RDGE state tax liability for those years by approximately \$170,000 plus interest. The only tax liability reflected in the RDGE N/D is alternative minimum tax in the total amount of approximately \$350,000 plus interest. On September 26, 2006, we filed an appeal on this N/D with the U.S. Tax Court.

Note 14 – Minority Interest

Minority interest is composed of the following enterprises:

- 50% of membership interest in Angelika Film Center LLC (“AFC LLC”) owned by a subsidiary of National Auto Credit, Inc.;
- 33% minority interest in the Elsternwick Joint Venture owned by Champion Pictures Pty Ltd.; and
- 25% minority interest in Australia Country Cinemas Pty Ltd (“ACC”) owned by Panorama Cinemas for the 21st Century Pty Ltd.

The components of minority interest are as follows (dollars in thousands):

	September 30, 2006	December 31, 2005
AFC LLC	\$ 1,884	\$ 2,847
Elsternwick Unincorporated Joint Venture	35	116
Australian Country Cinemas	95	113
Others	1	3
Minority interest in consolidated affiliates	\$ 2,015	\$ 3,079

	Expense for the Three Months Ended September 30,		Expense for the Nine Months Ended September 30,	
	2006	2005	2006	2005
AFC LLC	\$ 168	\$ 348	\$ 425	\$ 557
Australian Country Cinemas	(3)	(126)	--	26
Elsternwick Unincorporated Joint Venture	(12)	(82)	--	(24)
Minority interest expense	\$ 153	\$ 140	\$ 425	\$ 559

Note 15 – Common Stock

During the first quarter of 2006, we issued for cash to an employee of the corporation under our stock based compensation plan 12,000 shares and 15,000 shares of Class A Nonvoting Common Stock at exercise prices of \$3.80 and \$2.76 per share, respectively.

On February 27, 2006, we paid \$792,000 (NZ\$1.2 million) to the sellers of the Movieland Circuit in exchange for 98,949 Class A Common Nonvoting Common Stock. This transaction resulted from the exercise of their option to put back to us at an exercise price of NZ\$11.94 the shares they received as part of the purchase price of the Movieland Circuit.

Note 16 - Comprehensive Income

U.S. GAAP requires that the effect of foreign currency translation adjustments and unrealized gains and/or losses on securities that are available-for-sale (“AFS”) be classified as comprehensive income. The following table sets forth our comprehensive income for the periods indicated (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income (loss)	\$ 6,093	\$ (4,572)	\$ 2,712	\$ 3,525
Foreign currency translation gain (loss)	1,381	459	382	(1,065)
Unrealized gain on AFS	7	--	24	--
Comprehensive income (loss)	\$ 7,481	\$ (4,113)	\$ 3,118	\$ 2,460

Note 17 – Discontinued Operations and Assets Held For Sale

In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we report as discontinued operations real estate assets that meet the definition of a component of an entity and have

been sold or meet the criteria to be classified as held for sale under SFAS 144. We included all results of these discontinued operations, less applicable income taxes, in a separate component of operations on the consolidated statements of operations under the heading “discontinued operations.”

Glendale Building. On May 17, 2005, we sold our Glendale office building in Glendale, California for \$10.3 million cash and \$10.1 million of assumed debt resulting in a \$12.0 million gain.

The results for the Glendale Property for the nine months ended September 30, 2005 are as follows (dollars in thousands):

	Nine Months 2005
Revenue	\$ 1,103
Operating expense	355
Depreciation & amortization expense	51
General & administrative expense	1
Operating income	696
Interest income	3
Interest expense	312
Income from discontinued operations before gain on sale	387
Gain on sale	12,013
Total income from discontinued operations	\$ 12,400

Puerto Rico Cinema Operations. On June 8, 2005, we sold our assets and certain liabilities associated with our Puerto Rico cinema operations for \$2.3 million resulting in a \$1.6 million gain.

The results for the Puerto Rico discontinued operations for the nine months ended September 30, 2005 are as follows (dollars in thousands):

	Nine Months 2005
Revenue	\$ 4,575
Operating expense	5,752
Depreciation & amortization expense	206
General & administrative expense	383
Income (loss) from discontinued operations before gain on sale	(1,766)
Gain on sale	1,597
Total income (loss) from discontinued operations	\$ (169)

Note 18 – Acquisitions and Dispositions

Indooroopilly Land

On September 18, 2006, we purchased a 0.26 acre property for \$1.8 million (AUS\$2.3 million) as part of our newly established Landplan Property Partners arrangement with Mr. Doug Osborne.

In July 2006, we entered into an agreement with Mr. Doug Osborne pursuant to which (i) Mr. Osborne will serve as the chief executive officer of our newly formed Australian subsidiary Landplan Property Partners, Ltd (“LPP”) and (ii) Mr. Osborne’s affiliate, Landplan Property Group, Ltd (“LPG”), will perform certain property management services for LPP. LPP was formed to identify, acquire, develop and operate properties in Australia and New Zealand offering redevelopment possibilities and, ultimately, to sell the resultant redeveloped properties. The agreement provides for a base salary and an equity interest to Mr. Osborne in these properties. Mr Osborne’s ownership interest in these properties, however, is subordinate to our right to an 11% compounded return on investment and is subject to adjustment depending upon his length of service and the amounts we invest. Generally speaking, his ownership interest will range from 27.5% to 15% based on meeting the defined service requirements and depending on our level of investment. To date, we have only purchased one property pursuant to this new initiative: the Indooroopilly property.

Moonee Ponds Land

On September 1, 2006, we purchased two parcels of land aggregating 0.4 acres adjacent to our Moonee Ponds property for \$2.5 million (AUS\$3.3 million). This acquisition increases our holdings at Moonee Ponds to 3.1 acres and gives us frontage facing the principal transit station servicing the area. We are now in the process of developing the entire site and anticipate completion of this project in 2008.

Berkeley Cinemas

On August 28, 2006, we sold to our Joint Venture Partner our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand for \$4.6 million (NZ\$7.2 million) in cash and the assumption of \$1.6 million (NZ\$2.5 million) in debt. The sale resulted in a gain on sale of unconsolidated entity for the three months and nine months ending September 30, 2006 of \$3.4 million (NZ\$5.4 million).

Additionally, effective April 1, 2006, we purchased from our Joint Venture partner the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand for cash of \$2.8 million (NZ\$4.5 million) and the proportionate share of assumed debt which amounted to \$987,000 (NZ\$1.6 million). This 8-screen, leasehold cinema had previously been included in our Berkeley Cinemas Joint Venture investment and was not previously consolidated for accounting purposes. We drew down \$4.8 million (AUS\$6.3 million) on our Australian Corporate Credit Facility to purchase the Palms cinema and to payoff its bank debt of \$2.0 million (NZ\$3.1 million). We have finalized the purchase price allocation for this acquisition, in accordance with SFAS No. 141 Business Combinations. A summary of the increased assets and liabilities relating to this acquisition as recorded at estimated fair values is as follows (dollars in thousands):

Palms Cinema	
Assets	
Accounts receivable	\$ 31
Inventory	11
Other assets	8
Property and equipment	1,430
Goodwill	2,310
Total assets	3,790
Liabilities	
Accounts payable and accrued liabilities	178
Note payable	987
Other liabilities	12
Total liabilities	1,177
Total net assets	\$ 2,613

As a result of these transactions, the only cinema held in the Berkeley Joint Venture at September 30, 2006 is the Botany Downs cinema in suburban Auckland.

Malulani Investments, Ltd.

On June 26, 2006, we acquired for \$1.8 million, an 18.4% interest in a private real estate company with holdings principally in California, Texas and Hawaii, including the Guenoc Winery located on approximately 22,000 acres of land located in Napa and Lake Counties in Northern California. We are still in the process of determining the purchase price allocation of the assets and liabilities associated with this acquisition.

Queenstown Cinema

Effective February 23, 2006, we purchased a 3-screen leasehold cinema in Queenstown, New Zealand for \$939,000 (NZ\$1.4 million). We funded this acquisition through internal sources.

Note 19 – Derivative Instruments

The following table sets forth the terms of our interest rate swap derivative instruments at September 30, 2006:

<u>Type of Instrument</u>	<u>Notional Amount</u>	<u>Pay Fixed Rate</u>	<u>Receive Variable Rate</u>	<u>Maturity Date</u>
Interest rate swap	\$ 8,580,000	5.7000%	6.0300%	December 31, 2007
Interest rate swap	\$ 11,938,000	6.4400%	6.0300%	December 31, 2008
Interest rate swap	\$ 12,180,000	6.6800%	6.0300%	December 31, 2008
Interest rate swap	\$ 9,084,000	5.8800%	6.0300%	December 31, 2008
Interest rate swap	\$ 2,611,000	6.3600%	6.0300%	December 31, 2008

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we marked our Australian interest rate swap instruments to market on the consolidated balance sheet resulting in a \$2,000 (AUS\$3,000) and \$555,000 (AUS\$758,000) decrease to interest expense during the three and nine months ended September 30, 2006, respectively, and a \$204,000 (AUS\$271,000) and \$194,000 (AUS\$224,000) increase to interest expense during the three and nine months ended September 30, 2005, respectively. At

September 30, 2006 and December 31, 2005, we have recorded the fair market value of our interest rate swaps of \$84,000 (AUS\$112,000) and \$638,000 (AUS\$870,000), respectively, as an other long-term liability. In accordance with SFAS No. 133, we have not designated any of our current interest rate swap positions as financial reporting hedges.

Note 20 – Subsequent Events

Union Square Loan

On October 19, 2006, we entered into a preliminary agreement to refinance our Union Square property with the same lender that holds the current mortgage on that property. While no assurances can be given, the terms of the preliminary agreement stipulate that the new loan will close on or about November 30, 2006 with a fixed interest rate of 6.26% and a balance of \$7.5 million. This new loan will replace the existing Union Square mortgage which currently has a 7.31% interest rate and a loan balance of \$3.2 million.

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

As Reading International, Inc. (RDI and collectively with our consolidated subsidiaries, “Reading” and “we,” “us” or “our”), we have historically considered ourselves to be essentially a cinema exhibition and live theatre operating company with a strong focus on the development, operation and holding of commercial real estate assets. We believe that this strategic mix coupled with our management expertise allows us to bring value to developable land by providing our own “anchor tenant” and to realize the value in older cinema sites by developing them, on an opportunistic basis, to their highest and best use. This strategy has allowed us to use our available free cash flow to build assets, while freeing us, to some extent, from the volatility that can result from a focus on simply operating cinema assets in leased facilities. Given relative opportunities for cinema expansion and for real estate development, we believe it likely that we will, as time progresses, become more and more a real estate company and less and less a cinema and live theatre operating company.

On February 20, 2006, our efforts to rezone our 50.6 acre parcel in suburban Melbourne, Australia, were rewarded, as our Burwood property was rezoned clearing the way for us to redevelop that historically industrial use property into a mixture of retail, commercial, entertainment and residential uses. Our cost basis in our Burwood property is \$19.6 million (AUS\$26.3 million).

It is anticipated that the complete build out of our Burwood site will be done in stages over an approximately 10 year period, and require an investment of approximately \$500 million (AUS\$670 million). Given the size and scope of this project, and our other ongoing projects at Moonee Ponds (also in Melbourne), Redyard (in suburban Sydney) and Courtenay Central (in Wellington, New Zealand), and our new Landplan Property Partners initiative, it is likely that an increasing proportion of our capital and human resources will be focused on the real estate segment of our business.

Our business operations currently include:

- the development, ownership and operation of multiplex cinemas in the United States, Australia, and New Zealand;
- the development, ownership and operation of commercial real estate in Australia, New Zealand and the United States typically as a business ancillary to the development and operation of cinemas, cinema-based ETRC’s and live theatres; and
- the ownership and operation, typically as a landlord, of “Off Broadway” style live theatres in Manhattan and Chicago.

We manage our worldwide cinema business under various different brands:

- in the US, under the *Reading*, *Angelika Film Center* and *City Cinemas* brands;
- in Australia, under the *Reading* brand; and
- in New Zealand, under the *Reading*, *Berkeley Cinemas* and *Rialto* brands.

At September 30, 2006, we owned and operated 35 cinemas with 231 screens, had interests in certain unconsolidated entities that own an additional 7 cinemas with 46 screens and managed 2 cinemas with 9 screens.

Our business plan going forward is to build-out our existing development properties, and to seek out additional real estate development opportunities while continuing to use our presence in the cinema exhibition and live theatre business, to identify, develop and acquire cinema and live theatre properties. In the case of cinema and live theatre acquisitions, we intend to focus on those opportunities where we can acquire (i) either the fee interest underlying the operating assets, or long-term leases, which we believe provide flexibility with respect to the usage of such leasehold assets or (ii) strategic cinemas that will provide synergies with our existing cinema operations.

During the first nine months of 2006, our efforts on the real estate side of our business were focused in large part on:

- obtaining approval from the Victoria State Government of the rezoning of our 50.6 acre Burwood property (located in suburban Melbourne) from an essentially industrial to a priority use zone allowing a mixture of retail, entertainment, commercial and residential uses;
- completion and lease-up of the retail portion of our 4.1 acre Newmarket ETRC in Brisbane, Australia (100,000 square feet of leased retail space), and finalization of the governmental approvals required for the construction of the cinema portion of that project. The retail portion of that property is now approximately 98% leased, including anchor tenancies provided by a major grocery chain and a major pub operator; and all necessary land use authorizations for the cinema portion of the project have now been obtained; and
- the start up of a new real estate initiative for Australia and New Zealand, focusing on the identification, acquisition and redevelopment of real estate sites offering potential for redevelopment. This new initiative, currently operating under the name Landplan Property Partners has retained its first property, a 0.26 acre commercial property in Indooroopilly, a suburb of Brisbane, Australia, which was acquired for \$1.8 million (AUS\$2.3 million) and is now actively investigating several additional properties. Unlike our prior real estate operations, this initiative is not intended to focus on properties that may offer a cinema or live theater development opportunity.

A significant portion of our business is conducted in Australia and New Zealand, and as such, we are subject to a certain degree of currency risk. We do not engage in currency hedging activities. Rather, to the extent possible, we operate our Australian and New Zealand operations on a self-funding basis. Our policy in Australia and New Zealand is to match revenues and expenses, whenever possible, in local currencies. As a result, the majority of our expenses in Australia and New Zealand have been procured in local currencies. Due to the developing nature of our operations in Australia and New Zealand, our revenues are not yet significantly greater than our operating expenses. The resulting natural operating hedge has led to a negligible foreign currency effect on our net earnings. However, foreign currency can have a significant effect on the value of assets and liabilities with fluctuations noted in other comprehensive income. As we continue to progress with our acquisition and development activities in Australia and New Zealand, we cannot assure you that the foreign currency effect on our earnings will be insignificant in the future.

We continue to acquire, to dispose of or to reposition assets in accordance with our business plan. So far, in 2006, we have made the following acquisitions and dispositions:

Indooroopilly Land

On September 18, 2006, we purchased a 0.26 acre property for \$1.8 million (AUS\$2.3 million) as part of our newly established Landplan Property Partners initiative. It is currently anticipated that the property will be redeveloped for commercial purposes.

Moonee Ponds Land

On September 1, 2006, we purchased two parcels of land aggregating 0.4 acres adjacent to our Moonee Ponds property for \$2.5 million (AUS\$3.3 million). This acquisition increases our holdings at Moonee Ponds to 3.1 acres and gives us frontage facing the principal transit station servicing the area. We are now in the process of developing the entire site and anticipate completion of this project in 2008.

Berkeley Cinemas

On August 28, 2006, we sold to our Joint Venture Partner our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand for \$4.6 million (NZ\$7.2 million) in cash and the assumption of \$1.6 million (NZ\$2.5 million) in debt. The sale resulted in a gain on sale of unconsolidated entity for the three months and nine months ending September 30, 2006 of \$3.4 million (NZ\$5.4 million).

Additionally, effective April 1, 2006, we purchased from our Joint Venture partner the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand for cash of \$2.8 million (NZ\$4.5 million) and the proportionate share of assumed debt which amounted to \$993,000 (NZ\$1.6 million). This 8-screen, leasehold cinema had previously been included in our Berkeley Cinemas Joint Venture investment and was not previously consolidated for accounting purposes. Subsequent to April 1, 2006, we have consolidated this entity into our financial statements.

As a result of these transactions, the only cinema owned by this joint venture is the Botany Downs cinema, located in suburban Auckland.

Malulani Investments, Ltd.

On June 26, 2006, we acquired for \$1.8 million, an 18.4% interest in a private real estate company with holdings principally in California, Texas and Hawaii including, the Guenoc Winery located on approximately 22,000 acres of land located in Napa and Lake Counties in Northern California. We are still in the process of determining the purchase price allocation of the assets and liabilities associated with this acquisition.

Queenstown Cinema

Effective February 23, 2006, we purchased a 3-screen leasehold cinema in Queenstown, New Zealand for \$939,000 (NZ\$1.4 million). We funded this acquisition through internal sources.

Results of Operations

At September 30, 2006, we directly operated 35 cinemas with 231 screens, had interests in certain unconsolidated entities in which we have varying interests, which own an additional 7 cinemas with 46 screens and managed 2 cinemas with 9 screens. Regarding real estate, we owned and operated during the period four ETRC's that we developed in Australia and New Zealand; owned the fee interests in four developed commercial properties in Manhattan and Chicago, all of which are improved with live theatres comprising seven stages and, in two cases, ancillary retail and commercial space; owned the fee interests underlying one of our Manhattan cinemas and hold for development an additional five parcels (aggregating approximately 58 acres) in urbanized areas of Australia and New Zealand. Two of these parcels, Burwood and Moonee Ponds, comprise approximately 54 acres, and are in areas designated by the provincial government of Victoria, Australia as "major activity centres," and we are currently in the planning phases of their development.

The tables below summarize the results of operations for each of our principal business segments for the three ("2006 Quarter") and nine ("2006 Nine Months") months ended September 30, 2006 and the three ("2005 Quarter") and nine ("2005 Nine Months") months ended September 30, 2005, respectively. Operating expenses include costs associated with the day-to-day operations of the cinemas and live theatres and the management of rental properties. Our year-to-year results of operation were principally impacted by the following:

- the sale effective June 8, 2005 of our Puerto Rican cinema operations;
- the sale effective May 17, 2005 of our Glendale, California office building, our only commercial domestic property with no entertainment component;

- the acquisition on June 1, 2005 and September 19, 2005 of the various real property interests underlying our leasehold interest in our Cinemas 1, 2 & 3 cinema;
- the opening in the fourth quarter of 2005 and the occupancy of the majority of tenancies during first quarter of 2006 of our Newmarket Shopping Center, a 100,000 square foot retail center in a suburb of Brisbane, Australia;
- the opening of a cinema in a suburb of Adelaide, Australia on October 20, 2005 and the acquisition of a cinema in Queenstown, New Zealand effective February 23, 2006;
- the purchase of the 50% share that we did not already own of the Palms 8-screen, leasehold cinema located in Christchurch, New Zealand effective April 1, 2006;
- the sale of our 50% share of the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand formerly part of the Berkeley Cinemas Group effective August 28, 2006; and
- the reduction in the value of the Australian and New Zealand dollars vis-à-vis the US dollar from \$0.7643 and \$0.6938, respectively, as of September 30, 2005 to \$0.7461 and \$0.6530, respectively, as of September 30, 2006.

The following tables detail our operating results for our three months and nine months ended September 30, 2006. All operating results from discontinued operations are included in "Loss from discontinued operations" (dollars in thousands):

Three Months Ended September 30, 2006	Cinema	Real Estate	Total
Revenue	\$ 21,806	\$ 3,236	\$ 25,042
Operating expense	16,812	2,161	18,973
Depreciation & amortization	2,245	989	3,234
General & administrative expense	1,306	577	1,883
Segment operating income (loss)	\$ 1,443	\$ (491)	\$ 952

Three Months Ended September 30, 2005	Cinema	Real Estate	Total
Revenue	\$ 21,429	\$ 3,380	\$ 24,809
Operating expense	17,140	1,484	18,624
Depreciation & amortization	2,140	930	3,070
General & administrative expense	1,840	79	1,919
Segment operating income	\$ 309	\$ 887	\$ 1,196

Reconciliation to consolidated net income (loss):	2006 Quarter	2005 Quarter
Total segment operating income	\$ 952	\$ 1,196
Non-segment:		
Depreciation and amortization expense	151	172
General and administrative expense	1,164	3,681
Operating loss	(363)	(2,657)
Interest expense, net	(1,765)	(1,743)
Other income (loss)	209	(265)
Minority interest expense	(153)	(140)
Income tax expense	(540)	(190)
Equity earnings of unconsolidated entities	5,263	423
Gain on sale of unconsolidated entity	3,442	--
Net income (loss)	\$ 6,093	\$ (4,572)

Nine Months Ended September 30, 2006	Cinema	Real Estate	Total
Revenue	\$ 68,269	\$10,672	\$ 78,941
Operating expense	53,876	5,628	59,504
Depreciation & amortization	6,600	3,009	9,609
General & administrative expense	2,815	578	3,393
Segment operating income	\$ 4,978	\$ 1,457	\$ 6,435

Nine Months Ended September 30, 2005	Cinema	Real Estate	Total
Revenue	\$ 64,328	\$10,858	\$ 75,186
Operating expense	52,375	5,148	57,523
Depreciation & amortization	6,371	2,794	9,165
General & administrative expense	5,405	255	5,660
Segment operating income	\$ 177	\$ 2,661	\$ 2,838

Reconciliation to consolidated net income:	2006 Nine Months	2005 Nine Months
Total segment operating income	\$ 6,435	\$ 2,838
Non-segment:		
Depreciation and amortization expense	354	244
General and administrative expense	6,096	7,819
Operating loss	(15)	(5,225)
Interest expense, net	(5,060)	(3,316)
Other income (loss)	(945)	24
Minority interest expense	(425)	(559)
Gain on disposal of discontinued operations	--	13,610
Loss from discontinued operations	--	(1,379)
Income tax expense	(1,222)	(643)
Equity earnings of unconsolidated entities	6,937	1,013
Gain on sale of unconsolidated entity	3,442	--
Net income	\$ 2,712	\$ 3,525

Cinema

Included in the cinema segment above is revenue and expense from the operations of 35 cinema complexes with 231 screens. The following tables detail our cinema segment operating results for the three months ending September 30, 2006 and 2005, respectively (dollars in thousands):

Three Months Ended September 30, 2006	United States	Australia	New Zealand	Total
Admissions revenue	\$ 4,698	\$ 8,031	\$ 3,136	\$15,865
Concessions revenue	1,386	2,538	957	4,881
Advertising and other revenues	448	400	212	1,060
Total revenues	6,532	10,969	4,305	21,806
Cinema costs	4,223	9,167	2,332	15,722
Concession costs	273	576	241	1,090
Total operating expense	4,496	9,743	2,573	16,812
Depreciation and amortization	381	1,482	382	2,245
General & administrative expense	534	762	10	1,306
Segment operating income (loss)	\$ 1,121	\$ (1,018)	\$ 1,340	\$ 1,443

Three Months Ended September 30, 2005	United States	Australia	New Zealand	Total
Admissions revenue	\$ 4,569	\$ 8,232	\$ 2,922	\$15,723
Concessions revenue	1,242	2,675	927	4,844
Advertising and other revenues	368	373	121	862
Total revenues	6,179	11,280	3,970	21,429
Cinema costs	4,414	9,201	2,371	15,986
Concession costs	261	632	261	1,154
Total operating expense	4,675	9,833	2,632	17,140
Depreciation and amortization	549	1,379	212	2,140
General & administrative expense	1,607	229	4	1,840
Segment operating income (loss)	\$ (652)	\$ (161)	\$ 1,122	\$ 309

- Cinema revenue increased for the 2006 Quarter by \$377,000 or 1.8% compared to the same period in 2005. The 2006 Quarter increase was from improved attendance at our New Zealand and United States cinemas.
- Operating expense decreased for the 2006 Quarter by \$328,000 or 1.9% compared to the same period in 2005. This decrease was primarily related to improved cost management in our United States operations which resulted in an overall improvement in our operating expenses from 80% to 77% of gross revenue for the 2005 and 2006 Quarters, respectively.
- Depreciation and amortization expense increased for the 2006 Quarter by \$105,000 or 4.9% compared to the same period in 2005 primarily related to the increase in depreciation in the new Australian Elizabeth Cinema acquired in October 2005 and our newly acquired New Zealand Palms and Queenstown cinemas offset by the decrease in the City Cinema Option Fee amortization expense directly related to the purchase of the leasehold associated with the Cinemas 1, 2, & 3 in Sep 2005.
- General and administrative expense decreased for the 2006 Quarter by \$534,000 or 29.0% compared to the same period in 2005. The decrease was due to a drop in legal costs primarily related to our anti-trust litigation associated with our Village East cinema and the purchase of the Cinemas 1, 2, & 3 which decreased the amount of rent paid to related parties.

- As a result of the above, cinema segment income increased for the 2006 Quarter by \$1.1 million compared to the same period in 2005.

The following tables detail our cinema segment operating results for the nine months ending September 30, 2006 and 2005, respectively, adjusted to exclude our discontinued Puerto Rico cinema operations (dollars in thousands):

Nine Months Ended September 30, 2006	United States	Australia	New Zealand	Total
Admissions revenue	\$12,936	\$27,236	\$ 9,744	\$49,916
Concessions revenue	3,891	8,436	2,911	15,238
Advertising and other revenues	1,202	1,342	571	3,115
Total revenues	18,029	37,014	13,226	68,269
Cinema costs	12,982	29,170	8,336	50,488
Concession costs	695	1,932	761	3,388
Total operating expense	13,677	31,102	9,097	53,876
Depreciation and amortization	1,373	4,260	967	6,600
General & administrative expense	1,986	802	27	2,815
Segment operating income	\$ 993	\$ 850	\$ 3,135	\$ 4,978

Nine Months Ended September 30, 2005	United States	Australia	New Zealand	Total
Admissions revenue	\$12,955	\$25,530	\$ 8,755	\$47,240
Concessions revenue	3,586	8,031	2,704	14,321
Advertising and other revenues	997	1,334	436	2,767
Total revenues	17,538	34,895	11,895	64,328
Cinema costs	13,172	28,410	7,360	48,942
Concession costs	751	1,885	797	3,433
Total operating expense	13,923	30,295	8,157	52,375
Depreciation and amortization	1,593	4,049	729	6,371
General & administrative expense	4,697	727	(19)	5,405
Segment operating income (loss)	\$ (2,675)	\$ (176)	\$ 3,028	\$ 177

- Cinema revenue increased for the 2006 Nine Months by \$3.9 million or 6.1% compared to the same period in 2005. The 2006 Nine Month increase was from improved results from our Australia and New Zealand operations including \$2.7 million from admissions and \$755,000 from concessions and other revenues.
- Operating expense increased for the 2006 Nine Months by \$1.5 million or 2.9% compared to the same period in 2005. This increase followed the aforementioned increase in revenues. Overall, our operating expenses from year-to-year improved from 81% to 79% of gross revenue for the Nine Months ending 2005 and 2006, respectively, primarily due to improved cost management in our United States operations.
- Depreciation and amortization expense increased for the 2006 Nine Months by \$229,000 or 3.6% compared to the same period in 2005. This increase is primarily related to the new Australian Elizabeth Cinema acquired in October 2005 and our newly acquired New Zealand Palms and Queenstown cinemas

offset by the decrease in the City Cinema Option Fee amortization expense directly related to the purchase of the leasehold associated with the Cinemas 1, 2, & 3 in Sep 2005.

- General and administrative expense decreased for the 2006 Nine Months by \$2.6 million or 47.9% compared to the same period in 2005. The decrease was due to a drop in legal costs primarily related to our anti-trust litigation associated with our Village East cinema and the purchase of land associated with the Cinemas 1, 2 & 3 which decreased the amount of rent paid to related parties.
- As a result of the above, cinema segment income increased for the 2006 Nine Months by \$4.8 million compared to the same period in 2005.

Real Estate

For the three months ended September 30, 2006, our third party, rental generating real estate holdings consisted of:

- ETRCs at Belmont in Perth; at Auburn in Sydney; and at Newmarket in Brisbane in Australia; and Courtenay Central in Wellington, New Zealand;
- three single auditorium live theatres in Manhattan (Minetta Lane, Orpheum, and Union Square) and a four auditorium live theatre complex in Chicago (The Royal George) and, in the case of the Union Square and the Royal George their accompanying ancillary retail and commercial tenants;
- the ancillary retail and commercial tenants at some of our non-ETRC cinema locations; and
- certain raw land, used in our historic activities.

The following tables detail our real estate segment operating results for the three months ending September 30, 2006 and 2005, respectively (dollars in thousands):

Three Months Ended September 30, 2006	United States	Australia	New Zealand	Total
Live theatre rental and ancillary income	\$ 911	\$ --	\$ --	\$ 911
Property rental income	205	1,804	316	2,325
Total revenues	1,116	1,804	316	3,236
Live theatre costs	830	--	--	830
Property rental cost	371	651	309	1,331
Total operating expense	1,201	651	309	2,161
Depreciation and amortization	106	512	371	989
General & administrative expense	11	565	1	577
Segment operating income (loss)	\$ (202)	\$ 76	\$ (365)	\$ (491)

Three Months Ended September 30, 2005	United States	Australia	New Zealand	Total
Live theatre rental and ancillary income	\$ 1,145	\$ --	\$ --	\$ 1,145
Property rental income	351	1,042	842	2,235
Total revenues	1,496	1,042	842	3,380
Live theatre costs	587	--	--	587
Property rental cost	173	535	189	897
Total operating expense	760	535	189	1,484
Depreciation and amortization	109	383	438	930
General & administrative expense	--	79	--	79
Segment operating income	\$ 627	\$ 45	\$ 215	\$ 887

- Revenue decreased for the 2006 Quarter by \$144,000 or 4.3% compared to the same period in 2005. The decrease was primarily related to a drop in rents from our domestic live theatres due to fewer shows during 2006 compared to 2005 offset by higher property income from our newly constructed Australia Newmarket shopping centre.
- Operating expense for the real estate segment increased for the 2006 Quarter by \$677,000 or 45.6% compared to the same period in 2005. This increase in expense was primarily related to our Newmarket shopping centre in Brisbane, Australia and costs related to our domestic live theatres and domestic properties.
- Depreciation expense for the real estate segment increased by \$59,000 or 6.3% for the 2006 Quarter compared to the same period in 2005. The majority of this increase was attributed to the Australia Newmarket shopping center assets which were put into service during the first quarter 2006.
- As a result of the above, real estate segment income decreased for the 2006 Quarter by \$1.4 million compared to the same period in 2005.

The following tables detail our real estate segment operating results for the nine months ending September 30, 2006 and 2005, respectively, adjusted to reflect the sale of our Glendale property which was sold during the second quarter of 2005 (dollars in thousands):

Nine Months Ended September 30, 2006	United States	Australia	New Zealand	Total
Live theatre rental and ancillary income	\$ 2,950	\$ --	\$ --	\$ 2,950
Property rental income	941	4,481	2,300	7,722
Total revenues	3,891	4,481	2,300	10,672
Live theatre costs	1,976	--	--	1,976
Property rental cost	806	1,826	1,020	3,652
Total operating expense	2,782	1,826	1,020	5,628
Depreciation and amortization	318	1,566	1,125	3,009
General & administrative expense	13	565	--	578
Segment operating income	\$ 778	\$ 524	\$ 155	\$ 1,457

Nine Months Ended September 30, 2005	United States	Australia	New Zealand	Total
Live theatre rental and ancillary income	\$ 3,784	\$ --	\$ --	\$ 3,784
Property rental income	884	3,302	2,888	7,074
Total revenues	4,668	3,302	2,888	10,858
Live theatre costs	2,042	--	--	2,042
Property rental cost	434	1,509	1,163	3,106
Total operating expense	2,476	1,509	1,163	5,148
Depreciation and amortization	282	1,162	1,350	2,794
General & administrative expense	3	252	--	255
Segment operating income	\$ 1,907	\$ 379	\$ 375	\$ 2,661

- Revenue decreased for the 2006 Nine Months by \$186,000 or 1.7% compared to the same period in 2005. The decrease was primarily related the decrease in rent from our domestic live theatres offset by an enhanced rental stream from our recently opened Australia Newmarket ETRC.
- Operating expense for the real estate segment increased for the 2006 Nine Months by \$480,000 or 9.3% compared to the same period in 2005. This increase in expense was primarily higher property taxes from our United States properties and operating costs related to our recently opened Australia Newmarket ETRC.
- Depreciation expense for the real estate segment increased by \$215,000 or 7.7% for the 2006 Nine Months compared to the same period in 2005. The majority of this increase was attributed to the Newmarket shopping center assets in Australia which were put into service during the first quarter 2006.
- As a result of the above, real estate segment income for the 2006 Nine Months decreased by \$1.2 million compared to the same period in 2005.

Corporate

General and administrative expense includes expenses that are not directly attributable to other operating segments. General and administrative expense decreased by \$2.5 million in the 2006 Quarter compared to the 2005 Quarter and by \$1.7 million in the 2006 Nine Months compared to the 2005 Nine Months. The decreases were primarily related to a drop in legal fees and from a one-time charge for additional bonus accrual in 2005 for our Chief Executive Officer's new employment contract.

Net interest expense increased by \$22,000 and \$1.7 million for the 2006 Quarter and the 2006 Nine Months compared to last year primarily related to a higher outstanding loan balance in Australia and due to the effective completion of construction of our Newmarket Shopping Centre in early 2006 which decreased the amount of interest being capitalized. This interest increase was offset by a decrease in interest expense related to the mark-to-market adjustment of our interest rate swaps compared to the adjustment for the same three month and nine month periods in 2005.

During the 2006 Nine Months, other expense increased by \$1.0 million primarily due to a \$1.5 million mark-to-market charge relating to an option liability held by Sutton Hill Capital LLC to acquire a 25% non-managing membership interest in our Cinemas 1, 2 & 3 property.

A \$13.6 million gain on the sale of discontinued operations and the corresponding \$1.4 million loss from discontinued operations from the combination of our Puerto Rico cinemas and Glendale property operations was recognized in 2005 and not repeated in 2006.

Equity earnings of unconsolidated entities increased by approximately \$4.8 million for the 2006 Quarter and by \$5.9 million for 2006 Nine Months compared to last year. The increase was primarily related to the 205-209 East 57th Street Associates, LLC, that has been developing a residential condominium complex in midtown Manhattan called Place 57. The partnership has closed on the sale of 36 and 47 condominiums during the three and nine months ending September 30, 2006, respectively, resulting in gross sales of \$71.2 million and \$87.0 million, respectively, and equity earnings from unconsolidated entities to us of \$5.0 million and \$5.9 million, respectively.

In addition to the aforementioned equity earnings, we recorded a gain on sale of unconsolidated entities of \$3.4 million (NZ\$5.4 million), from the sale of our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand.

Consolidated Net Income (Losses)

During 2006, we recorded a net income of \$6.1 million and \$2.7 million for the 2006 Quarter and 2006 Nine Months, respectively. During 2005, we recorded a net loss of \$4.6 million for the 2005 Quarter and net income of \$3.5 million and 2005 Nine Months, respectively. The current year income is primarily related to the equity earnings from 205-209 East 57th Street Associates, LLC and from the sale of our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand. The prior year income was primarily due to the aforementioned sale of our Glendale property and Puerto Rico operations. If it were not for these items, our consolidated net loss would have been \$2.3 million and \$6.6 million for the 2006 Quarter and 2006 Nine Months, respectively, and \$4.6 million and \$10.1 million for the 2005 Quarter and 2005 Nine Months, respectively.

Acquisitions

Indooroopilly Land

On September 18, 2006, we purchased a 0.26 acre property for \$1.8 million (AUS\$2.3 million) as part of our newly established Landplan Property Partners initiative.

Moonee Ponds Land

On September 1, 2006, we purchased two parcels of land aggregating 0.4 acres adjacent to our Moonee Ponds property for \$2.5 million (AUS\$3.3 million). This acquisition increases our holdings at Moonee Ponds to 3.1 acres and gives us frontage facing the principal transit station servicing the area. We are now in the process of developing the entire site and anticipate completion of this project in 2008.

Berkeley Cinemas

Effective April 1, 2006, we purchased from our Joint Venture partner the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand for cash of \$2.8 million (NZ\$4.5 million) and the proportionate share of assumed debt which amounted to \$993,000 (NZ\$1.6 million). This 8-screen, leasehold cinema had previously been included in our Berkeley Cinemas Joint Venture investment and was not previously consolidated for accounting purposes. Subsequent to April 1, 2006, we have consolidated this entity into our financial statements as a wholly-owned subsidiary.

As of September 30, 2006, the only cinema owned by this joint venture is the Botany Downs cinema, located in suburban Auckland.

Malulani Investments, Ltd.

On June 26, 2006, we acquired for \$1.8 million, an 18.4% interest in a private real estate company with holdings principally in California, Texas and Hawaii, including the Guenoc Winery located on approximately 22,000 acres of land located in Napa and Lake Counties in Northern California. We are still in the process of determining the purchase price allocation of the assets and liabilities associated with this acquisition.

Queenstown Cinema

Effective February 23, 2006, we purchased a 3-screen leasehold cinema in Queenstown, New Zealand for \$939,000 (NZ\$1.4 million). We funded this acquisition through internal sources.

Dispositions

Berkeley Cinemas

On August 28, 2006, we sold to our Joint Venture Partner our interest in the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand for \$4.6 million (NZ\$7.2 million) in cash and the assumption of \$1.6 million (NZ\$2.5 million) in debt. The sale resulted in a gain on sale of unconsolidated entity for the three months and nine months ending September 30, 2006 of \$3.4 million (NZ\$5.4 million).

Business Plan, Capital Resources and Liquidity

Business Plan

Our cinema exhibition business plan is to continue to identify, develop and acquire cinema properties, focusing, where reasonably available, on those opportunities where we can acquire either the fee interest underlying such operating assets, or long-term leases, which provide flexibility with respect to the usage of such leasehold estates. Our real estate business plan is to continue to develop our existing land assets, focusing principally on uses that incorporate entertainment elements such as cinemas, and to continue to be sensitive to opportunities to convert our entertainment assets to higher and better uses – such as the ongoing redevelopment of our Sutton Cinema property into residential and retail condominium units. In addition, we will actively seek out potential real estate sites in Australia and New Zealand that show profitable redevelopment opportunities.

We are currently concentrating our acquisitions and development activities primarily in Australia and New Zealand, as we believe that there are currently better opportunities in these markets than domestically. We continue to close under-performing cinema assets, or to sell or put to other purposes those cinema assets that have value as real estate significantly in excess of their value as cinemas.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt and lease obligations at September 30, 2006 (in thousands):

	2006	2007	2008	2009	2010	Thereafter
Long-term debt	\$ 232	\$ 4,080	\$ 2,188	\$ 95,700	\$ 242	\$ 3,119
Notes payable to related parties	--	5,000	--	--	9,000	--
Lease obligations	2,477	10,260	9,604	9,506	9,356	70,674
Estimated interest on long-term debt	2,325	9,014	8,422	3,279	955	172
Total	\$ 5,034	\$ 28,354	\$ 20,214	\$ 108,485	\$ 19,553	\$ 73,965

Estimated interest on long-term debt is based on the anticipated loan balances for future periods calculated against current fixed and variable interest rates.

Unconsolidated Debt

Total debt of unconsolidated entities was \$5.2 million and \$69.8 million as of September 30, 2006 and December 31, 2005, respectively. Our share of unconsolidated debt, based on our ownership percentage, was \$2.2 million and \$20.4 million as of September 30, 2006 and December 31, 2005, respectively.

Off-Balance Sheet Arrangements

There are no off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a current or future material effect on our financial condition, changes in the financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Liquidity and Capital Resources

Our ability to generate sufficient cash flows from operating activities in order to meet our obligations and commitments drives our liquidity position. This is further affected by our ability to obtain adequate, reasonable financing and/or to convert non-performing or non-strategic assets into cash. We cannot separate liquidity from capital resources in achieving our long-term goals in order to meet our debt servicing requirements.

Currently, our liquidity needs arise mainly from:

- working capital requirements;
- debt servicing requirements; and
- capital expenditures, centered on obtaining the right financing for the development of our Burwood property.

Operating Activities

Cash provided by operations was \$2.4 million in the 2006 Nine Months compared to \$2.9 million of cash used in operations for the 2005 Nine Months. The increase in cash provided by operations of \$5.3 million is due primarily to increased cinema operational cash flow from our Australia and New Zealand operations and improved cash flow from our U.S. cinemas during 2006 resulting from the sale of our formerly underperforming Puerto Rico operations in June 2005.

Investing Activities

Cash used in investing activities for the 2006 Nine Months decreased by \$11.5 million to \$12.9 million from \$24.4 million compared to the same period in 2005. The \$12.9 million cash used for the 2006 Nine Months was primarily related to:

- \$8.1 million in acquisitions including:
 - \$939,000 in cash used to purchase the Queenstown Cinema in New Zealand,
 - \$2.8 million in cash used to purchase the 50% share that we did not already own of the Palms cinema located in Christchurch, New Zealand,
 - \$1.8 million for the Australia Indooroopilly property, and

- \$2.5 million for the adjacent parcel to our Moonee Ponds property;
- \$6.4 million in cash used to complete the Newmarket property and for property enhancements to our Australia, New Zealand and U.S. properties; and
- \$2.7 million in investment in unconsolidated entities including \$1.8 million paid for Malulani Investments, Ltd. stock and \$876,000 additional cash invested in Rialto Cinemas used to pay off their bank debt,

offset by

- \$4.6 million cash received from the sale of our interest the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand.

The \$24.4 million cash used for the 2005 Nine Months was primarily related to:

- \$14.4 million paid for acquisitions including \$11.8 million for the acquisition of the fee interest and tenant's ground lease interest of the Cinemas 1, 2 & 3 property in New York City, \$700,000 deposit paid to secure a contract to acquire a company whose sole assets is a 50% interest in an unincorporated joint venture that owns 20 screens, and \$1.9 million (AUS\$2.5 million) paid for our new Melbourne Office Building;
- \$23.2 million in purchases of property and equipment related to approximately \$21.4 million for the on-going construction work on our Newmarket development in Brisbane, Australia and the fit-out of our 8 screen Adelaide, Australia cinema which opened on October 20, 2005 and \$1.8 million in purchases of equipment primarily related to our renovation of our New Zealand Movieland sites;
- \$905,000 cash paid as additional capital contributions with respect to our investment in the 205-209 East 57th Street Associates, LLC;

offset by

- \$12.6 million in net proceeds from the sales of our Glendale office building and Puerto Rico operations;
- \$1.0 million cash provided by a decrease in restricted cash; and
- \$515,000 in cash proceeds from the sale of our Wilmington and Northern property.

Financing Activities

Cash provided by financing activities for the 2006 Nine Months decreased by \$15.3 million to \$9.6 million from \$24.9 million compared to the same period in 2005. The \$9.6 million in cash provided in the 2006 Nine Months was primarily related to:

- \$11.8 million of new borrowings on our Australian Corporate Credit Facility;
- \$3.0 million of a deposit received from Sutton Hill Capital, LLC for the option to purchase a 25% non-managing membership interest in the limited liability company that owns the Cinemas 1, 2 & 3;

offset by

- \$2.9 million of cash used to pay down long-term debt which was primarily related to the final payoff of the Movieland purchase note payable of approximately \$512,000; the payoff of the Palms – Christchurch Cinema bank debt of approximately \$1.9 million; and we made the first principal payment on our Australian Corporate Credit Facility of \$280,000;
- \$792,000 of cash used to repurchase the Class A Nonvoting Common Stock (these shares were previously issued to the Movieland sellers who exercised their put option during the 2006 Nine Months to sell back to us the shares they had received in partial consideration for the sale of the Movieland cinemas); and

- \$1.5 million in distributions to minority interests.

Cash provided by financing activities was \$24.9 million for the first nine months of 2005 and was attributable to our increase in borrowings of approximately \$25.7 million primarily used to finance the 2005 construction work on our Newmarket development in Brisbane, Australia.

Summary

Our cash position at September 30, 2006 was \$8.1 million compared to \$8.5 million at December 31, 2005. The majority of the \$498,000 change related to the following transactions:

- \$2.4 million net cash provided by operating activities;
- \$11.8 million of new borrowings on our Australian Corporate Credit Facility;
- \$4.6 million cash received from the sale of our interest the cinemas at Whangaparaoa, Takapuna and Mission Bay, New Zealand; and
- \$3.0 million of a deposit paid by Sutton Hill Capital, LLC of the option to purchase a 25% non-managing membership interest in the limited liability company that owns the Cinemas 1, 2, & 3;

offset by

- \$8.1 million in acquisitions of the Queenstown and Palms cinemas in New Zealand and Indooroopilly and Moonee Ponds properties in Australia;
- \$6.4 million in cash used to complete the Newmarket property and for property enhancements to our Australia, New Zealand and U.S. properties;
- \$2.9 million of cash used to pay down long-term debt which was primarily related the final payoff of the Movieland purchase note payable of approximately \$512,000, to payoff the Palms – Christchurch Cinema bank debt of approximately \$1.9 million, and we made the first principal payment on our Australian Corporate Credit Facility of \$280,000;
- \$792,000 of cash used to repurchase the Class A Nonvoting Common Stock (these shares were previously issued to the Movieland sellers who exercised their put option during the 2006 Nine Months to sell back to us the shares they had received in partial consideration for the sale of the Movieland cinemas);
- \$2.7 million in investment in unconsolidated entities including \$1.8 million paid for Malulani Investments, Ltd. stock and \$876,000 additional cash invested in Rialto Cinema; and
- \$1.5 million in distributions to minority interests.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of the company's financial condition and results of operations and the most demanding in their calls on judgment. Although accounting for our core business of cinema and live theatre exhibition with a real estate focus is relatively straightforward, we believe our most critical accounting policies relate to:

- impairment of long-lived assets, including goodwill and intangible assets;
- tax valuation allowance and obligations; and
- legal and environmental obligations.

These critical accounting policies are fully discussed in our 2005 Annual Report and you are advised to refer to that discussion.

Financial Risk Management

Our internally developed risk management procedure, seeks to minimize the potentially negative effects of changes in foreign exchange rates and interest rates on the results of operations. Our primary exposure to fluctuations in the financial markets is currently due to changes in foreign exchange rates between U.S and Australia and New Zealand, and interest rates.

As our operational focus continues to shift to Australia and New Zealand, unrealized foreign currency translation gains and losses could materially affect our financial position. We currently manage our currency exposure by creating natural hedges in Australia and New Zealand. This involves local country sourcing of goods and services as well as borrowing in local currencies.

Our exposure to interest rate risk arises out of our long-term debt obligations. Consistent with our internally developed guidelines, we seek to reduce the negative effects of changes in interest rates by changing the character of the interest rate on our long-term debt, converting a variable rate into a fixed rate. Our internal procedures allow us to enter into derivative contracts on certain borrowing transactions to achieve this goal. Our Australian credit facilities provide for floating interest rates but require that not less than a certain percentage of the loans be swapped into fixed rate obligations using the derivative contracts.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, we marked our Australian interest rate swap instruments to market on the consolidated balance sheet resulting in a \$2,000 (AUS\$3,000) and \$555,000 (AUS\$758,000) decrease to interest expense during the three and nine months ended September 30, 2006, respectively, and a \$204,000 (AUS\$271,000) and \$194,000 (AUS\$224,000) increase to interest expense during the three and nine months ended September 30, 2005, respectively. At September 30, 2006 and December 31, 2005, we have recorded the fair market value of our interest rate swaps of \$84,000 (AUS\$112,000) and \$638,000 (AUS\$870,000), respectively, as an other long-term liability. In accordance with SFAS No. 133, we have not designated any of our current interest rate swap positions as financial reporting hedges.

Inflation

We continually monitor inflation and the effects of changing prices. Inflation increases the cost of goods and services used. Competitive conditions in many of our markets restrict our ability to recover fully the higher costs of acquired goods and services through price increases. We attempt to mitigate the impact of inflation by implementing continuous process improvement solutions to enhance productivity and efficiency and, as a result, lower costs and operating expenses. In our opinion, the effects of inflation have been managed appropriately and as a result, have not had a material impact on our operations and the resulting financial position or liquidity.

Litigation

We are currently, and are from time to time, involved with claims and lawsuits arising in the ordinary course of our business. Some examples of the types of claims are:

- contractual obligations;
- insurance claims;
- IRS claims;
- employment matters; and
- anti-trust issues.

Where we are the plaintiffs, we expense all legal fees on an on-going basis and make no provision for any potential settlement amounts until received. In Australia, the prevailing party is entitled to recover its attorneys fees, which typically works out to be approximately 60% of the amounts actually spent where first class legal counsel is engaged at customary rates. Where we are a plaintiff, we have likewise made no provision for the liability for the defendant's attorneys' fees in the event we were determined not to be the prevailing party.

Where we are the defendants, we accrue for probable damages, which may not be covered by insurance, as they become known and can be reasonably estimated. In our opinion, any claims and litigation in which we are currently involved are not reasonably likely to have a material adverse effect on our business, results of operations, financial position or liquidity. However, we do not give any assurance as to the ultimate outcome of such claims and litigation. The resolution of such claims and litigation could be material to our operating results for any particular period, depending on the level of income for such period. There have been no material changes to our litigation exposure since our Company's 2005 Annual Report.

Except for what is noted below regarding Tax/Audit Litigation, there have been no material changes to our litigation exposure since our Company's 2005 Annual Report.

Mackie Dispute

In November 2005, Mackie Group Pty Ltd ("Mackie") filed in the Supreme Court of Victoria at Melbourne as action No. 9121 of 2005, a lawsuit against Reading Properties Pty Ltd, an indirectly wholly owned subsidiary of our Company ("Reading Properties"), asserting that it was owed \$746,000 (AUS\$1.0 million), under an agreement dated May 25, 1998. We dispute this claim and have filed a response denying liability. On or about July 21, 2006, plaintiffs filed a motion for summary judgment in that case. The response of Reading Properties is due in late November. Having reviewed the plaintiff's motion for summary judgment, we continue to be of the view that we have no liability to Mackie under the May 1998 agreement, and intend to continue to dispute Mackie's claim.

Tax Audit/Litigation

The Internal Revenue Service (the "IRS") completed its audits of the tax return of Reading Entertainment Inc. (RDGE) for its tax years ended December 31, 1996 through December 31, 1999 and the tax return of Craig Corporation (CRG) for its tax year ended September 30, 1997. With respect to both of these companies, the principal focus of these audits was the treatment of the contribution by RDGE to our wholly owned subsidiary, Reading Australia, and thereafter the subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the "Stater Stock") received by RDGE from CRG as a part of a private placement of securities by RDGE which closed in October 1996. A second issue involving equipment leasing transactions entered into by RDGE (discussed below) is also involved.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of RDGE and CRG for the years in question (the "Examination Reports"). The Examination Report for each of RDGE and CRG proposed that the gains on the disposition by RDGE of Stater Stock, reported as taxable on the RDGE return, should be allocated to CRG. As reported, the gain resulted in no additional tax to RDGE inasmuch as the gain was entirely offset by a net operating loss carry forward of RDGE. This proposed change would result in an additional tax liability for CRG of approximately \$20.9 million plus interest of approximately \$11.0 million as of September 30, 2006. In addition, this proposal would result in California tax liability of approximately \$5.3 million plus interest of approximately \$3.0 million as of September 30, 2006. Accordingly, this proposed change represented, as of September 30, 2006, an exposure of approximately \$40.2 million.

Moreover, California has "amnesty" provisions imposing additional liability on taxpayers who are determined to have materially underreported their taxable income. While these provisions have been criticized by a number of corporate taxpayers to the extent that they apply to tax liabilities that are being contested in good faith, no assurances can be given that these new provisions will be applied in a manner that would mitigate the impact on such taxpayers. Accordingly, these provisions may cause an additional \$4.0 million exposure to CRG, for a total exposure of approximately \$44.2 million. We have accrued \$3.8 million as a probable loss in relation to this exposure and believe that the possible total settlement amount will be between \$3.8 million and \$44.2 million.

In early February 2005, we had a mediation conference with the IRS concerning this proposed change. The mediation was conducted by two mediators, one of whom was selected by the taxpayer from the private sector and one of whom was an employee of the IRS. In connection with this mediation, we and the IRS each prepared written submissions to the mediators setting forth our respective cases. In its written submission, the IRS noted that it had offered to settle its claims against us at 30% of the proposed change, and reiterated this offer at the mediation. This offer constituted, in effect, an offer to settle for a payment of \$5.5 million federal tax, plus interest, for an aggregate settlement amount of approximately \$8.0 million. Based on advice of counsel given after reviewing the materials submitted by the IRS to the mediation panel, and the oral presentation made by the IRS to the mediation panel and the comments of the mediators (including the IRS mediator), we determined not to accept this offer.

Notices of deficiency ("N/D") dated June 29, 2006 were received with respect to each of RDGE and CRG determining proposed deficiencies of \$20.9 million for CRG and a total of \$349,000 for RDGE for the tax years 1997, 1998 and 1999.

We intend to litigate aggressively these matters in the U.S. Tax Court and an appeal was filed with the court on September 26, 2006. While there are always risks in litigation, we believe that a settlement at the level currently offered by the IRS would substantially understate the strength of our position and the likelihood that we would prevail in a trial of these matters.

Since these tax liabilities relate to time periods prior to the Consolidation of CDL, RDGE, and CRG into Reading International, Inc. and since RDGE and CRG continue to exist as wholly owned subsidiaries of RII, it is expected that any adverse determination would be limited in recourse to the assets of RDGE or CRG, as the case may be, and not to the general assets of RII. At the present time, the assets of these subsidiaries are comprised principally of RII securities. Accordingly, we do not anticipate, even if there were to be an adverse judgment in favor of the IRS that the satisfaction of that judgment would interfere with the internal operation or result in any levy upon or loss of any of our material operating assets. The satisfaction of any such adverse judgment would, however, result in a material dilution to existing stockholder interests.

The N/D issued to RDGE does not cover its tax year 1996 which will be held in abeyance pending the resolution of the CRG case. An adjustment to 1996 taxable income for RDGE would result in a refund of alternative minimum tax paid that year. The N/D issued to RDGE eliminated the gains booked by RDGE in 1996 as a consequence of its acquisition certain computer equipment and sale of the anticipated income stream

from the lease of such equipment to third parties and disallowed depreciation deductions that we took with respect to that equipment in 1997, 1998 and 1999. Such disallowance has the effect of decreasing net operating losses but did not result in any additional regular federal income tax for such years. However, the depreciation disallowance would increase RDGE state tax liability for those years by approximately \$170,000 plus interest. The only tax liability reflected in the RDGE N/D is alternative minimum tax in the total amount of approximately \$350,000 plus interest. On September 26, 2006, we filed an appeal on this N/D with the U.S. Tax Court.

Forward-Looking Statements

Our statements in this interim quarterly report contain a variety of forward-looking statements as defined by the Securities Litigation Reform Act of 1995. Forward-looking statements reflect only our expectations regarding future events and operating performance and necessarily speak only as of the date the information was prepared. No guarantees can be given that our expectation will in fact be realized, in whole or in part. You can recognize these statements by our use of words such as, by way of example, “may,” “will,” “expect,” “believe,” and “anticipate” or other similar terminology.

These forward-looking statements reflect our expectation after having considered a variety of risks and uncertainties. However, they are necessarily the product of internal discussion and do not necessarily completely reflect the views of individual members of our Board of Directors or of our management team. Individual Board members and individual members of our management team may have different view as to the risks and uncertainties involved, and may have different views as to future events or our operating performance.

Among the factors that could cause actual results to differ materially from those expressed in or underlying our forward-looking statements are the following:

- With respect to our cinema operations:
 - The number and attractiveness to movie goers of the films released in future periods;
 - The amount of money spent by film distributors to promote their motion pictures;
 - The licensing fees and terms required by film distributors from motion picture exhibitors in order to exhibit their films;
 - The comparative attractiveness of motion pictures as a source of entertainment and willingness and/or ability of consumers (i) to spend their dollars on entertainment and (ii) to spend their entertainment dollars on movies in an outside the home environment; and
 - The extent to which we encounter competition from other cinema exhibitors, from other sources of outside of the home entertainment, and from inside the home entertainment options, such as “home theaters” and competitive film product distribution technology such as, by way of example, cable, satellite broadcast, DVD and VHS rentals and sales, and so called “movies on demand;”
- With respect to our real estate development and operation activities:
 - The rental rates and capitalization rates applicable to the markets in which we operate and the quality of properties that we own;
 - The extent to which we can obtain on a timely basis the various land use approvals and entitlements needed to develop our properties;
 - The availability and cost of labor and materials;
 - Competition for development sites and tenants; and
 - The extent to which our cinemas can continue to serve as an anchor tenant which will, in turn, be influenced by the same factors as will influence generally the results of our cinema operations; and

- With respect to our operations generally as an international company involved in both the development and operation of cinemas and the development and operation of real estate; and previously engaged for many years in the railroad business in the United States:
 - Our ongoing access to borrowed funds and capital and the interest that must be paid on that debt and the returns that must be paid on such capital;
 - The relative values of the currency used in the countries in which we operate;
 - Changes in government regulation, including by way of example, the costs resulting from the implementation of the requirements of Sarbanes-Oxley;
 - Our labor relations and costs of labor (including future government requirements with respect to pension liabilities, disability insurance and health coverage, and vacations and leave);
 - Our exposure from time to time to legal claims and to uninsurable risks such as those related to our historic railroad operations, including potential environmental claims and health related claims relating to alleged exposure to asbestos or other substances now or in the future recognized as being possible causes of cancer or other health related problems;
 - Changes in future effective tax rates and the results of currently ongoing and future potential audits by taxing authorities having jurisdiction over our various companies; and
 - Changes in applicable accounting policies and practices.

The above list is not necessarily exhaustive, as business is by definition unpredictable and risky, and subject to influence by numerous factors outside of our control such as changes in government regulation or policy, competition, interest rates, supply, technological innovation, changes in consumer taste and fancy, weather, and the extent to which consumers in our markets have the economic wherewithal to spend money on beyond-the-home entertainment.

Given the variety and unpredictability of the factors that will ultimately influence our businesses and our results of operation, it naturally follows that no guarantees can be given that any of our forward-looking statements will ultimately prove to be correct. Actual results will undoubtedly vary and there is no guarantee as to how our securities will perform either when considered in isolation or when compared to other securities or investment opportunities.

Finally, please understand that we undertake no obligation to update publicly or to revise any of our forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable law. Accordingly, you should always note the date to which our forward-looking statements speak.

Additionally, certain of the presentations included in this interim quarterly report may contain “pro forma” information or “non-GAAP financial measures.” In such case, a reconciliation of this information to our GAAP financial statements will be made available in connection with such statements.

Item 3 – Quantitative and Qualitative Disclosure about Market Risk

The Securities and Exchange Commission requires that registrants include information about potential effects of changes in currency exchange and interest rates in their filings. Several alternatives, all with some limitations, have been offered. The following discussion is based on a sensitivity analysis, which models the effects of fluctuations in currency exchange rates and interest rates. This analysis is constrained by several factors, including the following:

- It is based on a single point in time.
- It does not include the effects of other complex market reactions that would arise from the changes modeled.

Although the results of such an analysis may be useful as a benchmark, they should not be viewed as forecasts.

At September 30, 2006, approximately 50% and 22% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), respectively, including approximately \$6.8 million in cash and cash equivalents. At December 31, 2005, approximately 50% and 23% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand) including approximately \$6.4 million in cash and cash equivalents.

Our policy in Australia and New Zealand is to match revenues and expenses, whenever possible, in local currencies. As a result, a majority of our expenses in Australia and New Zealand have been procured in local currencies. Due to the developing nature of our operations in Australia and New Zealand, our revenue is not yet significantly greater than our operating expense. The resulting natural operating hedge has led to a somewhat negligible foreign currency effect on our earnings. As we continue to progress our acquisition and development activities in Australia and New Zealand, we cannot assure you that the foreign currency effect on our earnings will be insignificant in the future.

Our policy is to borrow in local currencies to finance the development and construction of our ETRC's in Australia and New Zealand whenever possible. As a result, the borrowings in local currencies have provided somewhat of a natural hedge against the foreign currency exchange exposure. Even so, approximately 46% and 28% of our Australian and New Zealand assets, respectively, remain subject to such exposure unless we elect to hedge our foreign currency exchange between the US and Australian and New Zealand dollars. If the foreign currency rates were to fluctuate by 10% the resulting change in Australian and New Zealand assets would be \$6.1 million and \$1.7 million, respectively, and the change in our quarterly net income would be \$409,000 and \$332,000, respectively. At the present time, we have no plan to hedge such exposure.

We record unrealized foreign currency translation gains or losses which could materially affect our financial position. As of September 30, 2006 and December 31, 2005, we have recorded a cumulative unrealized foreign currency translation gain of approximately \$29.0 million and \$28.6 million, respectively.

Historically, we maintained most of our cash and cash equivalent balances in short-term money market instruments with original maturities of three months or less. Some of our money market investments may decline in value if interest rates increase. Due to the short-term nature of such investments, a change of 1% in short-term interest rates would not have a material effect on our financial condition.

Item 3A – Quantitative and Qualitative Disclosure about Interest Risk

The majority of our U.S. bank loans have fixed interest rates; however, one of our domestic loans has a variable interest rate and a change of approximately 1% in short-term interest rates would have resulted in an approximately \$5,000 increase or decrease in our 2006 Quarter interest expense.

While we have typically used fixed rate financing (secured by first mortgages) in the U.S., fixed rate financing is typically not available to corporate borrowers in Australia and New Zealand. The majority of our Australian and New Zealand bank loans have variable rates. The Australian facilities provide for floating interest rates, but require that not less than a certain percentage of the loans be swapped into fixed rate obligations (see *Financial Risk Management* above). If we consider the interest rate swaps, a 1% increase in short-term interest rates would have resulted in approximately \$76,000 increase in our 2006 Quarter Australian and New Zealand interest expense while a 1% decrease in short-term interest rates would have resulted in approximately \$79,000 decrease the 2006 Quarter of Australian and New Zealand interest expense.

Item 4 – Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

PART II – Other Information

Item 1 - Legal Proceedings

For a description of legal proceedings, please refer to Item 3 entitled Legal Proceedings contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 2 - Change in Securities

Not applicable.

Item 3 - Defaults upon Senior Securities

Not applicable.

Item 4 - Submission of Matters to a Vote of Securities Holders

None

Item 5 - Other Information

Not applicable.

Item 6 - Exhibits

- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
- 32 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

SIGNATURES

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.

Date: November 6, 2006

By: /s/ James J. Cotter
James J. Cotter
Chief Executive Officer

Date: November 6, 2006

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

CERTIFICATIONS
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Cotter, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Reading International Inc.;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ James J. Cotter
James J. Cotter
Chief Executive Officer
November 6, 2006

CERTIFICATIONS

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrzej Matyczynski, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of Reading International Inc.;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with general accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ Andrzej Matyczynski
Andrzej Matyczynski
Chief Financial Officer
November 6, 2006

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned hereby certifies, in his capacity as an officer of Reading International, Inc. (the “Company”), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) and 15(d), as applicable, of the Securities Exchange Act of 1934; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 6, 2006

/s/ James J. Cotter
Name: James J. Cotter
Title Chief Executive Officer

/s/ Andrzej Matyczynski
Name: Andrzej Matyczynski
Title: Chief Financial Officer