

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2016**

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8625



**READING INTERNATIONAL, INC.**

(Exact name of Registrant as specified in its charter)

**NEVADA**

(State or other jurisdiction of incorporation or organization)

**95-3885184**

(IRS Employer Identification No.)

**6100 Center Drive, Suite 900**

**Los Angeles, CA**

(Address of principal executive offices)

**90045**

(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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 8, 2016, there were 21,654,302 shares of Class A Nonvoting Common Stock, \$0.01 par value per share and 1,680,590 shares of Class B Voting Common Stock, \$0.01 par value per share outstanding.

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**Item 1 - Financial Statements**
**READING INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(U.S. dollars in thousands, except share information)**

	September 30, 2016	December 31, 2015 <sup>(1)</sup>
	(Unaudited)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 9,980	\$ 19,702
Receivables	8,183	10,036
Inventory	1,163	1,122
Investment in marketable securities	55	51
Restricted cash	1,043	160
Prepaid and other current assets	6,224	5,429
Land held for sale – current	--	421
<b>Total current assets</b>	<b>26,648</b>	<b>36,921</b>
Operating property, net	227,919	210,298
Land held for sale – non-current	39,951	37,966
Investment and development property, net	37,490	23,002
Investment in unconsolidated joint ventures and entities	5,504	5,370
Investment in Reading International Trust I	838	838
Goodwill	20,434	19,715
Intangible assets, net	10,187	9,889
Deferred tax asset, net	28,726	25,649
Other assets	3,759	3,615
<b>Total assets</b>	<b>\$ 401,456</b>	<b>\$ 373,263</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 21,312	\$ 23,638
Film rent payable	6,342	9,291
Debt – current, net	8,338	14,887
Taxes payable – current	7,546	5,275
Deferred current revenue	11,938	14,591
Other current liabilities	8,078	7,640
<b>Total current liabilities</b>	<b>63,554</b>	<b>75,322</b>
Debt – long-term, net	106,776	87,101
Subordinated debt, net	27,286	27,125
Noncurrent tax liabilities	16,873	16,457
Other liabilities	30,756	30,062
<b>Total liabilities</b>	<b>245,245</b>	<b>236,067</b>
<b>Commitments and contingencies (Note 13)</b>		
<b>Stockholders' equity:</b>		
Class A non-voting common stock, par value \$0.01, 100,000,000 shares authorized, 32,831,113 issued and 21,654,302 outstanding at September 30, 2016 and December 31, 2015	229	229
Class B voting common stock, par value \$0.01, 20,000,000 shares authorized and 1,680,590 issued and outstanding at September 30, 2016 and December 31, 2015	17	17
Nonvoting preferred stock, par value \$0.01, 12,000 shares authorized and no issued or outstanding shares at September 30, 2016 and December 31, 2015	--	--
Additional paid-in capital	144,263	143,815
Accumulated deficit	(425)	(9,478)
Treasury shares	(13,524)	(13,524)
Accumulated other comprehensive income	21,220	11,806
<b>Total Reading International, Inc. stockholders' equity</b>	<b>151,780</b>	<b>132,865</b>
Noncontrolling interests	4,431	4,331
<b>Total stockholders' equity</b>	<b>156,211</b>	<b>137,196</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 401,456</b>	<b>\$ 373,263</b>

See accompanying Notes to Unaudited Consolidated Financial Statements.

<sup>(1)</sup>Certain prior period amounts have been reclassified to conform to the current period presentation (see Note 1 – *The Company and Basis of Presentation – Reclassifications*)

READING INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited; U.S. dollars in thousands, except per share data)

	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Operating revenue</b>				
Cinema	\$ 67,825	\$ 54,368	\$ 192,579	\$ 180,223
Real estate	3,490	3,420	10,443	10,951
Total operating revenue	71,315	57,788	203,022	191,174
<b>Operating expense</b>				
Cinema	(52,103)	(44,463)	(148,864)	(140,825)
Real estate	(2,296)	(2,570)	(6,628)	(7,004)
Depreciation and amortization	(4,131)	(3,501)	(11,766)	(10,769)
General and administrative	(6,175)	(4,134)	(18,372)	(13,736)
Total operating expense	(64,705)	(54,668)	(185,630)	(172,334)
<b>Operating income</b>	6,610	3,120	17,392	18,840
Interest income	18	485	74	1,007
Interest expense	(1,571)	(2,379)	(5,264)	(7,077)
Net gain on sale of assets	--	--	393	11,023
Other expense	(12)	(577)	(115)	(667)
<b>Income before income tax expense and equity earnings of unconsolidated joint ventures and entities</b>	5,045	649	12,480	23,126
Equity earnings of unconsolidated joint ventures and entities	200	195	808	915
<b>Income before income taxes</b>	5,245	844	13,288	24,041
Income tax expense	(1,328)	(517)	(4,222)	(4,605)
<b>Net income</b>	\$ 3,917	\$ 327	\$ 9,066	\$ 19,436
Net (income) loss attributable to noncontrolling interests	(62)	54	(12)	60
<b>Net income attributable to Reading International, Inc. common stockholders</b>	\$ 3,855	\$ 381	\$ 9,054	\$ 19,496
<b>Basic earnings per share attributable to Reading International, Inc. stockholders</b>	\$ 0.17	\$ 0.02	\$ 0.39	\$ 0.84
<b>Diluted earnings per share attributable to Reading International, Inc. stockholders</b>	\$ 0.16	\$ 0.02	\$ 0.38	\$ 0.83
Weighted average number of shares outstanding – basic	23,334,892	23,287,449	23,334,892	23,283,405
Weighted average number of shares outstanding – diluted	23,532,796	23,482,262	23,532,796	23,478,218

See accompanying Notes to Unaudited Consolidated Financial Statements.

**READING INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited; U.S. dollars in thousands)

	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	\$ 3,917	\$ 327	\$ 9,066	\$ 19,436
Foreign currency translation gain (loss)	5,042	(13,741)	9,310	(27,769)
Unrealized gain (loss) on available for sale investments	2	(4)	2	(3)
Amortization of actuarial loss	52	51	116	155
Comprehensive income (loss)	9,013	(13,367)	18,494	(8,181)
Net (income) loss attributable to noncontrolling interests	(62)	54	(12)	60
Comprehensive income attributable to noncontrolling interests	(8)	(37)	(14)	(59)
Comprehensive income (loss) attributable to Reading International, Inc.	\$ 8,943	\$ (13,350)	\$ 18,468	\$ (8,180)

*See accompanying Notes to Unaudited Consolidated Financial Statements.*

**READING INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited; U.S. dollars in thousands)

	Nine Months Ended	
	September 30, 2016	September 30, 2015
<b>Cash flows from Operating Activities</b>		
Net income	\$ 9,066	\$ 19,436
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Equity earnings of unconsolidated joint ventures and entities	(808)	(915)
Distributions of earnings from unconsolidated joint ventures and entities	779	901
Gain on sale of property	(393)	(11,023)
Change in net deferred tax assets	(3,782)	1,405
Depreciation and amortization	11,766	10,769
Amortization of actuarial loss	116	155
Amortization of beneficial leases	898	344
Amortization of deferred financing costs	653	706
Amortization of straight-line rent	(258)	(370)
Stock based compensation expense	449	222
<i>Net change in:</i>		
Receivables	2,092	2,492
Prepaid and other assets	(738)	(85)
Accounts payable and accrued expenses	(2,783)	2,905
Film rent payable	(3,089)	(3,608)
Taxes payable	2,142	(314)
Deferred revenue and other liabilities	(1,594)	(1,653)
Net cash provided by operating activities	14,516	21,367
<b>Cash flows from Investing Activities</b>		
Purchases of and additions to property and equipment	(35,682)	(14,411)
Change in restricted cash	(848)	1,256
Distributions of investment in unconsolidated joint ventures and entities	190	--
Proceeds from sale of property	831	21,889
Net cash (used in)/provided by investing activities	(35,509)	8,734
<b>Cash flows from Financing Activities</b>		
Repayment of long-term borrowings	(40,802)	(7,347)
Proceeds from borrowings	52,396	--
Capitalized borrowing costs	(785)	(191)
Repurchase of Class A Nonvoting Common Stock	--	(3,109)
Proceeds from the exercise of stock options	--	183
Noncontrolling interest contributions	268	17
Noncontrolling interest distributions	(194)	(139)
Net cash provided by/(used in) financing activities	10,883	(10,586)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	388	(7,682)
<b>Net (decrease)/increase in cash and cash equivalents</b>	(9,722)	11,833
<b>Cash and cash equivalents at the beginning of the period</b>	19,702	50,248
<b>Cash and cash equivalents at the end of the period</b>	\$ 9,980	\$ 62,081
<b>Supplemental Disclosures</b>		
Interest paid	\$ 3,053	\$ 6,582
Income taxes paid	5,288	6,665

See accompanying Notes to Unaudited Consolidated Financial Statements.

### Note 1 – The Company and 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 incorporated in 1999, and, following the consummation of a consolidation transaction on December 31, 2001, is now the owner of the consolidated businesses and assets of Reading Entertainment, Inc. (“RDGE”), Craig Corporation (“CRG”) and Citadel Holding Corporation (“CDL”). 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.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and footnotes thereto. Significant estimates include projections we make regarding the recoverability of our assets, valuations of our interest rate swaps and the recoverability of our deferred tax assets. Actual results may differ from those estimates.

#### ***Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company’s wholly-owned subsidiaries as well as majority-owned subsidiaries that the Company controls, and should be read in conjunction with the Company’s Annual Report on Form 10-K as of and for the year-ended December 31, 2015. All significant intercompany balances and transactions have been eliminated in consolidation. These were prepared in accordance with the U.S. GAAP for interim reporting with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”). As such, they do not include all information and footnotes required by U.S. GAAP for complete financial statements. We believe that we have included all normal recurring adjustments necessary for a fair presentation of the results for the interim period. Operating results for the quarter and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

#### ***Reclassifications***

Certain reclassifications have been made in the 2015 comparative information in the consolidated balance sheets and notes to conform to the 2016 presentation. These changes relate to the adoption of Accounting Standards Update (“ASU”) 2015-03 as discussed more fully below. These reclassifications had no significant impact on our 2015 financial position, results of operations and cash flows as previously reported.

#### ***Recently Adopted and Issued Accounting Pronouncements***

##### Adopted:

On January 1, 2016, the Company adopted ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, issued by the Financial Accounting Standards Board (“FASB”). This new standard, which became effective for fiscal years beginning after December 15, 2015, required that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The impact of this adoption included reclassification of the deferred financing costs (net of amortization) from “Other Assets” to a reduction in the associated Debt account.

Also, on January 1, 2016, the Company adopted ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. Under this new standard, an acquirer in a business combination transaction must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The effect on earnings of changes in depreciation or amortization, or other income effects, if any, because of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined rather than retrospectively. The ASU also requires that the acquirer present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The adoption of this standard had an impact on the finalization of the purchase price allocation of Cannon Park acquired in December 2015, which was completed during this current third quarter of 2016. Please refer to Note 5 – Property & Equipment for the Cannon Park acquisition discussion.

Issued:

In August 2016, the FASB issued *ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The amendments covered in this ASU are improvements to current GAAP, as it will provide guidance to eight (8) specific cash flow classification issues, thereby reducing the current and potential future diversity in practice. The new standard becomes effective for the Company on January 1, 2018. Early adoption is permissible. The Company does not anticipate the adoption of ASU 2016-15 to have a material impact on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued *ASU 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This new guidance provides simplifications involving several aspects of the accounting for share-based payment transactions, including the income tax consequences (such as excess tax benefits recorded in income tax expense/benefit, rather than additional paid-in capital), classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for the Company on January 1, 2017. Early adoption is permitted. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently assessing the impact of this new guidance on the consolidated financial statements and related disclosures.

In addition, in March 2016, the FASB issued *ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*. This new guidance effectively removes the retroactive application imposed in current guidance when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The new standard becomes effective for the Company on January 1, 2017. Early adoption is permissible. The Company does not anticipate the adoption of ASU 2016-07 to have a material impact on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842)*. This new guidance establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The new standard becomes effective for the Company on January 1, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the impact of this new guidance on the consolidated financial statements and related disclosures.

In May 2014, the FASB issued *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*, to achieve a consistent application of revenue recognition within the U.S., resulting in a single revenue model to be applied by reporting companies under U.S. GAAP. Under the new model, recognition of revenues occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Subsequently, in March 2016, FASB issued ASU 2016-08 to provide guidance on principal versus agent considerations. The new standard becomes effective for the Company on January 1, 2018. Early adoption is permitted but cannot be earlier than January 1, 2017. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method nor have we determined the impact of the new standard on our consolidated condensed financial statements. While we believe the proposed guidance will not have a material impact on our business because our revenue predominantly comes from movie ticket sales and concession purchases, we plan to complete the analysis to ensure that we are in compliance prior to the effective date.



## Note 2 – Business Segments

Reported below are the operating segments of the Company for which separate financial information is available and for which segment results are evaluated regularly by the Chief Executive Officer, the chief operating decision-maker of the Company. As part of our real estate activities, we have acquired, and continue to hold raw land in urban and suburban centers in Australia, New Zealand, and the United States.

The tables below summarize the results of operations for each of our business segments for the quarter and nine months ended September 30, 2016 and 2015, respectively. Operating expense includes costs associated with the day-to-day operations of the cinemas and the management of rental properties, including our live theater assets.

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Revenue:</b>				
Cinema exhibition	\$ 67,825	\$ 54,368	\$ 192,579	\$ 180,223
Real estate	5,390	4,968	15,961	15,908
Inter-segment elimination	(1,900)	(1,548)	(5,518)	(4,957)
	<b>\$ 71,315</b>	<b>\$ 57,788</b>	<b>\$ 203,022</b>	<b>\$ 191,174</b>
<b>Segment operating income:</b>				
Cinema exhibition	\$ 9,726	\$ 4,838	\$ 26,536	\$ 23,745
Real estate	1,755	1,443	5,844	5,952
	<b>\$ 11,481</b>	<b>\$ 6,281</b>	<b>\$ 32,380</b>	<b>\$ 29,697</b>

A reconciliation of segment operating income to income before income taxes is as follows:

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Segment operating income</b>	\$ 11,481	\$ 6,281	\$ 32,380	\$ 29,697
Unallocated corporate expense				
Depreciation and amortization expense	(102)	(86)	(295)	(220)
General and administrative expense	(4,769)	(3,075)	(14,693)	(10,637)
Interest expense, net	(1,553)	(1,894)	(5,190)	(6,070)
Equity earnings of unconsolidated joint ventures and entities	200	195	808	915
Gain on sale of assets	--	--	393	11,023
Other expense	(12)	(577)	(115)	(667)
<b>Income before income tax expense</b>	<b>\$ 5,245</b>	<b>\$ 844</b>	<b>\$ 13,288</b>	<b>\$ 24,041</b>

## Note 3 – 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 (collectively “foreign operations”) on a self-funding basis where we use cash flows generated by our foreign operations to pay for the expense of foreign operations. Our Australian and New Zealand assets and liabilities are translated from their functional currencies of Australian dollar (“AU\$”) and New Zealand dollar (“NZ\$”), respectively, to the U.S. dollar based on the exchange rate as of September 30, 2016. The carrying value of the assets and liabilities of our foreign operations fluctuates as a result of changes in the exchange rates between the functional currencies of the foreign operations and the U.S. dollar. The translation adjustments are accumulated in the Accumulated Other Comprehensive Income in the Consolidated Balance Sheets.

Because we intend to conduct business mostly on a self-funding basis (except for funds used to pay an appropriate share of our U.S. corporate overhead), we do not use derivative financial instruments to hedge against the risk of foreign currency exposure.

Presented in the table below are the currency exchange rates for Australia and New Zealand as of and for the period-ended September 30, 2016, December 31, 2015 and September 30, 2015:

	Foreign Currency / USD				
	September 30, 2016		December 31, 2015	September 30, 2015	
	As of and for the quarter ended	As of and for the nine months ended	As of and for the twelve months ended	As of and for the quarter ended	As of and for the nine months ended
<b>Spot Rate</b>					
Australian Dollar	0.7667		0.7286		0.7020
New Zealand Dollar	0.7290		0.6842		0.6390
<b>Average Rate</b>					
Australian Dollar	0.7583	0.7420	0.7524	0.7254	0.7633
New Zealand Dollar	0.7226	0.6926	0.7004	0.6513	0.7117

#### Note 4 – Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing the net income attributable to the Company’s common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by dividing the net income attributable to the Company’s common stockholders by the weighted average number of common and common equivalent shares outstanding during the period and are calculated using the treasury stock method for equity-based compensation awards.

The following table sets forth the computation of basic and diluted EPS and a reconciliation of the weighted average number of common and common equivalent shares outstanding:

(Dollars in thousands, except share data)	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Numerator:</b>				
Net income attributable to RDI common stockholders	\$ 3,855	\$ 381	\$ 9,054	\$ 19,496
<b>Denominator:</b>				
Weighted average number of common stock – basic	23,334,892	23,287,449	23,334,892	23,283,405
Weighted average dilutive impact of awards	197,904	194,813	197,904	194,813
Weighted average number of common stock – diluted	23,532,796	23,482,262	23,532,796	23,478,218
<b>Basic EPS</b> attributable to RDI common stockholders	\$ 0.17	\$ 0.02	\$ 0.39	\$ 0.84
<b>Diluted EPS</b> attributable to RDI common stockholders	\$ 0.16	\$ 0.02	\$ 0.38	\$ 0.83
Awards excluded from diluted EPS	108,000	100,000	108,000	100,000

#### Note 5 – Property and Equipment

##### Operating Property, net

As of September 30, 2016 and December 31, 2015, property associated with our operating activities is summarized as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
Land	\$ 76,700	\$ 70,063
Building and improvements	132,446	126,622
Leasehold improvements	47,485	46,874
Fixtures and equipment	117,320	112,423
Construction-in-progress	20,014	7,825
Total cost	393,965	363,807
Less: accumulated depreciation	(166,046)	(153,509)
Operating property, net	\$ 227,919	\$ 210,298

Depreciation expense for operating property was \$4.0 million and \$11.2 million for the quarter and nine months ended September 30, 2016, respectively, and \$3.3 million and \$10.1 million for the quarter and nine months ended September 30, 2015, respectively.

#### New Corporate Headquarters in Los Angeles

On April 11, 2016, we purchased a 24,000 square foot Class B office building with 72 parking spaces located at 5995 Sepulveda Boulevard in Culver City, California (a Los Angeles suburb) for \$11.2 million. We intend to use approximately 50% of the leasable area for our headquarters offices and to lease the remainder to unaffiliated third parties. We anticipate, when the move is completed at the end of 2016 or early 2017 and the excess space is leased, that we will be able to reduce our headquarters occupancy cost by approximately \$350,000 per annum.

#### Burwood, Australia

On May 12, 2014, we entered into a contract to sell our undeveloped 50.6 acre parcel in Burwood, Victoria, Australia, to Australand Holdings Limited (now known as Frasers Property Australia) for a purchase price of \$50.8 million (AU\$65.0 million). We received \$5.9 million (AU\$6.5 million) on May 23, 2014. The remaining purchase price of \$44.9 million (AU\$58.5 million) is due on December 31, 2017. Refer to *Note 18 – Subsequent Events* for further information.

Our book value in the property is \$40.0 million (AU\$52.1 million) and \$38.0 (AU\$52.1 million) as of September 30, 2016 and December 31, 2015, respectively (the difference being attributable solely to currency fluctuations). While the transaction was treated as a sale for tax purposes in 2014, it does not qualify as a sale under US GAAP until the receipt of the payment of the balance of the purchase price due on December 31, 2017 (or earlier depending upon whether any prepayment obligation is triggered). The asset is classified as long-term land held for sale on the consolidated balance sheets as of September 30, 2016 and December 31, 2015.

#### Doheny Condo, Los Angeles

On February 25, 2015, we sold our Los Angeles Condo for \$3.0 million resulting in a \$2.8 million gain on sale.

#### Taupo, New Zealand

On April 1, 2015, we entered into two definitive purchase and sale agreements to sell our properties at Taupo, New Zealand for a combined sales price of \$2.4 million (NZ\$3.4 million). The first agreement related to a property with a sales price of \$1.6 million (NZ\$2.2 million) and a book value of \$1.3 million (NZ\$1.8 million), which closed on April 30, 2015 when we received the sales price in full. The other agreement related to a property with a sales price of \$831,000 (NZ\$1.2 million) and a book value of \$426,000 (NZ\$615,000) which was completed and for which we received cash settlement representing the full sales price on March 31, 2016. The first transaction qualified as a sale under both U.S. GAAP and tax purposes during the year-ended December 31, 2015. The second transaction was recorded as a sale during the three months ended March 31, 2016.

#### Moonee Ponds, Australia

On October 15, 2013, we entered into a definitive purchase and sale agreement to sell this property for a sales price of \$17.5 million (AU\$23.0 million) payable in full upon closing of the transaction on April 16, 2015. In accordance with the requirements under U.S. GAAP, we recognized a gain on sale of \$8.0 million (AU\$10.3 million) in the prior-year second quarter upon the receipt of sale proceeds on April 16, 2015.

#### Cannon Park, Queensland, Australia

On December 23, 2015, we completed a 100% acquisition of two adjoining entertainment-themed centers (“ETCs”) in Townsville, Australia for a total of \$24.1 million (AU\$33.4 million) in cash. The properties are located approximately 6 miles from downtown Townsville, the second largest city in Queensland, Australia. The total gross leasable area of the two adjoining properties, the Cannon Park City Centre and the Cannon Park Discount Centre, is 133,000 square feet. The Cannon Park City Centre is anchored by Reading Cinemas, which is operated by Reading International’s 75% owned subsidiary, Australia Country Cinemas, and has three mini-major tenants and ten specialty family oriented restaurant tenants. The Cannon Park Discount Centre is anchored by Kingpin Bowling and supported by four other retailers. This acquisition is consistent with our business plan to own, where practical, the land underlying our entertainment assets.

The acquired assets consist primarily of the land and buildings, which, at the time of acquisition, was approximately 98% leased to existing tenants. Tenancies ranged from having 9 months to 8 years left to run on their leases at the time of purchase.

During the quarter ended September 30, 2016, the Company finalized the allocation of the purchase price to the identifiable assets acquired and liabilities assumed based on its estimates of their fair values on the acquisition date. The acquired value components of this real estate acquisition included both tangible and intangible assets. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. The estimates and assumptions include projected timing and amount of future cash flows and discount rates reflecting the risk inherent in the future cash flows. Typical of a real estate acquisition, there was no goodwill recorded as the purchase price did not exceed the fair value estimates of the net acquired assets.

The following table summarizes the final allocation of the purchase price to the estimated fair values of assets acquired and liabilities assumed at the date of acquisition, as well as adjustments made during the measurement period:

(Dollars in thousands)	Preliminary Purchase Price Allocation		Measurement Period Adjustments <sup>(2)</sup>	Final Purchase Price Allocation	
	US Dollars <sup>(1)</sup>	AU dollars	AU dollars	US Dollars <sup>(1)</sup>	AU dollars
<b>Tangible Assets</b>					
Operating property:					
Land	7,525	10,421	\$ 721	8,046	11,142
Building and improvements	16,588	22,971	(6,453)	11,928	16,518
Site improvements	--	--	2,321	1,676	2,321
Tenant improvements	--	--	957	691	957
<b>Intangible Assets</b>					
Above-market leases	--	--	61	44	61
In-place leases	--	--	2,135	1,542	2,135
Unamortized leasing commissions	--	--	333	240	333
Unamortized legal fees	--	--	55	40	55
<i>Total assets acquired</i>	<u>24,113</u>	<u>33,392</u>	<u>130</u>	<u>24,207</u>	<u>33,522</u>
<b>Liabilities</b>					
Below-market leases	--	--	(130)	(94)	(130)
<b>Net assets acquired</b>	<u>\$ 24,113</u>	<u>\$ 33,392</u>	<u>\$ --</u>	<u>\$ 24,113</u>	<u>33,392</u>

<sup>(1)</sup> The balances were translated into U.S. Dollars based on the applicable exchange rate as of the date of acquisition, December 23, 2015.

<sup>(2)</sup> The measurement period adjustments were mainly due to the finalization of the valuations of the tangible land, building and improvements, site improvements and tenant improvements, as well as valuations of intangible assets and liabilities typically present in an acquisition of a regional mall with existing tenancies. This resulted in a reallocation of the purchase price from Building to other tangible assets (site and tenant improvements), as well as to intangible assets, including above and below market leases, in-place leases and unamortized lease origination costs.

### Investment and Development Property

As of September 30, 2016 and December 31, 2015, our investment and development property is summarized below:

(Dollars in thousands)	September 30, 2016	December 31, 2015
Land	\$ 24,784	\$ 21,434
Building	1,900	--
Construction-in-progress	10,806	1,568
Investment and development property	<u>\$ 37,490</u>	<u>\$ 23,002</u>

## Note 6 – Investments in Unconsolidated Joint Ventures and Entities

Our investments in unconsolidated joint ventures and entities are accounted for under the equity method of accounting, except for Rialto Distribution, which is accounted for as a cost method investment. The table below summarizes our investments in unconsolidated joint ventures and entities as of September 30, 2016 and December 31, 2015:

(Dollars in thousands)	Interest	September 30,	December 31,
		2016	2015
Rialto Distribution	33.3%	\$ --	\$ --
Rialto Cinemas	50.0%	1,378	1,276
Mt. Gravatt	33.3%	4,126	4,094
Total investments		\$ 5,504	\$ 5,370

For the quarter and nine months ended September 30, 2016 and 2015, we recorded our share of equity earnings from our investments in unconsolidated joint ventures and entities as follows:

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Rialto Distribution	\$ --	\$ 93	\$ --	\$ 115
Rialto Cinemas	47	(100)	208	35
Mt. Gravatt	153	202	600	765
Total equity earnings	\$ 200	\$ 195	\$ 808	\$ 915

## Note 7 – Goodwill and Intangible Assets

The table below summarizes goodwill by business segment as of September 30, 2016 and December 31, 2015.

(Dollars in thousands)	Cinema	Real Estate	Total
Goodwill as of December 31, 2015	\$ 14,491	\$ 5,224	\$ 19,715
Foreign currency translation adjustment	719	--	719
Goodwill at September 30, 2016	\$ 15,210	\$ 5,224	\$ 20,434

The Company is required to test goodwill and other intangible assets for impairment on an annual basis and, if current events or circumstances require, on an interim basis. Our next annual evaluation of goodwill and other intangible assets is scheduled for the fourth quarter of 2016. To test the impairment of goodwill, the Company compares the fair value of each reporting unit to its carrying amount, including the goodwill, to determine if there is potential goodwill impairment. A reporting unit is generally one level below the operating segment. As of September 30, 2016, we were not aware of any events that made us believe potential impairment of goodwill had occurred.

The tables below summarize intangible assets other than goodwill as of September 30, 2016 and December 31, 2015, respectively.

(Dollars in thousands)	As of September 30, 2016			Total
	Beneficial Leases	Trade Name	Other Intangible Assets	
Gross intangible assets	\$ 28,834	\$ 7,254	\$ 766	\$ 36,854
Less: Accumulated amortization	(21,651)	(4,551)	(465)	(26,667)
Net intangible assets	\$ 7,183	\$ 2,703	\$ 301	\$ 10,187

As of December 31, 2015

(Dollars in thousands)	As of December 31, 2015			Total
	Beneficial Leases	Trade Name	Other Intangible Assets	
Gross intangible assets	\$ 26,793	\$ 7,254	\$ 696	\$ 34,743
Less: Accumulated amortization	(20,108)	(4,300)	(446)	(24,854)
Net intangible assets	\$ 6,685	\$ 2,954	\$ 250	\$ 9,889

Beneficial leases are amortized over the life of the lease up to 30 years, trade names are amortized based on the accelerated amortization method over its estimated useful life of 45 years, and other intangible assets are amortized over their estimated useful lives of up to 30 years (except for transferrable liquor licenses, which are indefinite-lived assets). The table below summarizes the amortization expense of intangible assets for the quarter and nine months ended September 30, 2016 and September 30, 2015, respectively.

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Beneficial lease amortization	\$ 578	\$ 191	\$ 968	\$ 574
Other amortization	296	207	845	649
Total intangible assets amortization	\$ 874	\$ 398	\$ 1,813	\$ 1,223

#### Note 8 – Prepaid and Other Assets

Prepaid and other assets are summarized as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
<b>Prepaid and other current assets</b>		
Prepaid expenses	\$ 1,792	\$ 879
Prepaid taxes	3,107	3,160
Prepaid rent	946	1,021
Deposits	379	369
Total prepaid and other current assets	\$ 6,224	\$ 5,429
<b>Other non-current assets</b>		
Other non-cinema and non-rental real estate assets	\$ 1,134	\$ 1,134
Long-term deposits	40	63
Straight-line rent	2,585	2,417
Other	--	1
Total other non-current assets	\$ 3,759	\$ 3,615

#### Note 9 – Income Tax

The provision for income taxes is different from the amount determined by applying the U.S. federal statutory rate to consolidated income before taxes. The differences are attributable to earnings considered indefinitely reinvested in foreign operations, change in valuation allowance, state taxes, unrecognized tax benefits, and foreign withholding tax on interest. Our effective tax rate was 31.8% and 19.2% for the nine months ended September 30, 2016 and 2015, respectively. The rate difference was primarily caused by the Company's determination during the second quarter of 2015 that earnings of Australian subsidiaries are indefinitely invested in foreign operations.

## Note 10 – Debt

The Company's borrowings at September 30, 2016 and December 31, 2015, net of deferred financing costs and including the impact of interest rate swaps on effective interest rates, are summarized below:

As of September 30, 2016						
(Dollars in thousands)	Maturity Date	Contractual Facility	Balance, Gross	Balance, Net <sup>(3)</sup>	Stated Interest Rate	Effective Interest Rate <sup>(1)</sup>
Denominated in USD						
Trust Preferred Securities (USA)	April 30, 2027	\$ 27,913	\$ 27,913	\$ 27,286	4.76%	5.20%
Bank of America Credit Facility (USA)	November 28, 2019	55,000	38,950	38,699	3.27%	3.90%
Bank of America Line of Credit (USA)	October 31, 2017	5,000	1,000	1,000	3.45%	3.45%
Cinema 1, 2, 3 Term Loan (USA) <sup>(4)</sup>	September 1, 2019	20,000	20,000	19,401	3.25%	3.25%
Minetta & Orpheum Theatres Loan (USA) <sup>(4)</sup>	June 1, 2018	7,500	7,500	7,380	3.31%	3.31%
Union Square Line of Credit (USA) <sup>(4)</sup>	June 2, 2017	8,000	8,000	7,937	3.51%	3.51%
Denominated in foreign currency ("FC") <sup>(2)</sup>						
National Australia Bank ("NAB") Corporate Term Loan (AU)	June 28, 2019	50,986	30,285	30,126	2.62%	2.62%
Westpac Bank Corporate Credit Facility (NZ)	March 31, 2018	36,450	10,571	10,571	3.95%	3.95%
		<b>\$ 210,849</b>	<b>\$ 144,219</b>	<b>\$ 142,400</b>		

<sup>(1)</sup> Effective interest rate includes the impact of interest rate derivatives hedging the interest rate risk associated with Trust Preferred Securities and Bank of America Credit Facility that were outstanding as of September 30, 2016.

<sup>(2)</sup> The contractual facilities and outstanding balances of the FC-denominated borrowings were translated into U.S. dollars based on the applicable exchange rates as of September 30, 2016.

<sup>(3)</sup> Net of deferred financing costs amounting to \$1.8 million.

<sup>(4)</sup> The loan for our Minetta & Orpheum Theatres was obtained from Santander Bank. The Union Square line of credit was obtained through East West Bank. We are currently in the process of negotiating a construction loan for our Union Square property that will pay-off this loan with East West Bank. The term loan for our Cinema 1,2,3 Theatre, which was previously provided by Santander Bank, was refinanced during the third quarter of 2016 with Valley National Bank. Refer below for further discussion.

As of December 31, 2015						
(Dollars in thousands)	Maturity Date	Contractual Facility	Balance, Gross	Balance, Net <sup>(3)</sup>	Stated Interest Rate	Effective Interest Rate <sup>(1)</sup>
Denominated in USD						
Trust Preferred Securities (USA)	April 30, 2027	\$ 27,913	\$ 27,913	27,125	4.32%	5.20%
Bank of America Credit Facility (USA)	November 28, 2019	55,000	29,750	29,321	2.92%	3.65%
Bank of America Line of Credit (USA)	October 31, 2017	5,000	2,500	2,500	3.42%	3.42%
Cinema 1, 2, 3 Term Loan (USA) <sup>(4)</sup>	July 1, 2016	15,000	15,000	14,887	3.75%	3.75%
Cinema 1, 2, 3 Line of Credit (USA) <sup>(4)</sup>	July 1, 2016	6,000	--	--	3.75%	3.75%
Minetta & Orpheum Theatres Loan (USA) <sup>(4)</sup>	June 1, 2018	7,500	7,500	7,326	3.00%	3.00%
Union Square Line of Credit (USA) <sup>(4)</sup>	June 2, 2017	8,000	8,000	7,858	3.65%	3.65%
Denominated in FC <sup>(2)</sup>						
NAB Corporate Term Loan (AU)	June 30, 2019	48,452	26,594	26,412	3.06%	3.06%
Westpac Bank Corporate Credit Facility (NZ)	March 31, 2018	34,210	13,684	13,684	4.45%	4.45%
		<b>\$ 207,075</b>	<b>\$ 130,941</b>	<b>\$ 129,113</b>		

<sup>(1)</sup> Effective interest rate includes the impact of interest rate derivatives hedging the interest rate risk associated with Trust Preferred Securities and Bank of America Credit Facility that were outstanding as of December 31, 2015.

<sup>(2)</sup> The contractual facilities and outstanding balances of the FC-denominated borrowings were translated into U.S. dollar based on the applicable exchange rates as of December 31, 2015.

<sup>(3)</sup> The balance as of December 31, 2015 included the reclassification adjustment relating to netting of deferred financing costs amounting to \$1.8 million, as discussed in *Note 1 – Recently Adopted and Issued Accounting Pronouncements*.

<sup>(4)</sup> The loans for our Cinema 1,2,3 and Minetta & Orpheum Theatres were obtained from Bank of Santander. The Union Square line of credit was obtained through East West Bank.

### Cinema 1,2,3 Term Loan

On August 31, 2016, Sutton Hill Properties LLC ("SHP"), a 75% subsidiary of Reading International Inc., refinanced its \$15 million Santander Bank term loan with a different lender, Valley National Bank. This new \$20 million loan is collateralized by our Cinema 1,2,3 property and bears an interest rate of 3.25% per annum, with principal installments and accruing interest paid monthly. The new loan matures on September 1, 2019, with a one-time option to extend maturity date for another year.

Prior to the above refinancing, on June 27, 2016, SHP obtained approval from Santander Bank to extend the maturity of our \$15 million mortgage term loan from July 1, 2016 to October 1, 2016. This term extension was not considered substantial in accordance with US GAAP. This term loan was subsequently paid prior to its extended maturity date on August 31, 2016 as a result of the refinancing discussed in the previous paragraph. In conjunction with the extension, our line of credit with Santander Bank amounting to \$6.0 million was deactivated effective July 1, 2016. The Company did not make any drawdown against this line of credit.

#### **Bank of America Credit Facility**

On March 3, 2016, we amended our \$55.0 million credit facility with Bank of America to permit real property acquisition loans. This amendment was subject to the provision that the consolidated leverage ratio would be reduced by 0.25% from the established levels in the credit facility during the period of such borrowing subject further to a repayment of such borrowings on the earlier of the eighteen months from the date of such borrowing or the maturity date of the credit agreement. Such modification was not considered substantial in accordance with US GAAP.

#### **Note 11 – Other Liabilities**

Other liabilities are summarized as follows:

(Dollars in thousands)	September 30, 2016	December 31, 2015
<b>Current liabilities</b>		
Lease liability	\$ 5,900	\$ 5,900
Security deposit payable	126	180
Accrued pension	2,052	1,539
Other	--	21
Other current liabilities	<u>\$ 8,078</u>	<u>\$ 7,640</u>
<b>Other liabilities</b>		
Straight-line rent liability	\$ 12,385	\$ 10,823
Accrued pension	5,858	6,236
Lease make-good provision	5,224	5,228
Deferred revenue - real estate	4,662	4,596
Environmental reserve	1,656	1,656
Interest rate swap	200	156
Acquired leases	296	866
Other	475	501
Other liabilities	<u>\$ 30,756</u>	<u>\$ 30,062</u>

On August 29, 2014, the Supplemental Executive Retirement Plan (“SERP”) that was effective since March 1, 2007, was ended and replaced with a new pension annuity. As a result of the termination of the SERP program, the accrued pension liability of \$7.6 million was reversed and replaced with a new pension annuity liability of \$7.5 million. The valuation of the liability is based on the present value of \$10.2 million discounted at a rate of 4.25% over a 15- year term, resulting in a monthly payment of \$57,000 payable to the Cotter Estate or Cotter Trust (as defined herein). The discount rate of 4.25% has been applied since 2014 to determine the net periodic benefit cost and plan benefit obligation and is expected to be used in future years. The discounted value of \$2.7 million (which is the difference between the estimated payout of \$10.2 million and the present value of \$7.5 million) as of August 29, 2014 will be amortized and expensed based on the 15-year term. In addition, the accumulated actuarial loss of \$3.1 million recorded, as part of other comprehensive income will also be amortized based on the 15-year term.

As a result of the above, included in our current and non-current liabilities are accrued pension costs of \$7.9 million at September 30, 2016. The benefits of our pension plans are fully vested and therefore no service costs were recognized for the quarter and nine months ended September 30, 2016 and 2015. Our pension plans are unfunded. During the quarter and nine months ended September 30, 2016, the interest cost was \$45,000 and \$135,000, respectively, and actuarial loss was \$52,000 and \$116,000, respectively. During the quarter and nine months ended September 30, 2015, the interest cost was \$45,000 and \$135,000, respectively, and actuarial loss was \$51,000 and \$155,000, respectively.



## Note 12 – Accumulated Other Comprehensive Income

The following table summarizes the changes in each component of accumulated other comprehensive income attributable to RDI:

(Dollars in thousands)	Foreign Currency Items	Unrealized Gain (Losses) on Available- for-Sale Investments	Accrued Pension Service Costs	Total
Balance at January 1, 2016	\$ 14,642	\$ 12	\$ (2,848)	\$ 11,806
Net current-period other comprehensive income	9,296	2	116	9,414
Balance at September 30, 2016	\$ 23,938	\$ 14	\$ (2,732)	\$ 21,220

## Note 13 – Commitments and Contingencies

### Litigation

#### *The STOMP Arbitration*

In April 2016, we received a Final Award in our arbitration with The STOMP Company Limited Partnership (“Stomp”), the producer of the show STOMP, which has been playing at our Orpheum Theater in New York City for 20 years and still continues to play to this day. The Final Award awards us \$2.3 million in attorney’s fees and costs. In September 2016, the parties agreed on the payment terms of the Final Award (“Payment Agreement”), on a basis that is intended to allow recovery by the Company of the entire Final Award (plus interest at 4%), while at the same time allowing the show to continue playing at our Orpheum Theater. Under the Payment Agreement, Stomp made an initial payment of \$325,000 on September 28, 2016 and the remaining amount to be paid over time, with final payment due and payable in June 2019. We have filed a judgment of the arbitral award against Stomp with the New York Supreme Court to protect the Company in the event Stomp defaults on the Payment Agreement. STOMP continues to play at our Orpheum Theater under a license agreement that was amended by the Payment Agreement.

#### *Derivative Litigation*

In July 2016, all of the stockholder plaintiffs in the consolidated derivative cases other than James J. Cotter, Jr. (the “Independent Plaintiff Stockholders”) entered into a settlement agreement with the Company and all of the Company’s directors (other than James J. Cotter Jr.) withdrew their claims. The settlement was approved by the District Court of the State of Nevada for Clark County and the judgment dismissing with prejudice the claims of the Independent Plaintiff Stockholders was entered on October 20, 2016. Under the judgment, each party is to bear its own legal fees. In the joint press release issued by the Company and the Independent Plaintiff Stockholders on July 13, 2016, representatives of the Independent Plaintiff Stockholders stated as follows: *“We are pleased with the conclusions reached by our investigations as Plaintiff Stockholders and now firmly believe that the Reading Board of Directors has and will continue to protect stockholder interests and will continue to work to maximize shareholder value over the long term. We appreciate the Company’s willingness to engage in open dialogue and are excited about the Company’s prospects. Our questions about the termination of James Cotter, Jr., and various transactions between Reading and members of the Cotter family-or entities they control-have been definitively addressed and put to rest. We are impressed by measures the Reading Board has made over the past year to further strengthen corporate governance. We fully support the Reading Board and management team and their strategy to create stockholder value.”*

On August 3, 2016 James J. Cotter Jr., filed a motion with the Court seeking permission to file a “Second Amended Verified Complaint” (the “SAP”), which motion has been approved.

The SAP adds as defendants Directors Judy Codding and Michael Wrotniak. It adds additional purported claims including purported claims relating to the selection of Ellen Cotter to serve as our Company’s President and Chief Executive Officer, the retention of Margaret Cotter to serve as our Executive Vice President responsible for our live theater operations and the management and development of our New York properties, the ability of Ellen Cotter and Margaret Cotter to vote 100,000 share of our Class B stock, issued upon the exercise of certain stock options held of record by the Estate of James J. Cotter, Sr., and the handling by our Board of Directors of an indication of interest received at the end of May relating to the purchase of all of the stock of our Company.

Discovery is continuing. No trial date has been scheduled.

To date, except for a \$500,000 deductible, the bulk of the out-of-pocket costs associated with the defense of the above described litigation has been covered by the Company’s Directors and Officers Insurance. However, the \$10,000,000 limits of that policy have now been exhausted. Accordingly, the costs of such defense going forward will be a general administrative expense of the Company.

## Debt Guarantee

The total estimated debt of unconsolidated joint ventures and entities, consisting solely of Rialto Distribution (see Note 6 – Investments in Unconsolidated Joint Ventures and Entities), was \$1.1 million (NZ\$1.5 million) as of September 30, 2016 and \$1.0 million (NZ\$1.5 million) as of December 31, 2015. Our share of the unconsolidated debt, based on our ownership percentage, was NZ\$500,000 as of September 30, 2016 and December 31, 2015, respectively. This debt is guaranteed by one of our subsidiaries to the extent of our ownership percentage. Based on the financial position of Rialto Distribution and in consideration of this debt guarantee, we accrued \$364,500 (NZ\$500,000) and \$342,000 (NZ\$500,000) as of September 30, 2016 and December 31, 2015, recorded as part of Accounts payable and accrued liabilities.

## Note 14 – Non-controlling Interests

These are composed of the following enterprises:

- Australia Country Cinemas Pty Ltd. -- 25% noncontrolling interest owned by Panorama Cinemas for the 21st Century Pty Ltd.;
- Shadow View Land and Farming, LLC -- 50% noncontrolling membership interest owned by either the estate of Mr. James J. Cotter, Sr. (the “Cotter Estate”) or the James J. Cotter, Sr. Living Trust (the “Cotter Trust”); and,
- Sutton Hill Properties, LLC -- 25% noncontrolling interest owned by Sutton Hill Capital, LLC (which in turn is 50% owned by Cotter Estate and/or the Cotter Trust).

The components of noncontrolling interests are as follows:

(Dollars in thousands)	September 30,	December 31,
	2016	2015
Australian Country Cinemas, Pty Ltd	\$ 275	\$ 318
Shadow View Land and Farming, LLC	2,010	1,940
Sutton Hill Properties, LLC	2,146	2,073
Noncontrolling interests in consolidated subsidiaries	\$ 4,431	\$ 4,331

The components of gain/(loss) attributable to noncontrolling interests are as follows:

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Australian Country Cinemas, Pty Ltd	\$ 79	\$ 1	\$ 137	\$ 131
Shadow View Land and Farming, LLC	(12)	(9)	(29)	(66)
Sutton Hill Properties, LLC	(5)	(46)	(96)	(125)
Net income (loss) attributable to noncontrolling interests	\$ 62	\$ (54)	\$ 12	\$ (60)

## Summary of Controlling and Noncontrolling Stockholders' Equity

A summary of the changes in controlling and noncontrolling stockholders' equity is as follows:

(Dollars in thousands)	Controlling Stockholders' Equity	Noncontrolling Stockholders' Equity	Total Stockholders' Equity
Equity at January 1, 2016	\$ 132,865	\$ 4,331	\$ 137,196
Net income	9,054	12	9,066
Increase in additional paid in capital	447	--	447
Contributions from noncontrolling stockholders - SHP	--	268	268
Distributions to noncontrolling stockholders	--	(194)	(194)
Accumulated other comprehensive income	9,414	14	9,428
Equity at September 30, 2016	\$ 151,780	\$ 4,431	\$ 156,211

(Dollars in thousands)	Controlling Stockholders' Equity	Noncontrolling Stockholders' Equity	Total Stockholders' Equity
Equity at January 1, 2015	\$ 127,686	\$ 4,612	\$ 132,298
Net income (loss)	19,496	(60)	19,436
Increase in additional paid in capital	2,242	--	2,242
Treasury stock purchased	(4,942)	--	(4,942)
Contributions from noncontrolling stockholders - SHP	--	17	17
Distributions to noncontrolling stockholders	--	(139)	(139)
Accumulated other comprehensive loss	(27,675)	(59)	(27,734)
Equity at September 30, 2015	\$ 116,807	\$ 4,371	\$ 121,178

### Note 15 – Equity and Stock-Based Compensation

#### Employee and Director Stock Option Plan

The Company may grant stock options and other share-based payment awards of our Class A Stock to eligible employees, directors, and consultants under the 2010 Stock Incentive Plan (the "Plan"). The aggregate total number of shares of the Class A Nonvoting Common Stock authorized for issuance under the Plan is 1,250,000. As of September 30, 2016, we had 551,800 shares remaining for future issuances.

Since the adoption of the Plan in 2010, the Company has granted awards primarily in the form of stock options. In the 1<sup>st</sup> quarter of 2016, the Company started to award restricted stock units ("RSUs") to directors and certain members of management. Stock options are generally granted at exercise prices equal to the grant-date market prices and typically expire no later than five years from the grant date. In contrast to a stock option where the grantee buys the Company's share at an exercise price determined on grant date, an RSU entitles the grantee to receive one share for every RSU based on a vesting plan. At the discretion of our Compensation and Stock Options Committee, the vesting period of stock options and RSUs ranges from zero to four years. At the time the options are exercised or RSUs vest, at the discretion of management, we will issue treasury shares or make a new issuance of shares to the option or RSU holder.

#### Stock Options

We estimate the grant-date fair value of our stock options using the Black-Scholes option-valuation 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. We expense the estimated grant-date fair values of options over the vesting period on a straight-line basis. Based on our historical experience and the relative market price to strike price of the options, we have not hereto estimated any forfeitures of vested or unvested options.

For the nine months ended September 30, 2016 and 2015, respectively, the weighted average assumptions used in the option-valuation model were as follows:

	Nine Months Ended September 30	
	2016	2015
Stock option exercise price	\$ 11.87	\$ 13.30
Risk-free interest rate	1.20%	2.23%
Expected dividend yield	--	--
Expected option life in years	3.75	4.00
Expected volatility	25.01%	31.86%
Weighted average fair value	\$ 2.49	\$ 3.82

For the quarter and nine months ended September 30, 2016, we recorded compensation expense of \$74,000 and \$264,000, respectively. For the quarter and nine months ended September 30, 2015, we recorded compensation expense of \$75,000 and \$209,000, respectively. At September 30, 2016, the total unrecognized estimated compensation expense related to non-vested stock options was \$661,000, which we expect to recognize over a weighted average vesting period of 1.94 years. No stock options were exercised during the quarter and nine months ended September 30, 2016. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at September 30, 2016 was \$2.1 million, of which 75.8% are currently exercisable.

The following table summarizes the information of options outstanding and exercisable as of September 30, 2016 and December 31, 2015:

(Shares in thousands)	Options Outstanding					Exercisable Options				
	Number of Options		Weighted Average Exercise Price		Weighted Average Remaining Years of Contractual Life	Number of Options		Weighted Average Exercise Price		Weighted Average Remaining Years of Contractual Life
	Class A	Class B	Class A	Class B		Class A	Class B	Class A	Class B	
<b>Balance - December 31, 2014</b>	568	185	\$ 6.88	\$ 9.90	2.40	348	185	\$ 6.82	\$ 9.90	3.63
Granted	112	--	13.30	--	--	101	--	--	--	--
Exercised	(185)	(185)	6.09	9.90	--	(185)	(185)	--	--	--
Forfeited	(8)	--	6.23	--	--	(8)	--	--	--	--
<b>Balance - December 31, 2015</b>	<b>487</b>	<b>--</b>	<b>\$ 7.64</b>	<b>\$ --</b>	<b>2.89</b>	<b>256</b>	<b>--</b>	<b>\$ 7.64</b>	<b>\$ --</b>	<b>2.14</b>
Granted	169	--	11.87	--	--	75	--	--	--	--
Exercised	--	--	--	--	--	--	--	--	--	--
Forfeited	(74)	--	7.02	--	--	(29)	--	--	--	--
<b>Balance - September 30, 2016</b>	<b>582</b>	<b>--</b>	<b>\$ 9.82</b>	<b>\$ --</b>	<b>2.83</b>	<b>302</b>	<b>--</b>	<b>\$ 8.18</b>	<b>\$ --</b>	<b>1.89</b>

#### *Termination of Previous President's Unvested Stock Options*

Mr. James Cotter, Jr. has asserted in past communications with the Company that options to acquire 50,000 shares of Class A Stock, issued to him in connection with his retention as the President of our Company, survived his termination as President. We continued to show these options as outstanding in our previous filings, pending a determination of the issue by our Compensation and Stock Options Committee. On August 3, 2016, our Compensation and Stock Options Committee met, reviewed the issue and determined that such 50,000 options had in fact terminated with the termination of Mr. Cotter, Jr's employment as President. Accordingly, these options are not, and have not been since the effective date of Mr. Cotter, Jr's termination, outstanding and the aggregate currently outstanding options are 582,000. This was recorded as a forfeiture during the quarter ended September 30, 2016.

#### Restricted Stock Units

We estimate the grant-date fair values of our RSUs using the Company's stock price at grant-date and record such fair values as compensation expense over the vesting period on a straight-line basis. In March 2016 and April 2016, RSU awards of 62,528 units and 5,625 units, respectively, were granted to both our directors and certain members of management. These RSU awards aggregating to 68,153 units remained unvested as of September 30, 2016. These RSU awards vest 25% at the end of each year for 4 years (in the case of members of management) and vest 100% at the end of one year (in the case of directors). During the quarter and nine months ended September 30, 2016, we recognized compensation expense of \$130,000 and \$290,000, respectively. The total unrecognized compensation expense related to these unvested RSUs was \$526,000 as of September 30, 2016.

## Common Stock Buyback

On May 16, 2014, the Company's Board of Directors authorized management, at its discretion, to spend up to an aggregate of \$10.0 million to acquire shares of Reading's Common Stock. This approved stock repurchase plan supersedes and effectively cancelled the program that was approved by the board on May 14, 2004, which allowed management to purchase up to 350,000 shares of Reading's Common Stock.

The repurchase program allows Reading to repurchase its shares in accordance with the requirements of the SEC on the open market, in block trades and in privately negotiated transactions, depending on market conditions and other factors. All purchases are subject to the availability of shares at prices that are acceptable to Reading, and accordingly, no assurances can be given as to the timing or number of shares that may ultimately be acquired pursuant to this authorization.

Under this approved buyback program, the Company has repurchased \$7.2 million worth of common stock at an average price of \$12.92 per share. This leaves \$2.8 million available under the May 16, 2014 for repurchase as of September 30, 2016.

Management currently intends to use this \$2.8 million in full before the end of the year to acquire additional shares of common stock, subject to the cost of such shares and the Company's other cash needs.

## Note 16 – Derivative Instruments

We enter into interest rate derivative instruments to hedge the interest rate risk that results from the characteristics of our floating-rate borrowings. Our use of derivative transactions is intended to reduce long-term fluctuations in cash flows caused by market movements. All derivative instruments are recorded on the balance sheet at fair value with changes in fair value through interest expense in the Consolidated Statement of Operations. As of September 30, 2016, we have not designated any of our derivatives as accounting hedges.

The Company's derivative positions measured at fair value are summarized in the following tables:

(Dollars in thousands)	Notional Amount	As of September 30, 2016	
		Other Assets	Other Current Liabilities
Interest rate swap	\$ 52,413	\$ --	\$ 200
Interest rate cap	7,500	1	--
Total	\$ 59,913	\$ 1	\$ 200

(Dollars in thousands)	Notional Amount	As of December 31, 2015	
		Other Assets	Other Current Liabilities
Interest rate swap	\$ 52,413	\$ --	\$ 156
Interest rate cap	7,500	1	--
Total	\$ 59,913	\$ 1	\$ 156

The following table summarizes the unrealized gains or losses due to changes in fair value of the derivatives that are recorded in interest expense in the Consolidated Statement of Operations for the quarter and nine months ended September 30, 2016 and September 30, 2015.

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net unrealized gains (losses) on interest rate derivatives	\$ (194)	\$ 239	\$ 45	\$ 698

## Note 17 – Fair Value Measurements

ASC 820, *Fair Value Measurement* establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities

- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable

The following tables summarize our financial assets and financial liabilities carried and measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015, by level within the fair value hierarchy.

(Dollars in thousands)	Fair Value Measurement at September 30, 2016			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments	\$ 55	\$ --	\$ --	\$ 55
Derivatives	--	1	--	1
<b>Liabilities</b>				
Derivatives	--	(200)	--	(200)
Total recorded at fair value	\$ 55	\$ (199)	\$ --	\$ (144)

(Dollars in thousands)	Fair Value Measurement at December 31, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments	\$ 51	\$ --	\$ --	\$ 51
Derivatives	--	1	--	1
<b>Liabilities</b>				
Derivatives	--	(156)	--	(156)
Total recorded at fair value	\$ 51	\$ (155)	\$ --	\$ (104)

The following tables summarize our financial liabilities that are carried at cost and measured at fair value on a non-recurring basis as of September 30, 2016 and December 31, 2015, by level within the fair value hierarchy.

(Dollars in thousands)	Carrying Value <sup>(1)</sup>	Fair Value Measurement at September 30, 2016			Total
		Level 1	Level 2	Level 3	
Notes payable	\$ 116,306	\$ --	\$ --	\$ 118,274	\$ 118,274
Subordinated debt	27,913	--	--	14,887	14,887
	\$ 144,219	\$ --	\$ --	\$ 133,161	\$ 133,161

(Dollars in thousands)	Carrying Value <sup>(1)</sup>	Fair Value Measurement at December 31, 2015			Total
		Level 1	Level 2	Level 3	
Notes payable	\$ 103,028	\$ --	\$ --	\$ 99,554	\$ 99,554
Subordinated debt	27,913	--	--	13,338	13,338
	\$ 130,941	\$ --	\$ --	\$ 112,892	\$ 112,892

<sup>(1)</sup> These balances are presented before any deduction for deferred financing costs.

Following is a description of the valuation methodologies used to estimate the fair value of our financial assets and liabilities. There have been no changes in the methodologies used at September 30, 2016 and December 31, 2015.

Level 1 investments in marketable securities primarily consist of investments associated with the ownership of marketable securities in U.S. and New Zealand. These investments are valued based on observable market quotes on the last trading date of the reporting period.

Level 2 derivative financial instruments are valued based on discounted cash flow models that incorporate observable inputs such as interest rates and yield curves from the derivative counterparties. The credit valuation adjustments associated with our non-performance risk and counterparty credit risk are incorporated in the fair value estimates of our derivatives. As of September 30, 2016 and December 31, 2015, we concluded that the credit valuation adjustments were not significant to the overall valuation of our derivatives.

Level 3 borrowings include our secured and unsecured notes payable, trust preferred securities and other debt instruments. The borrowings are valued based on discounted cash flow models that incorporate appropriate market discount rates. We calculated the market discount rate by obtaining period-end treasury rates for fixed-rate debt, or LIBOR for variable-rate debt, for maturities that correspond to the maturities of our debt, adding appropriate credit spreads derived from information obtained from third-party financial institutions. These credit spreads take into account factors such as our credit rate, debt maturity, types of borrowings, and the loan-to-value ratios of the debt.

The Company's financial instruments also include cash, cash equivalents, receivables and account payable. The carrying values of these financial instruments approximate the fair values. Additionally, there were no transfers of assets and liabilities between levels 1, 2, or 3 during the quarter and nine months ended September 30, 2016 and September 30, 2015.

## **NOTE 18 – Subsequent Events**

### ***Opening of Olino, West Oahu in Hawaii***

On October 21, 2016, we opened Olino by Consolidated Theatres, our ninth theatre and first to break ground since 2001 in the state of Hawaii. This location features an eight-screen, state-of-the-art cinema at Ka Makana Ali'i, a 1.4 million square foot regional mall in West Oahu.

### ***Potential Prepayment of Burwood Property Sales Proceeds***

Frasers Property Australia, the buyer of our Burwood Property, informed us that it is under contract to sell a portion of this property and a potential prepayment of \$16.7 million (AU\$21.8 million) is expected during the fourth quarter of 2016.

### ***Amendment to Bank of America Line of Credit***

In October 2016, we amended our \$5.0 million line of credit with Bank of America to provide an extension of the term by two (2) years, from October 31, 2017 to October 31, 2019. In addition, the amendment provided some changes to our debt covenants, including the elimination of minimum unencumbered liquid assets covenants. This modification was not considered substantial in accordance with U.S. GAAP.

### ***Amendment to Westpac Bank Corporate Credit Facility***

In October 2016, we amended our \$36.4 million (NZ\$50.0 million) credit facility with Westpac Bank to provide a \$2.2 million (NZ\$3.0 million) increase, thereby amending the total credit facility to \$38.6 million (NZ\$53.0 million). The increase in the credit facility was specific to the second tranche of our credit facility which is a dedicated construction facility, now of \$13.1 million (NZ\$18.0 million) from the original limit of \$10.9 million (NZ\$15.0 million). No drawdowns have been made against the second tranche to date. This modification was not considered substantial in accordance with U.S. GAAP.

### ***Board Re-Affirms Independence Determination***

At its meeting on November 7, 2016, the Board reaffirmed its determination of June 23, 2016, that the interests of the Company and its stockholders would be best served by the continued independence of the Company. Patton Vision, LLC, in a letter dated September 14, 2016, addressed to Ellen Cotter, had reiterated its indication of interest in acquiring all of the stock of the Company at \$17.00 per share. In light of the Board's re-affirmation of its June 23, 2016 determination, management was directed to advise Patton Vision, LLC, that the Board has no interest in pursuing a sale of the Company at this time.

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

We are an internationally diversified company principally focused on the development, ownership, and operation of entertainment and real estate assets in the United States, Australia, and New Zealand. Currently, we operate in two business segments:

- cinema exhibition, through our 57 multiplex cinemas; and
- real estate, including real estate development and the rental of retail, commercial, and live theater assets.

We believe that these two business segments can complement one another, as we can use the comparatively consistent cash flows generated by our cinema operations, in part, to fund the front-end cash demands of our real estate development business.

We manage our worldwide cinema exhibition businesses under various different brands:

- in the US, under the following brands: Reading Cinemas, Angelika Film Center, Consolidated Theatres, and City Cinemas;
- in Australia, under the Reading Cinemas brand; and
- in New Zealand, under the Reading Cinemas and Rialto brands.

### **Cinema Activities**

We continue to (i) consider new opportunities to expand our international cinema circuit, (ii) evaluate our existing cinema portfolio to determine ways to maximize profitability through strategic renovations or programming adjustments, and (iii) determine the most efficient ways to dispose of cinemas carrying unacceptable risk profiles on a go-forward basis. To increase attendance and improve our cash flow, our operational strategy has focused on improving the overall experience of the cinema guest through (i) delivering a premium sight and sound cinematic presentation with a filmmaker focus, (ii) installation of recliner seating, (iii) expansion of the quality and variety of our food & beverage menu, (iv) broadening the scope of our programming to increase attendance and box office, (v) delivering hospitality focused guest service, (vi) engaging our guests through better design of our cinema spaces, (vii) instituting reserved seating in certain locations, and (viii) improving our interaction on social and electronic media.

As we renovate and reposition certain of our existing US cinemas, we intend, where practical, to add beer and wine service and, at some locations, cocktail type beverages. Over the past years, we have obtained liquor licenses for ten U.S. theater locations: (i) both of our Texas locations (Dallas and Plano), (ii) our theater in Fairfax, Virginia, (iii) one in Washington, D.C., (iv) three in San Diego, CA (Carmel Mountain, Town Square and Grossmont), (v) one in Sacramento, CA, and (vi) lastly, two in Hawaii (Ward and Olin). The liquor license in our Ward Theatre was the first ever liquor license granted to a cinema on the island of Oahu. Additionally, we have four pending applications – two in California and one each in New York and New Jersey. In our international cinema operations, we offer beer and wine menu options for nine of our cinema locations (Belmont, Westlakes, Epping, Chirside, Waurm Ponds, Rhodes, Rouse Hill, Charlestown and Harbourtown) in Australia and three of our cinema locations (Courtenay, Dunedin and LynnMall) in New Zealand.

Innovative value pricing, improved food and beverage offerings and proactive social media engagement with our customers was a primary focus and to that end social media has been a powerful tool for connecting with and marketing to customers in real time. We have continued to focus upon our company wide customer service training program with a view to improving staff productivity, the quality of customer interactions and ultimately underpinning an improvement to our per capita transaction spend. Refining, enhancing and remixing our food and beverage offerings has been an ongoing initiative with a view to minimizing our cost of sales and improving the inventory blend of our over the counter customer offerings.

### **US cinema activities**

On October 21, 2016, we opened Olin by Consolidated Theatres, our ninth theatre and the first to break ground since 2001 in the state of Hawaii. This location features an eight-screen, state-of-the-art cinema at Ka Makana Ali’i, a 1.4 million square foot regional mall in West Oahu. With a sleek architectural design that brings natural light into the welcome space of the cinema and luxurious amenities to create the most brilliant movie-going experience, the cinema is inspired by its name. Each of Olin’s well-appointed auditoriums feature luxurious electric recliner seats, expansive wall-to-wall screens and pristine digital projection by Barco, the leader in digital cinema technology. Expanding on the cutting edge technology from the iconic premium large format TITAN XC (Extreme Cinema) at Ward Theatres, Olin introduces a new premium TITAN XC experience, TITAN LUXE. Guests will enjoy the comfort of luxurious electric recliner seats and the newest Dolby Atmos multi-channel immersive sound, while watching Hollywood’s latest blockbusters on one of Hawaii’s biggest screens. In addition to the traditional cinema concessions and 140 flavors offered by Coca-Cola Freestyle, a menu of locally inspired and freshly prepared items has been curated by former Food Network executive, Bruce Seidel (Hot Lemon Productions), and former Food Network chef, Santos Loo. Unique items guests can enjoy before, during or after their film include a Kim Chee Burger, Banh Mi-Style Hot Dog and Loaded Baked Potato Fries. A diverse selection of craft beers on draft and wines will be offered during select showtimes to guests ages 21 and over. Local specialty items from around the island will



be offered including a full gourmet coffee menu from Kai Coffee Hawaii, mini pies from The Hawaiian Pie Company and specialty macarons from the Instagram-famous Macarons by Tiffany.

In October 2015, we reopened our Carmel Mountain theater in San Diego as an Angelika Film Center and Café featuring luxury recliners. Dedicated to exhibiting quality films and events, the sleek and modern Angelika Film Center & Cafe is a unique venue for San Diego's culturally rich community, offering diverse programming and a creative menu of craft beverages and foods. Each of the 12 elegantly-appointed auditoria at this Angelika feature full-recliner luxury seats in a stadium setting, pristine digital projection by Barco, the leader in digital cinema technology, Dolby 7.1 sound system, and reserved seating for a leisurely cinematic experience. With state-of-the-art digital presentation capabilities and events specialists, the Angelika is an ideal venue for a range of meetings and events, from corporate presentations to private gatherings. Carmel Mountain has generated over \$5.8 million in revenue during the first nine months of 2016, well ahead of the pre-renovation performance.

The lease entered into on April 17, 2014 with an affiliate of Edens ("EDENS") providing for the development of a new state-of-the-art Angelika Film Center at Union Market in Washington DC has been terminated due to cost and feasibility issues. However, EDENS and the Company continue to discuss the development of a state-of-the-art Angelika Film Center in an alternative location within the Union Market district. In the interim, the Angelika Pop Up continues to operate in the Union Market district.

Reflecting our dedication to providing our guests a premium presentation, the Company entered into its first license agreement with IMAX. The Company converted one auditorium at the cinema at the Valley Plaza Mall in Bakersfield, California to an IMAX presentation in time for the opening of "Star Wars: The Force Awakens" in December 2015. Revenue at Valley Plaza has increased 16% over the same nine month period last year, driven by increased attendance and increased average ticket price.

On January 31, 2016, following our run of "Star Wars: The Force Awakens", we surrendered our Gaslamp Cinema in San Diego. We paid the landlord a \$1.0 million negotiated termination fee, which was less expensive than continuing to operate an unprofitable theater at this location. This cinema was acquired in 2008 as a part of the acquisition of a package of 15 locations from Pacific Theatres. The cinema was, at that time, a substantial money-loser, and the purchase price was calculated taking into account the losses generated by that cinema and the likelihood that such losses would continue into the future. The losses at Gaslamp for the first nine months of 2016 have been reduced by \$1.0 million compared to the same period last year.

#### **Australia and New Zealand cinema activities**

In September 2015, we reopened our completely refurbished Reading Cinemas at Harbournetown Shopping Center on the Gold Coast in Queensland, Australia, which is the largest theater by screen count on the Gold Coast and is a key asset within the group, having entertained more than ten million customers over the past fifteen years. The highlight of this renovation was the inclusion of our premium large format auditorium, TITAN XC (Extreme Cinema), which features a 66-foot wide 'wall-to-wall' screen and Dolby Atmos, a fully immersive sound system that is being embraced by leading exhibitors and filmmakers worldwide as the next-generation sound in the cinema. The renovation also included upgrades in the cinema's affordable luxury 'dine-in' cinema, combining a fully licensed lounge bar and a full food menu.

In November 2015, we opened the state-of-the-art Reading Cinemas LynnMall, our first Auckland based Reading Cinemas branded cinema complex, in New Lynn, New Zealand. The new state-of-the-art cinema complex brings Reading's premium offerings to the newly redeveloped LynnMall Shopping Centre, providing a compelling and convenient movie experience for the Centre's guests. The highlight of this cinema complex is the newly formatted TITAN XC (Extreme Cinema). To further enhance its position as a leading entertainment destination, we offer two luxury dine-in licensed "Premium Cinema" screens, featuring luxury recliner seating and a full food and beverage menu to provide customers a superior movie going experience. This cinema generated \$3.7 million (NZ\$5.4 million) of additional revenue for the nine months ended September 30, 2016.

#### **Real Estate Activities**

Our business plan is to focus our real estate development activities on (i) the improvement and expansion of our existing ETCs including (a) adding an anchor grocery store tenancy and additional general retail at our Courtenay Central development in Wellington, New Zealand, (b) adding general retail and restaurant space for our RedYard development in Auburn, a suburb of Sydney, Australia, and (c) adding additional cinema screens and retail space to our Cannon Park development in Townsville, Australia (ii) upgrading and adding a state-of-the-art cinema and additional general retail to our shopping center in Newmarket, a suburb of Brisbane in Australia, thereby converting that shopping center into an ETC asset, (iii) the redevelopment of our Union Square and Cinemas 1, 2, 3 properties in Manhattan to achieve the highest and best use, (iv) the commercial exploitation of our landholdings in Coachella, California (202 acres), zoned for residential and high density mixed-user uses and our landholdings in Manukau, New Zealand (70.4 acres) zoned for industrial use, and (v) the identification of additional real estate development opportunities with an existing or potential entertainment focus. With the exception of Union Square which has no tenants now due to the commencement of construction of our re-development plan of that property, our properties scheduled for improvement or expansion continue to perform at or around the same level as previous years.

### **US real estate activities**

We are continuing to advance the development of our Union Square property located in Manhattan. We have (i) received authorization from the Landmarks Preservation Commission and approval of several variance requests from the Board of Standard and Appeals to develop the BKSK Architects' design, which will add approximately 23,000 square footage of rentable space to the current square footage of the building bringing the approximate total of up to 73,322 square feet of rentable space subject to lease negotiations (inclusive of anticipated BOMA adjustments) and the final tenant mix of retail and office uses, (ii) continue to work with Edifice Real Estate Partners, LLC, to assist in the supervision and administration of the project and an affiliate of CNY for preconstruction services, (iii) retained the real estate brokerage Newmark Grubb Knight Frank to serve as our exclusive marketing agent, and (iv) received demolition and building approval of numerous permit applications by the Department of Building in July 2016, including the Alt-1 permit associated with the overall renovation of the structure. We have finished abatement and began internal demolition activities at the site. We are in the process of obtaining a commitment for \$57.5 million of construction financing for this property and anticipate closing before year-end. We currently anticipate that construction will be completed by the second quarter of 2018. Newmark advised us that retail tenant demand in our property continues to be strong.

Regarding our Cinemas 1,2,3 property in Manhattan, we have received the consent of the 25% minority member of the entity for the redevelopment of the property. We are evaluating the potential to redevelop the property as a mixed use retail and residential and/or hotel property. Further, we have completed a preliminary feasibility study and are currently in negotiations with the owner of the approximately 2,600 square foot corner parcel adjacent to our Cinemas 1,2,3 property on the corner of 60th Street and 3rd Avenue for the joint development of our properties. A combination of the properties would produce approximately 121,000 square foot of FAR and approximately 140,000 square feet of gross buildable area. No assurances can be given that we will be able to come to terms with the adjacent owner. On August 31, 2016, we completed a new three-year mortgage loan (\$20.0 million) with Valley National Bank, the proceeds of which were used to repay the mortgage on the property with the Bank of Santander (\$15.0 million), to repay Reading for its \$2.9 million loan to Sutton Hill Properties, LLC (the owner of the property), and for working capital purposes. This property's cinema revenues continue to be in line with previous years.

As discussed in the Notes to the Consolidated Financial Statements above, on April 11, 2016, we purchased for \$11.2 million a 24,000 square foot Class B office building with 72 parking spaces located at 5995 Sepulveda Boulevard in Culver City, California. We intend to use approximately 50% of the leasable area for our headquarters offices and to lease the remainder to unaffiliated third parties. We anticipate, when the move is complete and the excess space is leased, we will be able to reduce our headquarters occupancy cost by approximately \$350,000 per annum.

### **Australia real estate activities**

We received Planning Council approval from the city of Brisbane, Australia in June 2015 for the construction of an eight-screen cinema complex with 10,000 square feet of specialty retail to be located below the cinema and additional mezzanine level parking at our existing Newmarket (Brisbane, Australia) shopping center. Construction has commenced in the third quarter of 2016, with a projected opening in the fourth quarter of 2017. On November 30, 2015, we acquired an approximately 23,000 square foot parcel adjacent to our tenant, the Coles supermarket, in Newmarket. This property is currently improved with an office building. We intend, over time, to integrate this property into our Newmarket development. This will increase Newmarket's footprint from approximately 204,000 to approximately 227,000 square feet. The office building is now 100% leased, under leases that permit us to terminate in the event of redevelopment of the property.

On December 23, 2015, we acquired two adjoining ETCs in Townsville, Queensland, Australia for a total of \$24.2 million (AU\$33.4 million) comprising approximately 5.6 acres. The total gross leasable area of the two properties, the Cannon Park City Centre and the Cannon Park Discount Centre, is 133,000 square feet. Our 75%-owned multiplex cinema at the Cannon Park City Centre is the anchor tenant of that center. This acquisition is consistent with our business plan to own, where practical, the land underlying our entertainment assets. We will be operating these two properties as a single ETC. These sites have added an additional \$2.1 million (AU\$2.8 million) of revenue to our real estate segment for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

On May 12, 2014, we entered into a contract to sell our undeveloped 50.6 acre parcel in Burwood, Victoria, Australia, to Australand Holdings Limited (now known as Frasers Property Australia) for a purchase price of \$50.8 million (AU\$65.0 million). We received \$5.9 million (AU\$6.5 million) on May 23, 2014. The remaining purchase price of \$44.9 million (AU\$58.5 million) is due on December 31, 2017. The agreement provides for mandatory pre-payments in the event that any of the land is sold by the buyer, any such prepayment being in an amount equal to the greater of (a) 90% of the net sales price or (b) the balance of the purchase price multiplied by a fraction the numerator of which is the square footage of property being sold by the buyer and the denominator of which is the original square footage of the property being sold to the buyer. The agreement does not provide for the payment of interest on the balance owed. The buyer has informed us that it is under contract to sell a portion of this property and a potential prepayment of approximately \$16.7 million (AU\$21.8 million) is expected in the fourth quarter of 2016.

**New Zealand real estate activities**

We received town planning approval in May 2015 from the Wellington City Council for a \$12.1 million (NZ\$17.0 million) supermarket development project at our Courtenay Central ETC (Wellington, New Zealand). Currently, we continue to progress the addition of an approximately 36,000 square foot supermarket and approximately 4,000 square feet of general retail space. The agreement to lease the supermarket has been signed, all parties have approved construction budgets for the supermarket and a design build construction agreement has been entered into. The project is currently in the design phase. Our Tenant has advised us that they have decided to revisit their initial designs with an intent to upgrading the quality of the offering at the location and making their supermarket “premium”. While we are pleased by our Tenant’s determination to upgrade its design criteria, this will necessarily result in a delay in the commencement of construction and occupancy from dates previously reported. Under the Agreement to Lease, our Tenant is responsible for any increase in our costs resulting from these design changes and any resultant delays. We expect this supermarket development project to be completed during 2018. We are currently upgrading our parking structure that is designed to have superior structural protection against earthquake damage. We believe this will give us a competitive advantage not only in terms of parking but also as an amenity to our shopping center and cinema. Both the cinema and the real estate activity continue to operate in line with prior years.

In August 2016, the Auckland City Council revised the zoning of the agricultural portion of our property in Manukau (approximately 64.0 acres) to light industrial uses. 6.4 acres of our Manukau property were already zoned for heavy industrial use. Light industrial uses include certain manufacturing, production, logistic, transportation, warehouse and wholesale distribution activities and, on an ancillary basis, certain office, retail and educational uses. That decision was subject to a public announcement process, and became final in September 2016. Once our zoning enhancement goal has been achieved, we will review our options with respect to the commercial exploitation of this asset.

Refer to our Form 10-K for the year ended December 31, 2015 for more details on our cinema and real estate segments.

## RESULTS OF OPERATIONS

The table below summarizes the results of operations for each of our principal business segments along with the non-segment information for the quarter and nine months ended September 30, 2016 and September 30, 2015:

(Dollars in thousands)	Quarter Ended			Nine Months Ended		
	September 30, 2016	September 30, 2015	% Change Fav/(Unfav)	September 30, 2016	September 30, 2015	% Change Fav/(Unfav)
<b>SEGMENT RESULTS</b>						
<b>Revenue</b>						
Cinema exhibition	\$ 67,825	\$ 54,368	25 %	\$ 192,579	\$ 180,223	7 %
Real estate	5,390	4,968	8 %	15,960	15,908	-- %
Inter-segment elimination	(1,900)	(1,548)	(23) %	(5,518)	(4,957)	(11) %
<b>Total revenue</b>	<b>71,315</b>	<b>57,788</b>	<b>23 %</b>	<b>203,021</b>	<b>191,174</b>	<b>6 %</b>
<b>Operating expense</b>						
Cinema exhibition	(54,003)	(46,011)	(17) %	(154,382)	(145,782)	(6) %
Real estate	(2,296)	(2,570)	11 %	(6,628)	(7,004)	5 %
Inter-segment elimination	1,900	1,548	23 %	5,518	4,957	11 %
<b>Total operating expense</b>	<b>(54,399)</b>	<b>(47,033)</b>	<b>(16) %</b>	<b>(155,492)</b>	<b>(147,829)</b>	<b>(5) %</b>
<b>Depreciation and amortization</b>						
Cinema exhibition	(3,075)	(2,669)	(15) %	(8,875)	(8,133)	(9) %
Real estate	(954)	(746)	(28) %	(2,596)	(2,416)	(7) %
<b>Total depreciation and amortization</b>	<b>(4,029)</b>	<b>(3,415)</b>	<b>(18) %</b>	<b>(11,471)</b>	<b>(10,549)</b>	<b>(9) %</b>
<b>General and administrative expense</b>						
Cinema exhibition	(1,021)	(850)	(20) %	(2,785)	(2,563)	(9) %
Real estate	(385)	(209)	(84) %	(893)	(536)	(67) %
<b>Total general and administrative expense</b>	<b>(1,406)</b>	<b>(1,059)</b>	<b>(33) %</b>	<b>(3,678)</b>	<b>(3,099)</b>	<b>(19) %</b>
<b>Segment operating income</b>						
Cinema exhibition	9,726	4,838	> 100 %	26,537	23,745	12 %
Real estate	1,755	1,443	22 %	5,843	5,952	(2) %
<b>Total segment operating income</b>	<b>\$ 11,481</b>	<b>\$ 6,281</b>	<b>83 %</b>	<b>\$ 32,380</b>	<b>\$ 29,697</b>	<b>9 %</b>
<b>NON-SEGMENT RESULTS</b>						
Depreciation and amortization expense	(102)	(86)	nm	(295)	(220)	nm
General and administrative expense	(4,769)	(3,075)	(55) %	(14,693)	(10,637)	(38) %
Interest expense, net	(1,553)	(1,894)	18 %	(5,190)	(6,070)	14 %
Equity earnings of unconsolidated joint ventures and entities	200	195	nm	808	915	nm
Gain on sale of assets	--	--	-- %	393	11,023	(96) %
Other expense	(12)	(577)	nm	(115)	(667)	nm
Income before income taxes	5,245	844	> 100 %	13,288	24,041	(45) %
Income tax expense	(1,328)	(517)	(> 100) %	(4,222)	(4,605)	8 %
<b>Net income</b>	<b>3,917</b>	<b>327</b>	<b>&gt; 100 %</b>	<b>9,066</b>	<b>19,436</b>	<b>(53) %</b>
Net (income) loss attributable to noncontrolling interests	(62)	54	nm	(12)	60	nm
<b>Net income attributable to RDI common stockholders</b>	<b>\$ 3,855</b>	<b>\$ 381</b>	<b>&gt; 100 %</b>	<b>\$ 9,054</b>	<b>\$ 19,496</b>	<b>(54) %</b>
<b>Basic EPS</b>	<b>\$ 0.17</b>	<b>\$ 0.02</b>	<b>&gt; 100 %</b>	<b>\$ 0.39</b>	<b>\$ 0.84</b>	<b>(54) %</b>

### Consolidated Results and Non-Segment Results

#### Quarter Results:

Revenue for the quarter ended September 30, 2016 increased by 23%, or \$13.5 million, to \$71.3 million and net income attributable to RDI common stockholders increased by approximately 9 times, or \$3.5 million, to \$3.9 million. EPS for the quarter ended September 30, 2016 increased by \$0.15 to \$0.17 from the prior-year three-month period, mainly attributable to higher earnings in 2016 resulting from increased attendance in our cinema businesses in the U.S., Australia and New Zealand.

### **General and administrative expense (non-segment)**

General and administrative expense for the quarter ended September 30, 2016 compared to the same period of the prior year increased by 55%, or \$1.7 million. Significant elements of this increase were as follows: (i) release of overaccrual in prior years' bonus accruals during the third quarter of 2015 resulting in lower general & administrative expenses in the 2015 quarter (\$1.4 million), (ii) additional expenses paid in connection with the 2015 year-end audit (\$182,000), and (iii) higher legal expenses (\$80,000). We do not expect any additional expenses incurred in connection with the 2015 year-end audit. For more information about the legal expense, please refer to *Item 1- Legal Proceedings* in Part II of this document.

### **Interest expense, net**

Interest expense (net of interest income) for the quarter ended September 30, 2016 decreased by 18%, or \$341,000, to \$1.6 million, mainly due to renegotiation of our loan facility in Australia leading to substantially lower borrowing costs.

### **Income tax expense**

Income tax expense for the quarter ended September 30, 2016 increased by \$811,000 compared to prior-year three-month period mainly due to significant increase in pre-tax income.

### **Nine Months Results:**

Revenue for the nine months ended September 30, 2016 increased by 6%, or \$11.8 million, to \$203.0 million and net income attributable to RDI common stockholders decreased by 54%, or \$10.4 million, to \$9.1 million. EPS for the nine months ended September 30, 2016 decreased by \$0.45 to \$0.39 from the prior-year nine-month period, mainly attributable to (i) one-time gain on sale of investment properties benefitting EPS by \$0.47 in 2015 and (ii) higher general and administrative expenses in 2016. These are offset and hence, improved the EPS, by (i) higher earnings in 2016 resulting from increased attendance in our cinema businesses in the U.S., Australia and New Zealand and (ii) lower borrowing costs.

### **General and administrative expense (non-segment)**

General and administrative expense for the nine months ended September 30, 2016 compared the same period a year ago increased by 38%, or \$4.1 million. Significant elements of this increase were as follows: (i) release of overaccrual in prior years' bonus accruals during the third quarter of 2015 resulting in lower general & administrative expenses in 2015 (\$1.4 million), (ii) higher legal expenses (\$810,000), (iii) additional expenses incurred in connection with the 2015 year-end audit (\$961,000), (iv) expenses incurred in connection with the status of certain executives (\$400,000), and (v) higher compensation expense relating to equity-based performance awards as a result of the introduction of restricted stock units (\$287,000). The additional expenses incurred for the 2015 audit related to further review of the Company's tax matters for prior years. We do not expect any additional expenses incurred in connection with the year-end audit and the expenses connected with the change in status of certain executives.

The increase in legal expenses for the nine months ended September 30, 2016 mainly relate to the defense of the derivative litigation, the James J. Cotter, Jr. arbitration and for improvements on corporate governance matters. For more information about the legal expense, please refer to *Item 1- Legal Proceedings* in Part II of this document.

### **Interest expense, net**

Interest expense (net of interest income) for the nine months ended September 30, 2016 decreased by 14%, or \$880,000, to \$5.2 million, mainly due to renegotiation of our loan facility in Australia leading to substantially lower borrowing costs.

### **Gain on sale of assets**

Net gain on sale of assets for the nine-month period decreased by \$10.6 million, primarily due to the following sale transactions resulting in gains realized in 2015: (i) the sale of our Doheny Condo in Los Angeles resulting in a \$2.8 million gain during Q1 2015, (ii) the closing of the sale of Moonee Ponds in Australia for a gain of \$8.0 million (AU\$10.3 million) during Q2 2015 and (iii) the gain on the first of the two sale agreements for our Taupo Property in New Zealand in the amount of \$246,000 (NZ\$353,000) during Q2 2015, compared to the gain from the final closing of the second sale agreement of the Taupo property in New Zealand in the amount of \$393,000 (NZ\$585,000) realized in Q1 2016.

### **Income tax expense**

Income taxes for the nine months ended September 30, 2016 decreased by 8%, or \$383,000 compared to the prior-year nine-month period, mainly due to the reduction in pre-tax income.

## Business Segment Results

At September 30, 2016, we owned and operated 53 cinemas with 432 screens, had interests in certain unconsolidated joint ventures and entities that own an additional 3 cinemas with 29 screens and managed 1 cinema with 4 screens. During the period, we also (i) owned and operated four ETCs located in Belmont (a suburb of Perth), Auburn (a suburb of Sydney) and Townsville in Australia and Wellington in New Zealand, (ii) owned the fee interests in three developed commercial properties in Manhattan and Chicago improved with live theaters comprising six stages and ancillary retail and commercial space (plus our fourth live theatre that was closed at the end of 2015 as part of the Union Square property redevelopment), (iii) owned a 75% managing member interest in a limited liability company which in turn owns the fee interest in Cinemas 1,2,3, (iv) held for development an additional four parcels aggregating approximately 70.4 acres located in New Zealand, and (v) owned a 50% managing member interest in a limited liability company which in turn owns a 202-acre property that is zoned approximately 150 acres for single-family residential use (550 homes) and approximately 50 acres for high density mixed use in the U.S. In addition, we continue to hold various properties that had been previously used in our historic railroad operations.

The Company transacts business in Australia and New Zealand and is subject to risks associated with changing foreign currency exchange rates. The Australian and New Zealand dollar both strengthened against US Dollar by 5% and 11%, respectively, comparing the average exchange rate movements during the third quarter of 2016 to those during the same period of 2015. Conversely, when comparing the first nine months of 2016 to the same period of 2015, the Australian and New Zealand dollar each weakened against the U.S. dollars by 3%. Refer to Note 3 – Operations in Foreign Currency for further information.

### Cinema Exhibition

The following tables detail our cinema exhibition segment operating results for the quarter and nine months ended September 30, 2016 and 2015, respectively:

(Dollars in thousands)	Quarter Ended				Nine Months Ended				% Change		
	September 30, 2016	% of Revenue	September 30, 2015	% of Revenue	September 30, 2016	% of Revenue	September 30, 2015	% of Revenue	Quarter Ended	Nine Months Ended	
<b>REVENUE</b>											
<b>United States</b>	Admissions revenue	\$ 21,925	32%	\$ 19,965	37%	\$ 64,704	34%	\$ 62,199	35%	10 %	4 %
	Concessions revenue	10,146	15%	8,967	16%	30,441	16%	27,668	15%	13 %	10 %
	Advertising and other revenue	2,130	3%	1,981	4%	6,130	3%	5,704	3%	8 %	7 %
		<u>\$ 34,201</u>	<u>50%</u>	<u>\$ 30,913</u>	<u>57%</u>	<u>\$ 101,275</u>	<u>53%</u>	<u>\$ 95,571</u>	<u>53%</u>	<u>11 %</u>	<u>6 %</u>
<b>Australia</b>	Admissions revenue	\$ 16,360	24%	\$ 11,908	22%	\$ 44,103	23%	\$ 43,398	24%	37 %	2 %
	Concessions revenue	7,361	11%	5,337	10%	20,018	10%	19,281	11%	38 %	4 %
	Advertising and other revenue	1,830	3%	1,278	2%	4,847	3%	4,495	2%	43 %	8 %
		<u>\$ 25,551</u>	<u>38%</u>	<u>\$ 18,523</u>	<u>34%</u>	<u>\$ 68,968</u>	<u>36%</u>	<u>\$ 67,174</u>	<u>37%</u>	<u>38 %</u>	<u>3 %</u>
<b>New Zealand</b>	Admissions revenue	\$ 5,381	8%	\$ 3,303	6%	\$ 15,065	8%	\$ 11,806	7%	63 %	28 %
	Concessions revenue	2,238	3%	1,374	3%	6,098	3%	4,840	3%	63 %	26 %
	Advertising and other revenue	454	1%	255	0%	1,173	1%	832	0%	78 %	41 %
		<u>\$ 8,073</u>	<u>12%</u>	<u>\$ 4,932</u>	<u>9%</u>	<u>\$ 22,336</u>	<u>12%</u>	<u>\$ 17,478</u>	<u>10%</u>	<u>64 %</u>	<u>28 %</u>
	<b>Total revenue</b>	<u>\$ 67,825</u>	<u>100%</u>	<u>\$ 54,368</u>	<u>100%</u>	<u>\$ 192,579</u>	<u>100%</u>	<u>\$ 180,223</u>	<u>100%</u>	<u>25 %</u>	<u>7 %</u>
<b>OPERATING EXPENSE</b>											
<b>United States</b>	Film rent and advertising cost	\$ (11,769)	-17%	\$ (10,426)	-19%	\$ (34,637)	-18%	\$ (32,967)	-18%	(13)%	(5)%
	Concession cost	(1,856)	-3%	(1,569)	-3%	(5,372)	-3%	(4,646)	-3%	(18)%	(16)%
	Occupancy expense	(6,748)	-10%	(6,759)	-12%	(19,769)	-10%	(20,184)	-11%	0 %	2 %
	Other operating expense	(9,421)	-14%	(9,161)	-17%	(27,903)	-14%	(26,140)	-15%	(3)%	(7)%
		<u>\$ (29,794)</u>	<u>-44%</u>	<u>\$ (27,915)</u>	<u>-51%</u>	<u>\$ (87,681)</u>	<u>-46%</u>	<u>\$ (83,937)</u>	<u>-47%</u>	<u>(7)%</u>	<u>(4)%</u>
<b>Australia</b>	Film rent and advertising cost	\$ (7,796)	-11%	\$ (5,303)	-10%	\$ (20,823)	-11%	\$ (19,950)	-11%	(47)%	(4)%
	Concession cost	(1,584)	-2%	(1,071)	-2%	(4,172)	-2%	(3,829)	-2%	(48)%	(9)%
	Occupancy expense	(3,571)	-5%	(3,398)	-6%	(10,412)	-5%	(11,005)	-6%	(5)%	5 %
	Other operating expense	(5,360)	-8%	(4,425)	-8%	(14,822)	-8%	(13,783)	-8%	(21)%	(8)%
		<u>\$ (18,311)</u>	<u>-27%</u>	<u>\$ (14,197)</u>	<u>-26%</u>	<u>\$ (50,229)</u>	<u>-26%</u>	<u>\$ (48,567)</u>	<u>-27%</u>	<u>(29)%</u>	<u>(3)%</u>
<b>New Zealand</b>	Film rent and advertising cost	\$ (2,512)	-4%	\$ (1,453)	-3%	\$ (6,929)	-4%	\$ (5,388)	-3%	(73)%	(29)%
	Concession cost	(527)	-1%	(322)	-1%	(1,453)	-1%	(1,120)	-1%	(64)%	(30)%
	Occupancy expense	(1,252)	-2%	(914)	-2%	(3,575)	-2%	(3,031)	-2%	(37)%	(18)%
	Other operating expense	(1,607)	-2%	(1,210)	-2%	(4,516)	-2%	(3,739)	-2%	(33)%	(21)%
		<u>\$ (5,898)</u>	<u>-9%</u>	<u>\$ (3,899)</u>	<u>-7%</u>	<u>\$ (16,473)</u>	<u>-9%</u>	<u>\$ (13,278)</u>	<u>-7%</u>	<u>(51)%</u>	<u>(24)%</u>

<b>Total operating expense</b>		<b>\$ (54,003)</b>	<b>-80%</b>	<b>\$ (46,011)</b>	<b>-85%</b>	<b>\$ (154,383)</b>	<b>-80%</b>	<b>\$ (145,782)</b>	<b>-81%</b>	<b>(17)%</b>	<b>(6)%</b>
<b>DEPRECIATION, AMORTIZATION, GENERAL AND ADMINISTRATIVE EXPENSE</b>											
<b>United States</b>	Depreciation and amortization	\$ (1,547)	-2%	\$ (1,339)	-2%	\$ (4,472)	-2%	\$ (3,839)	-2%	(16)%	(16)%
	General and administrative expense	(818)	-1%	(659)	-1%	(2,059)	-1%	(2,000)	-1%	(24)%	(3)%
		<b>\$ (2,365)</b>	<b>-3%</b>	<b>\$ (1,998)</b>	<b>-4%</b>	<b>\$ (6,531)</b>	<b>-3%</b>	<b>\$ (5,839)</b>	<b>-3%</b>	<b>(18)%</b>	<b>(12)%</b>
<b>Australia</b>	Depreciation and amortization	\$ (1,092)	-2%	\$ (1,036)	-2%	\$ (3,153)	-2%	\$ (3,324)	-2%	(5)%	5%
	General and administrative expense	(217)	0%	(226)	0%	(748)	0%	(581)	0%	4%	(29)%
		<b>\$ (1,309)</b>	<b>-2%</b>	<b>\$ (1,262)</b>	<b>-2%</b>	<b>\$ (3,901)</b>	<b>-2%</b>	<b>\$ (3,905)</b>	<b>-2%</b>	<b>(4)%</b>	<b>-</b>
<b>New Zealand</b>	Depreciation and amortization	\$ (436)	-1%	\$ (294)	-1%	\$ (1,249)	-1%	\$ (970)	-1%	(48)%	(29)%
	General and administrative expense	14	0%	35	0%	21	0%	18	0%	nm	nm
		<b>\$ (422)</b>	<b>-1%</b>	<b>\$ (259)</b>	<b>0%</b>	<b>\$ (1,228)</b>	<b>-1%</b>	<b>\$ (952)</b>	<b>-1%</b>	<b>(63)%</b>	<b>(29)%</b>
<b>Total depreciation, amortization, general and administrative expense</b>											
		<b>\$ (4,096)</b>	<b>-6%</b>	<b>\$ (3,519)</b>	<b>-6%</b>	<b>\$ (11,660)</b>	<b>-6%</b>	<b>\$ (10,696)</b>	<b>-6%</b>	<b>(16)%</b>	<b>(9)%</b>
<b>OPERATING INCOME - CINEMA</b>											
<b>United States</b>		\$ 2,042	3%	\$ 1,000	2%	\$ 7,063	4%	\$ 5,795	3%	104%	22%
<b>Australia</b>		5,931	9%	3,064	6%	14,838	8%	14,702	8%	94%	1%
<b>New Zealand</b>		1,753	3%	774	1%	4,635	2%	3,248	2%	126%	43%
<b>Total Cinema operating income</b>		<b>\$ 9,726</b>	<b>14%</b>	<b>\$ 4,838</b>	<b>9%</b>	<b>\$ 26,536</b>	<b>14%</b>	<b>\$ 23,745</b>	<b>13%</b>	<b>101%</b>	<b>12%</b>

### Quarter Results:

#### **Segment operating income**

Cinema segment operating income more than doubled, for an increase of \$4.9 million, to \$9.7 million for the quarter ended September 30, 2016 compared to September 30, 2015, primarily driven by higher admissions and concessions revenues, the opening of our LynnMall Cinema in November 2015 and stronger foreign exchange average rates for Australian and New Zealand operations. Please refer below for further detailed explanation.

#### **Revenue**

Cinema revenue increased by 25%, or \$13.5 million, to \$67.8 million for the quarter ended September 30, 2016 compared to September 30, 2015, primarily attributable to higher attendance in the United States, Australia and New Zealand and a positive impact from stronger foreign exchange average rates. Comparing the three months period of the current year and prior year, Australian dollars and New Zealand dollars strengthened against U.S. dollars by 5% and 11% (on average rates), respectively.

The three-month revenue in the United States increased by 11%, or \$3.3 million, primarily driven by higher attendance (including impact of the re-opening of our Carmel Mountain theatre in San Diego, CA in October 2015) and increase in average ticket prices, offset by the impact of the closure of our Gaslamp cinema in San Diego. Similarly, Australia's cinema revenue increased by 38%, or \$7.0 million, primarily due to significant increase in attendance and the favorable impact from stronger foreign exchange average rates, offset by a reduction in average ticket prices. In New Zealand, cinema revenue significantly increased by 64%, or \$3.1 million, mainly due to higher attendance and the opening of our LynnMall cinema in November 2015, in addition to favorable impact from foreign exchange average rates.

#### **Operating expense**

Operating expense for the quarter ended September 30, 2016 increased by 17%, or \$8.0 million, mainly attributable to higher film rent and higher advertising costs and the opening of the new LynnMall cinema in New Zealand, in addition to cost increases attributable to foreign exchange rates. This was reduced by the closure of Gaslamp Cinema in San Diego, CA on January 31, 2016 and the closure of our Redbank Cinema in Australia on October 7, 2015.

Operating expense as a percentage of gross revenue improved by 5% to 80%, mainly attributable to the change in the increases in revenue and operating expenses discussed above.

***Depreciation, amortization, general and administrative expense***

Depreciation, amortization, general and administrative expense for the quarter ended September 30, 2016 increased by 16%, or \$577,000, primarily driven by an increase in depreciation resulting from improvements in several of our cinema facilities, the opening of our new LynnMall cinema in New Zealand and the re-opening of our Carmel Mountain Theatre in San Diego.

***Nine Months Results:******Segment operating income***

Cinema segment operating income increased by 12%, or \$2.8 million, to \$26.5 million for the nine months ended September 30, 2016 compared to September 30, 2015, primarily driven by higher admissions and concessions revenues and the opening of our LynnMall Cinema in November 2015, partially offset by the slightly weaker foreign exchange average rates for Australian and New Zealand operations. Please refer below for further detailed explanation.

***Revenue***

Cinema revenue increased by 7%, or \$12.4 million, to \$192.6 million for the nine months ended September 30, 2016 compared to September 30, 2015, primarily attributable to higher admissions and concessions revenues, partially offset by the slightly weaker foreign exchange average rates for Australian and New Zealand operations. Comparing the nine months period of the current year and prior year, both Australia dollars and New Zealand dollars weakened against the U.S. dollars by 3% (on average rates).

The nine-month revenue for the period ended September 30, 2016 in the United States slightly increased by 6%, or \$5.7 million, to \$101.3 million driven by higher average ticket prices and partially offset by lower attendance during the 2<sup>nd</sup> quarter of 2016 as a result of a weaker film slate in that period relative to 2015. Australia cinema revenue increased by 3%, or \$1.8 million, to \$69.0 million primarily due to higher attendance and offset by unfavorable impact from foreign exchange average rate movements and reduction in average ticket prices.

In New Zealand, cinema revenue increased by 28%, or \$4.9 million, to \$22.3 million mainly due to higher attendance and the opening of our LynnMall cinema in November 2015, partially offset by unfavorable impact from foreign exchange average rate movements. The New Zealand exhibition market benefited from the most successful local film release of all time, "Hunt for the Wilderpeople".

***Operating expense***

Operating expense for the nine months ended September 30, 2016 increased by 6%, or \$8.6 million, to \$154.4 million mainly attributable to higher film rent and higher advertising costs and the opening of the new LynnMall cinema in New Zealand, partially offset by the impact of foreign exchange rates noted above. This was reduced by the closure of Gaslamp Cinema in San Diego, CA on January 31, 2016 and the closure of our Redbank Cinema in Australia on October 7, 2015.

Operating expense as a percentage of gross revenue increased slightly by 1% to 80%.

***Depreciation, amortization, general and administrative expense***

Depreciation, amortization, general and administrative expense for the nine-month period increased by 9%, or \$964,000, to \$11.7 million primarily driven by an increase in depreciation resulting from improvements in several of our cinema facilities, the opening of our new LynnMall cinema in New Zealand and the re-opening of our Carmel Mountain Theatre in San Diego.



## Real Estate

The following tables detail our real estate segment operating results for the quarter and nine months ended September 30, 2016 and 2015, respectively:

		Quarter Ended				Nine Months Ended				% Change Fav / (Unfav)	
		September 30, 2016	% of Revenue	September 30, 2015	% of Revenue	September 30, 2016	% of Revenue	September 30, 2015	% of Revenue	Quarter Ended	Nine Months Ended
(Dollars in thousands)											
<b>REVENUE</b>											
<b>United States</b>	Live theater rental and ancillary income	\$ 623	12%	\$ 806	16%	\$ 2,119	13%	\$ 2,511	16%	(23)%	(16)%
	Property rental income	108	2%	389	8%	304	2%	1,277	8%	(72)%	(76)%
		<u>731</u>	14%	<u>1,195</u>	24%	<u>2,423</u>	15%	<u>3,788</u>	24%	<u>(39)%</u>	<u>(36)%</u>
<b>Australia</b>	Property rental income	3,480	65%	2,695	54%	10,110	63%	8,427	53%	29 %	20 %
<b>New Zealand</b>	Property rental income	1,179	22%	1,078	22%	3,428	21%	3,693	23%	9 %	(7)%
	<b>Total revenue</b>	<u>\$ 5,390</u>	100%	<u>\$ 4,968</u>	100%	<u>\$ 15,961</u>	100%	<u>\$ 15,908</u>	100%	<b>8 %</b>	<b>-%</b>
<b>OPERATING EXPENSE</b>											
<b>United States</b>	Live theater cost	\$ (74)	-1%	\$ (912)	-18%	\$ (1,167)	-7%	\$ (1,812)	-11%	92 %	36 %
	Property cost	(118)	-2%	(33)	-1%	(163)	-1%	(124)	-1%	(> 100)%	(31)%
	Occupancy expense	(253)	-5%	(265)	-5%	(473)	-3%	(758)	-5%	5 %	38 %
		<u>(445)</u>	-8%	<u>(1,210)</u>	-24%	<u>(1,803)</u>	-11%	<u>(2,694)</u>	-17%	<b>63 %</b>	<b>33 %</b>
<b>Australia</b>	Property cost	(887)	-16%	(466)	-9%	(1,945)	-12%	(1,355)	-9%	(90)%	(44)%
	Occupancy expense	(511)	-9%	(404)	-8%	(1,599)	-10%	(1,339)	-8%	(26)%	(19)%
		<u>(1,398)</u>	-26%	<u>(870)</u>	-18%	<u>(3,544)</u>	-22%	<u>(2,694)</u>	-17%	<b>(61)%</b>	<b>(32)%</b>
<b>New Zealand</b>	Property cost	(298)	-6%	(332)	-7%	(809)	-5%	(1,115)	-7%	10 %	27 %
	Occupancy expense	(155)	-3%	(158)	-3%	(472)	-3%	(501)	-3%	2 %	6 %
		<u>(453)</u>	-8%	<u>(490)</u>	-10%	<u>(1,281)</u>	-8%	<u>(1,616)</u>	-10%	<b>8 %</b>	<b>21 %</b>
	<b>Total operating expense</b>	<u>\$ (2,296)</u>	-43%	<u>\$ (2,570)</u>	-52%	<u>\$ (6,628)</u>	-42%	<u>\$ (7,004)</u>	-44%	<b>11 %</b>	<b>5 %</b>
<b>DEPRECIATION, AMORTIZATION, GENERAL AND ADMINISTRATIVE EXPENSE</b>											
<b>United States</b>	Depreciation and amortization	\$ (91)	-2%	\$ (86)	-2%	\$ (252)	-2%	\$ (247)	-2%	(6)%	(2)%
	General and administrative expense	(73)	-1%	(20)	0%	(69)	0%	40	0%	(> 100)%	(> 100)%
		<u>(164)</u>	-3%	<u>(106)</u>	-2%	<u>(321)</u>	-2%	<u>(207)</u>	-1%	<b>(55)%</b>	<b>(55)%</b>
<b>Australia</b>	Depreciation and amortization	(600)	-11%	(447)	-9%	(1,617)	-10%	(1,458)	-9%	(34)%	(11)%
	General and administrative expense	(279)	-5%	(178)	-4%	(774)	-5%	(535)	-3%	(57)%	(45)%
		<u>(879)</u>	-16%	<u>(625)</u>	-13%	<u>(2,391)</u>	-15%	<u>(1,993)</u>	-13%	<b>(41)%</b>	<b>(20)%</b>
<b>New Zealand</b>	Depreciation and amortization	(263)	-5%	(213)	-4%	(727)	-5%	(711)	-4%	(23)%	(2)%
	General and administrative expense	(33)	-1%	(11)	0%	(50)	0%	(41)	0%	(> 100)%	(22)%
		<u>(296)</u>	-5%	<u>(224)</u>	-5%	<u>(777)</u>	-5%	<u>(752)</u>	-5%	<b>(32)%</b>	<b>(3)%</b>
	<b>Total depreciation, amortization, general and administrative expense</b>	<u>\$ (1,339)</u>	-25%	<u>\$ (955)</u>	-19%	<u>\$ (3,489)</u>	-22%	<u>\$ (2,952)</u>	-19%	<b>(40)%</b>	<b>(18)%</b>
<b>OPERATING INCOME - REAL ESTATE</b>											
<b>United States</b>		\$ 122	2%	\$ (121)	-2%	\$ 299	2%	\$ 887	6%	> 100%	(66)%
<b>Australia</b>		1,203	22%	1,200	24%	4,175	26%	3,740	24%	0 %	12 %
<b>New Zealand</b>		430	8%	364	7%	1,370	9%	1,325	8%	18 %	3 %
	<b>Total real estate operating income</b>	<u>\$ 1,755</u>	33%	<u>\$ 1,443</u>	29%	<u>\$ 5,844</u>	37%	<u>\$ 5,952</u>	37%	<b>22 %</b>	<b>(2)%</b>

## **Quarter Results:**

### ***Segment operating income***

Real estate segment operating income increased by 22%, or \$312,000, to \$1.8 million for the quarter ended September 30, 2016 compared to September 30, 2015, primarily attributable to the increase in property rental income attributed to Cannon Park purchased in December 2015, offset by the closure of Union Square property for redevelopment. Please refer below for further explanation.

### ***Revenue***

Real estate revenue for the three-month period increased by 8%, or \$422,000, mainly driven by the increase in property rental income attributable to Cannon Park in Australia, which was purchased in December 2015, and the impact of favorable foreign exchange rates on our Australia and New Zealand operations. This was offset by the temporary closure of Union Square property for redevelopment.

### ***Operating expense***

Operating expense for the quarter ended September 30, 2016 decreased by 11%, or \$274,000, as a result of the closure of our Union Square property in New York and the sale of our Taupo property in New Zealand, offset by the purchase of Cannon Park in Australia.

### ***Depreciation, amortization, general and administrative expense***

Depreciation, amortization, general and administrative expense for the quarter ended September 30, 2016 increased by 40%, or \$384,000, primarily driven by increased depreciation expense due to recent acquisitions and property, as well as enhancements increased salary costs due to staff expansion as we continue to develop our Real Estate capacity.

## **Nine Months Results:**

### ***Segment operating income***

Real estate segment operating income decreased by 2%, or \$108,000, to \$5.8 million for the nine months ended September 30, 2016 compared to September 30, 2015, primarily attributable to the closure of the Union Square property for redevelopment and higher depreciation, amortization, general and administrative expense. Please refer below for further explanation.

### ***Revenue***

Real estate revenue for the nine months ended September 30, 2016 slightly increased by \$53,000, mainly driven by the increase in property rental income attributable to Cannon Park in Australia, which was purchased in December 2015. This was offset by lower property rental income from U.S. and New Zealand due to the temporary closure of our Union Square New York property currently being re-developed and the sale of Taupo property in New Zealand, in addition to the impact of unfavorable foreign exchange rates on our Australia and New Zealand operations.

### ***Operating expense***

Operating expense for the nine months ended September 30, 2016 decreased by 5%, or \$376,000, as a result of the closure of Union Square property in New York and sale of Taupo property in New Zealand, offset by the purchase of Cannon Park in Australia. Further, the foreign exchange rate movements for Australia and New Zealand operations decreased operating expenses.

### ***Depreciation, amortization, general and administrative expense***

Depreciation, amortization, general and administrative expense for the nine months ended September 30, 2016 increased by 18%, or \$537,000, primarily driven by increased depreciation expense due to recent acquisitions and property enhancements, as well as increased salary costs due to staff expansion as we continue to develop our Real Estate capacity.

## BUSINESS PLAN, LIQUIDITY AND CAPITAL RESOURCES

### Business plan

Our cinema exhibition business plan is to continue to identify, develop, and acquire cinema properties, where reasonably available, that allow us to leverage our cinema expertise and technology over a larger operating base. In addition, we are refurbishing our cinema properties where feasible, and adding (1) premium projection and sound presentation, (2) recliner seating when appropriate, and (3) enhanced food and beverage options when possible.

Our real estate business plan is to re-develop our existing property assets, to be sensitive to opportunities to convert our entertainment assets to higher and better uses, or, when appropriate, to dispose of such assets.

In addition, we review opportunities to monetize our assets where such action could lead to a financially acceptable outcome. We will also continue to investigate potential synergistic acquisitions that may not readily fall into either of our two cinema or real estate segments.

### Liquidity and capital resources

Liquidity risk is the risk relating to our ability to meet our financial obligations when they come due. In today's environment, our financial obligations arise mainly from capital expenditure needs, working capital requirements, and debt servicing requirements. We manage the liquidity risk by ensuring our ability to generate sufficient cash flows from operating activities and to obtain adequate, reasonable financing and/or to convert non-performing or non-strategic assets into cash.

The change in cash and cash equivalents is as follows:

(Dollars in thousands)	Nine Months Ended		% Change
	September 30, 2016	September 30, 2015	
Net cash provided by operating activities	\$ 14,516	\$ 21,367	(32) %
Net cash (used in)/provided by investing activities	(35,509)	8,734	(507) %
Net cash provided by/(used in) financing activities	10,883	(10,586)	203 %
Effect of exchange rate changes on cash and cash equivalents	388	(7,682)	105 %
Net (decrease)/increase in cash and cash equivalents	\$ (9,722)	\$ 11,833	(182) %

### Operating activities

Cash provided by operating activities during the current nine-month period decreased by \$6.9 million, to \$14.5 million, primarily driven by a decrease of \$3.7 million in changes in operating assets and liabilities and by a \$3.1 million decrease in operational cash flows.

### Investing activities

Cash provided by investing activities during the current nine-month period decreased by \$44.2 million, to net cash used of \$35.5 million, primarily due to one-off cash inflows in 2015 from the sale of investment properties of \$21.1 million and the increase of \$21.3 million in purchases and capital expenditures as part of our real estate development program.

### Financing Activities

The \$10.9 million net cash provided by financing activities during the current nine-month period was primarily related to \$52.4 million proceeds from borrowings, offset by \$40.8 million in loan repayments.

We manage our cash, investments and capital structure so we are able to meet the short-term and long-term obligations of our business, while maintaining financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable investment and financing within the overall constraints of our financial strategy.

At September 30, 2016, our consolidated cash and cash equivalents totaled \$10.0 million. Of this amount, \$5.9 million and \$1.7 million were held by our Australian and New Zealand subsidiaries, respectively. Our intention is to indefinitely reinvest Australian earnings but not indefinitely reinvest New Zealand earnings. If the Australian earnings were used to fund domestic operations, they would be subject to additional income taxes upon repatriation.

We have historically funded our working capital requirements, capital expenditures, investments in the acquisition of individual properties primarily from internally generated cash flows and lines of credit. The Company had \$55.7 million unused capacity of available corporate credit facilities at September 30, 2016. In addition, we have \$13.1 million (NZ\$18.0 million) unused capacity as construction funding for New Zealand.

We completed the refinancing of our \$15.0 million Santander Bank Term Loan (USA) prior to the maturity date of October 1, 2016 with a new lender, into a new 3-year term \$20.0 million loan. In addition, we are in the process of obtaining (i) a mortgage on the new corporate headquarters in Los Angeles that we purchased in April 2016, and (ii) a construction financing on our Union Square property re-development project in New York. We currently expect these two financing negotiations to be completed during the fourth quarter of 2016.

## CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENCIES

The following table provides information with respect to the maturities and scheduled principal repayments of our recorded contractual obligations as of September 30, 2016:

(Dollars in thousands)	2016	2017	2018	2019	2020	Thereafter	Total
Debt <sup>(1)</sup>	\$ 135	\$ 9,411	\$ 18,495	\$ 88,265	\$ --	\$ --	\$ 116,306
Subordinated debt <sup>(1)</sup>	--	--	--	--	--	27,913	27,913
Tax settlement liability	2,500	--	--	--	--	--	2,500
Pension liability	2,052	684	684	684	684	3,122	7,910
Village East purchase option <sup>(3)</sup>	5,900	--	--	--	--	--	5,900
Lease obligations	7,958	31,806	27,835	25,172	18,379	141,793	252,943
Estimated interest on debt <sup>(2)</sup>	1,408	5,229	4,655	3,504	1,316	8,557	24,669
<b>Total</b>	<b>\$ 19,953</b>	<b>\$ 47,130</b>	<b>\$ 51,669</b>	<b>\$ 117,625</b>	<b>\$ 20,379</b>	<b>\$ 181,385</b>	<b>\$ 438,141</b>

<sup>(1)</sup> Information is presented exclusive of deferred financing costs.

<sup>(2)</sup> Estimated interest on debt is based on the anticipated loan balances for future periods and current applicable interest rates.

<sup>(3)</sup> Represents the lease liability of the option associated with the ground purchase of the Village East cinema.

Refer to *Note 13 – Commitments and Contingencies* for additional information.

## Litigation

We are currently involved in certain legal proceedings and, as required, have accrued estimates of probable and estimable losses for the resolution of these claims.

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 usually entitled to recover its attorneys' fees, which typically work 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 are determined not to be the prevailing party.

Where we are the defendants, we accrue for probable damages that insurance may not cover 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. It is possible, however, that future results of the operations for any particular quarterly or annual period could be materially affected by the ultimate outcome of the legal proceedings. Please refer to Item 3 – Legal Proceedings in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for more information. There have been no material changes to our litigation exposure since our 2015 Annual Report, except as set forth in Item 1 – Legal Proceedings.

## CRITICAL ACCOUNTING POLICIES

The SEC 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. 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.

We discuss these critical accounting policies in our 2015 Annual Report and advise you to refer to that discussion.

Refer to *Note 1 – The Company Basis of Presentation – Recently Adopted and Issued Accounting Pronouncements* for more information regarding new and recently adopted accounting pronouncements.

## FINANCIAL RISK MANAGEMENT

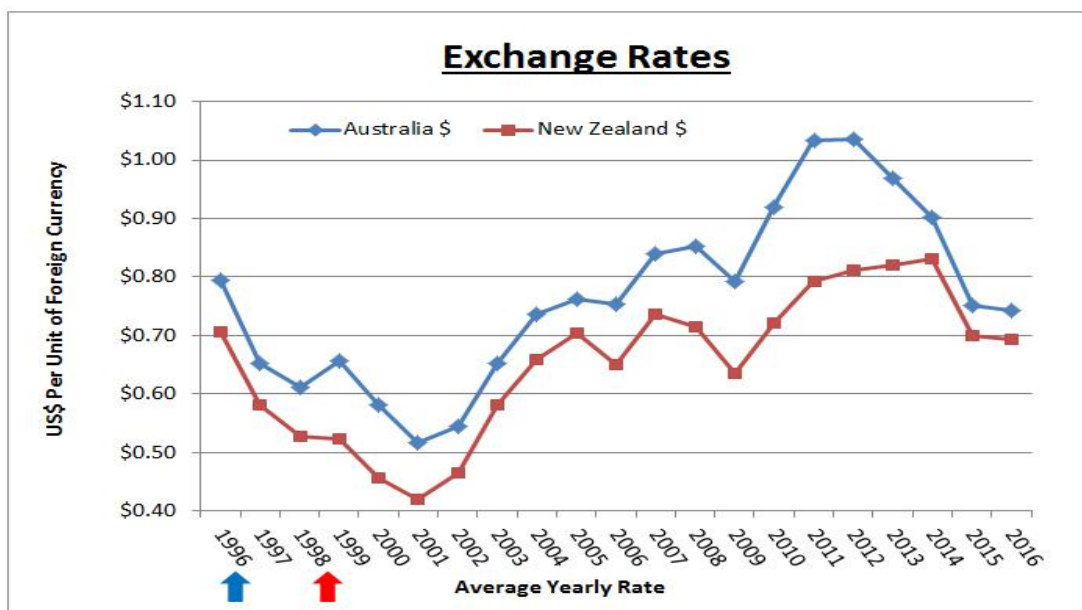
### Currency and interest rate risk

The Company’s objective in managing exposure to foreign currency and interest rate fluctuations is to reduce volatility of earnings and cash flows in order to allow management to focus on core business issues and challenges.

We currently manage our currency exposure by creating, whenever possible, natural hedges in Australia and New Zealand. This involves local country sourcing of goods and services as well as borrowing in local currencies to match revenues and expenses. Since we intend to conduct business mostly on a self-funding basis, except for funds used to pay an appropriate share of our domestic corporate overhead), we do not believe the currency fluctuations presents a material risk to the Company. As such, we do not use derivative financial instruments to hedge against the risk of foreign currency exposure.

As we continue to progress with our acquisition and development activities in Australia and New Zealand, the effect of variations in currency values of our assets and liabilities for Australia and New Zealand stated in US Dollars may increase.

Set forth below is a chart reflecting the currency trends for the Australian and New Zealand Dollars vis-à-vis the U.S. Dollars over the past 20 years.



- ➡ Initial capital injection in the Australia subsidiary
- ➡ Initial capital injection in the New Zealand subsidiary

Our exposure to interest rate risk arises out of our intermediate term floating-rate borrowings. To manage the risk, we utilize interest rate derivative contracts to convert certain floating-rate borrowings into fixed-rate borrowings. It is the Company's policy to enter into interest rate derivative transactions only to the extent considered necessary to meet its objectives as stated above. The Company does not enter into these transactions or any other hedging transactions for speculative purposes.

## **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, we have managed the effects of inflation appropriately, and, as a result, it has not had a material impact on our operations and the resulting financial position or liquidity.

## **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 a 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;
  - the extent to which we encounter competition from other cinema exhibitors, from other sources of outside-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 and DVD rentals and sales, and online streaming;
  - the cost and impact of improvements to our cinemas, such as improve seating, enhanced food and beverage offerings and other improvements;
  - disruptions from theater improvements; and
  - the extent to and the efficiency with which we are able to integrate acquisitions of cinema circuits with our existing operations.
- 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 risks and uncertainties associated with real estate development;
  - the availability and cost of labor and materials;
  - the ability to obtain all permits to construct improvements;
  - the ability to finance improvements;
  - the disruptions from construction;
  - the possibility of construction delays, work stoppage and material shortage;
  - competition for development sites and tenants;
  - environmental remediation issues;

- the extent to which our cinemas can continue to serve as an anchor tenant that will, in turn, be influenced by the same factors as will influence generally the results of our cinema operations; and
  - certain of our activities are in geologically active areas, creating a risk of damage and/or disruption of real estate and/or cinema businesses from earthquakes.
- 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, 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 “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 SEC 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. We base the following discussion on a sensitivity analysis that 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; and
- 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, 2016, approximately 45% and 18% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), respectively, including approximately \$7.6 million in cash and cash equivalents. At December 31, 2015, approximately 46% and 19% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), including approximately \$10.4 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, we have procured a majority of our expenses in Australia and New Zealand in local currencies. Despite this natural hedge, recent movements in foreign currencies have had an effect on our current earnings. Although foreign currency has had an effect on our current earnings, the effect of the translation adjustment on our assets and liabilities noted in our other comprehensive income was an increase of \$9.3 million for the nine months ended September 30, 2016. 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 not be material in the future.

Historically, our policy has been to borrow in local currencies to finance the development and construction of our long-term assets 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, and as a result of our issuance of fully subordinated Trust Preferred Securities in 2007, and their subsequent partial repayment, approximately 76% and 59% 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 \$13.7 million and \$4.4 million, respectively, and the change in our quarterly net income would be \$1.1 million and \$263,000, respectively. Presently, we have no plan to hedge such exposure.

We record unrealized foreign currency translation gains or losses that could materially affect our financial position. As of September 30, 2016 and December 31, 2015, the balance of cumulative foreign currency translation adjustments was approximately \$23.9 million gain and \$14.6 million gain, respectively.

Historically, we maintain most of our cash and cash equivalent balances in short-term money market instruments with original maturities of three months or less. 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.

We have a combination of fixed and variable interest rate loans. In connection with our variable interest rate loans, a change of approximately 1% in short-term interest rates would have resulted in approximately \$193,000 increase or decrease in our quarterly 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 reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC'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 Exchange Act.

In 2015, we noted a material weakness regarding certain controls related to income tax accounting. Throughout 2016, we have been working assiduously to remediate these controls and anticipate that these controls will be updated and fully implemented by year-end. To this end, during the third quarter of 2016, we have hired a Director of Tax with a background in international tax accounting. Since late 2015, we have retained a Big 4 accounting firm to review our tax accounting on a quarterly and annual basis.

#### **Changes in Internal Control over Financial Reporting**

Other than the hiring discussed above, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – Other Information**

### **Item 1 – Legal Proceedings**

There have been no material changes to the legal proceedings as previously disclosed in our annual report on Form 10-K filed on April 29, 2016 with the SEC for the fiscal year ended December 31, 2015, except as disclosed below:

#### ***Updates to The STOMP Arbitration***

In April 2016, we received a Final Award in our arbitration with The STOMP Company Limited Partnership (“Stomp”), the producer of the show STOMP, which has been playing at our Orpheum Theater in New York City for 20 years and still continues to play to this date. The Final Award awards us \$2.3 million in attorney’s fees and costs. In September 2016, the parties agreed on the payment terms of the Final Award (“Payment Agreement”), on a basis that is intended to allow recovery by the Company of the entire Final Award (plus interest at 4%), while at the same time allowing the show to continue playing at our Orpheum Theater. Under the Payment Agreement, Stomp made an initial payment of \$325,000 on September 28, 2016 and the remaining amount to be paid over time, with final payment due and payable in June 2019. We have filed a judgment of the arbitral award against Stomp with the New York Supreme Court to protect the Company in the event Stomp defaults on the Payment Agreement. STOMP continues to play at our Orpheum Theater under a license agreement that was amended by the Payment Agreement.

#### ***Updates to the Derivative Litigation***

In July 2016, all of the stockholder plaintiffs in the consolidated derivative cases other than James J. Cotter, Jr. (the “Independent Plaintiff Stockholders”) entered into a settlement agreement with the Company and all of the Company’s directors (other than James J. Cotter, Jr.) withdrew their claims. The settlement was approved by the District Court of the State of Nevada for Clark County and judgment dismissing with prejudice the claims of the Independent Plaintiff Stockholders was entered on October 20, 2016. Under the judgment, each party is to bear its own legal fees. In the joint press release issued by the Company and the Independent Plaintiff Stockholders, representatives of the Independent Plaintiff Stockholders stated as follows: *“We are pleased with the conclusions reached by our investigations as Plaintiff Stockholders and now firmly believe that the Reading Board of Directors has and will continue to protect stockholder interests and will continue to work to maximize shareholder value over the long term. We appreciate the Company’s willingness to engage in open dialogue and are excited about the Company’s prospects. Our questions about the termination of James Cotter, Jr., and various transactions between Reading and members of the Cotter family-or entities they control-have been definitively addressed and put to rest. We are impressed by measures the Reading Board has made over the past year to further strengthen corporate governance. We fully support the Reading Board and management team and their strategy to create stockholder value.”*

On August 3, 2016 James J. Cotter Jr., filed a motion with the Court seeking permission to file a “Second Amended Verified Complaint” (the “SAP”), which motion has been approved.

The SAP adds as defendants Directors Judy Codding and Michael Wrotniak. It adds additional purported claims including purported claims relating to the selection of Ellen Cotter to serve as our Company’s President and Chief Executive Officer, the retention of Margaret Cotter to serve as our Executive Vice President responsible for our live theater operations and the management and development of our New York properties, the ability of Ellen Cotter and Margaret Cotter to vote 100,000 share of our Class B stock, issued upon the exercise of certain stock options held of record by the Estate of James J. Cotter, Sr., and the handling by our Board of Directors of an indication of interest received at the end of May relating to the purchase of all of the stock of our Company.

Discovery is continuing. No trial date has been scheduled.

To date, except for a \$500,000 deductible, the bulk of the out-of-pocket costs associated with the defense of the above described litigation has been covered by the Company’s Directors and Officers Insurance. However, the \$10,000,000 limits of that policy have now been exhausted. Accordingly, the costs of such defense going forward will be a general administrative expense of the Company.

For further details on our legal proceedings, please refer to Item 3, *Legal Proceedings*, contained in such Annual Report on Form 10-K.

### **Item 1A – Risk Factors**

There have been no material changes in risk factors as previously disclosed in our annual report on Form 10-K.

**Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

For a description of grants of stock to certain executives, see the Stock Based Compensation section under see Note 15 – *Equity and Stock-Based Compensation to our Consolidated Financial Statements*.

**Item 3 – Defaults upon Senior Securities**

None.

**Item 5 – Other Information**

Please refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 for details.

**Item 6 – Exhibits**

10.1	Mortgage Consolidation, Modification and Extension Agreement, dated August 31, 2016, between Sutton Hill Properties, LLC and Valley National Bank, filed herewith.
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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

**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 8, 2016

By: /s/ Ellen M. Cotter  
Ellen M. Cotter  
Chief Executive Officer

Date: November 8, 2016

By: /s/ Devasis Ghose  
Devasis Ghose  
Chief Financial Officer

**MORTGAGE CONSOLIDATION,  
MODIFICATION AND EXTENSION AGREEMENT**

Dated: **August 31, 2016**  
in the original principal amount of

**\$20,000,000.00**

between

**SUTTON HILL PROPERTIES, LLC**, Mortgagor  
a Nevada limited liability company,  
having its principal place of business at:  
6100 Center Drive, Suite 900  
Los Angeles, California 90045

and

**VALLEY NATIONAL BANK**, Mortgagee  
a national banking association,  
having an office at:  
1455 Valley Road  
Wayne, New Jersey 07470

**LOCATION OF PREMISES:**

Street Address : 1001-1007 Third Avenue  
City of : New York  
County of : New York  
State of : New York  
Section :  
Block : 1414  
Lots : 48

**AFTER RECORDING, PLEASE RETURN TO:**

VALLEY NATIONAL BANK  
1720 ROUTE 23 NORTH  
WAYNE, NEW JERSEY 07470

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**MORTGAGE CONSOLIDATION, MODIFICATION AND EXTENSION AGREEMENT** (the "**Consolidation Agreement**"), made as of August \_\_, 2016, given between SUTTON HILL PROPERTIES, LLC, a Nevada limited liability company, having its principal place of business at 6100 Center Drive, Suite 900, Los Angeles, California 90045 ("**Mortgagor**") and VALLEY NATIONAL BANK, a national banking association having an office at 1455 Valley Road, Wayne, New Jersey 07470 ("**Mortgagee**").

**WITNESSETH:**

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**WHEREAS**, Mortgagor is the lawful owner of that certain parcel of real property known as 1001-1007 Third Avenue, New York, New York 10022, in the City, County and State of New York, as more particularly described in Schedule A attached hereto and made a part hereof (the "**Land**"), together with all buildings and other improvements located on the Land (the Land, together with all such buildings and other improvements, collectively, the "**Premises**");

**WHEREAS**, Mortgagee is the lawful owner and holder of those certain mortgages set forth on Schedule B attached hereto and made a part hereof (collectively, the "**Mortgages**") and the notes secured thereby (collectively, the "**Notes**") in the aggregate original principal amount of \$20,000,000.00 on which Notes there is currently outstanding, in the aggregate, the principal amount of \$20,000,000.00; and

**WHEREAS**, Mortgagor and Mortgagee have agreed in the manner hereinafter set forth to (i) consolidate and coordinate the respective liens of the Mortgages, (ii) combine and coordinate the Notes and the principal sums evidenced thereby and (iii) modify the time and manner of payment and the terms and provisions of the Notes and the Mortgages.

**NOW, THEREFORE**, in consideration of the foregoing and of the mutual agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

**1. Representations and Warranties. Mortgagor represents and warrants to Mortgagee that:**

(a) There is, as of the date hereof, due and owing upon the Mortgages, the aggregate principal amount of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00), together with interest thereon and other charges evidenced thereby, in each case without offset, defense or counterclaim of any kind or nature whatsoever. (Such outstanding amounts, together with all interest thereon and such other amounts as may be outstanding from time to time under the Notes and Mortgages and under the Consolidated Note (as hereafter defined), being hereinafter referred to, collectively, as the "**Indebtedness**").

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(b) As of the date hereof, there are no defaults or events of default under the Notes and Mortgages, nor has any event occurred that would be a default thereunder with the passage of time, the giving of notice, or both.

(c) Mortgagor is the holder of good, marketable, insurable fee title in and to the Premises, subject to the Permitted Encumbrances (as defined in Schedule C attached hereto) and has full power, good right and lawful authority to encumber the Premises in the manner and form set forth in the Mortgages and to execute and deliver this Consolidation Agreement.

(d) The execution and delivery of this Consolidation Agreement does not and will not violate the terms of Mortgagor's operating agreement or articles of organization, or any other lease, agreement, mortgage, indenture or instrument affecting Mortgagor or the Premises or any law, rule, order, ordinance or statute of any governmental authority, purporting to have jurisdiction over Mortgagor or the Premises.

**2. Consolidation of Notes.** The Notes and the respective principal indebtedness evidenced thereby are hereby combined and consolidated to constitute a single indebtedness in the aggregate principal amount of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00), together with interest heretofore accrued on each of such Notes.

**3. Consolidated Note.** Concurrently herewith, Mortgagor is executing and delivering to Mortgagee that certain Restated Mortgage Promissory Note (the "Consolidated Note"), dated of even date herewith, made by Mortgagor, as maker, in favor of Mortgagee, as payee, evidencing the consolidation of the Notes, which Consolidated Note amends, modifies and restates the terms, provisions and time of payment of the Notes in all respects and from and after the date hereof, the Notes shall be deemed replaced by the Consolidated Note and Mortgagor shall pay the Indebtedness in accordance with, and shall comply with the terms and conditions set forth in the Consolidated Note, which Consolidated Note is hereby substituted for the Notes.

**4. Consolidation of Mortgages.** The liens of the Mortgages are hereby consolidated and coordinated so that together they shall hereafter constitute in law but one mortgage, a single, first lien upon the Premises securing the Indebtedness.

**5. Modification of Consolidated Mortgage.** The Mortgages, as consolidated and coordinated hereby, are also modified, extended, amended and restated in their entirety and the terms, covenants and conditions of the Mortgages, as consolidated, shall be and hereby are superseded and replaced by the terms, covenants and conditions set forth in Schedule C annexed hereto and made a part hereof (the Mortgages, as so consolidated, modified, extended, amended and restated in Schedule C hereto, together with this Consolidation Agreement, are referred to,

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collectively, as the "Consolidated Mortgage"). Mortgagor agrees to comply with and be subject to all of the terms, covenants and conditions of this Consolidated Mortgage.

**6. Use of Terms.** The terms "Land", "Improvements", "Premises" and "Mortgaged Property" shall have the meanings ascribed to them in Schedule C attached hereto when used in this Consolidated Mortgage. Whenever the term "note" or "Note", shall be used in this Consolidated Mortgage or in the Consolidated Note, such term shall mean and refer to the Consolidated Note, as such Consolidated Note may be further modified from time to time. Whenever the terms "mortgage" or "Mortgage" shall be used in this Consolidated Mortgage (including, without limitation, Schedule C hereto), or in the Consolidated Note, such terms shall mean and refer to this Consolidated Mortgage, as this Consolidated Mortgage may be further modified from time to time. Terms defined in this Consolidation Agreement that are used in Schedule C hereto that are not otherwise defined in such schedule, shall have the meaning accorded such terms in this Consolidation Agreement.

**7. Subsequent Modifications.** Any written agreement or agreements hereafter entered into by the Mortgagee that (i) extend the time of payment of the Indebtedness, (ii) change or modify the time or times of payment or the amount of the installments or fixed sums or the interest or the rate thereof, (iii) change, modify, extend, renew or terminate other terms, provisions, covenants or conditions of the Consolidated Mortgage or the obligations that it secures or this Consolidation Agreement, or (iv) consolidate, spread, release or sever the lien of the Consolidated Mortgage shall be effective in accordance with the terms and provisions thereof and shall be binding according to the tenor thereof on the owner or holder of subordinate, intervening or subsequent liens or security interests on the Premises and any such liens or security interests shall continue to be subject and subordinate to this Consolidated Mortgage and any such agreement or agreements.

**8. No New Indebtedness; Maximum Principal Amount.**

(a) The parties hereto hereby certify that this Consolidation Agreement secures the same indebtedness evidenced by the Notes, together with interest thereon, and secured by this Consolidated Mortgage, and evidences and secures no further or other indebtedness or obligation.

(b) Notwithstanding anything to the contrary contained herein, the maximum principal that which is secured by the Consolidated Mortgage as of the date hereof, or that under any contingency may be secured by the Consolidated Mortgage at any time in the future, shall not exceed the principal sum of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00) plus (i) taxes, charges and assessments which may be imposed by law on the Premises, (ii) premiums on the insurance policies required to be maintained under the Consolidated Mortgage, and (iii) expenses incurred in upholding the lien of this Agreement including, but not limited to, the expenses of any litigation to prosecute or defend the rights and liens created by this

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Agreement, any amount, cost or charge to which this Agreement becomes subrogated, upon payment, whether under recognized principles of law or equity, or under express statutory authority, and interest at the regular interest rate or Default Rate (as defined in the Consolidated Note).

**9. No Oral Modification.** The terms hereof may not be waived, changed, modified, terminated or discharged orally, but only by an agreement in writing signed by the party against whom enforcement of any such waiver, change, modification, termination or discharge is sought.

**10. Ratification.** Mortgagor hereby (i) ratifies and confirms the Indebtedness and the lien, conveyance and grant contained in and created by this Consolidated Mortgage and (ii) agrees that nothing contained in this Consolidation Agreement is intended to or shall impair the validity of the Indebtedness or the lien, conveyance and grant of the Consolidated Mortgage. Unless specifically modified by the terms hereof, the parties hereto ratify and confirm each and every term of the Consolidated Mortgage and the Consolidated Note, which shall continue in full force and effect.

**11. Further Assurances.** Mortgagor shall execute and deliver, at Mortgagor's sole cost and expense, such additional documents as shall be requested by Mortgagee from time to time to effectuate the terms and conditions of this Consolidation Agreement, the Consolidated Note and the Consolidated Mortgage, including, without limitation, such affidavits as shall be necessary to permit this Consolidation Agreement to be recorded in the appropriate public records. Mortgagor hereby appoints Mortgagee its attorney in fact to execute, acknowledge and deliver for and in the name of the Mortgagor any and all of the instruments mentioned in this section, and this power, being coupled with an interest, shall be, irrevocable as long as any part of the Indebtedness remains unpaid.

**12. Successors and Assigns.** This Consolidation Agreement shall bind, and inure to the benefit of, the parties hereto, their respective successors and permitted assigns.

**13. Counterparts.** This Consolidation Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

[SIGNATURE PAGE FOLLOWS.]

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**IN WITNESS WHEREOF**, this Mortgage Consolidation, Modification and Extension Agreement has been executed by the parties hereto as of the day and year first written above.

**MORTGAGOR:**

**SUTTON HILL PROPERTIES, LLC,**  
a Nevada limited liability company

By: Citadel Cinemas, Inc.,  
a Nevada corporation,  
its Manager

By:   
Name: Devasis Ghose  
Title: Chief Financial Officer

**MORTGAGEE:**

**VALLEY NATIONAL BANK,**  
a national banking association

By: \_\_\_\_\_  
Name: Bryan Dinkelacker  
Title: Vice President

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**IN WITNESS WHEREOF**, this Mortgage Consolidation, Modification and Extension Agreement has been executed by the parties hereto as of the day and year first written above.

MORTGAGOR:

**SUTTON HILL PROPERTIES, LLC,**  
a Nevada limited liability company

By: Citadel Cinemas, Inc.,  
a Nevada corporation,  
its Manager

By: \_\_\_\_\_  
Name: Devasis Ghose  
Title: Chief Financial Officer

MORTGAGEE:

**VALLEY NATIONAL BANK,**  
a national banking association

By:   
Name: Bryan Dinkelacker  
Title: Vice President

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**CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT**

**CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California )  
County of Los Angeles )  
On August 29, 2016 before me Michael James Conroy, Notary Public  
Date Here Insert Name and Title of the Officer  
personally appeared Devasis Ghose  
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Signature Michael James Conroy  
Signature of Notary Public

Place Notary Seal Above

**OPTIONAL**

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

**Description of Attached Document**

Title or Type of Document: Extension Agreement 13 Document Date: \_\_\_\_\_

Number of Pages: \_\_\_\_\_ Signer(s) Other Than Named Above: \_\_\_\_\_

**Capacity(ies) Claimed by Signer(s)**

Signer's Name: \_\_\_\_\_

- Corporate Officer — Title(s): \_\_\_\_\_
- Partner —  Limited  General
- Individual  Attorney in Fact
- Trustee  Guardian or Conservator
- Other: \_\_\_\_\_

Signer Is Representing: \_\_\_\_\_

Signer's Name: \_\_\_\_\_

- Corporate Officer — Title(s): \_\_\_\_\_
- Partner —  Limited  General
- Individual  Attorney in Fact
- Trustee  Guardian or Conservator
- Other: \_\_\_\_\_

Signer Is Representing: \_\_\_\_\_



**SCHEDULE A****Legal Description**

ALL that certain plot piece or parcel of land, situate, lying and being in the Borough of Manhattan, City of New York, County of New York, State of New York, bounded and described as follows:

BEGINNING at the point of the easterly side of Third Avenue, distant northerly 100 feet 4 inches from the corner formed by the intersection of the northerly side of 59<sup>th</sup> Street and the easterly side of Third Avenue;

RUNNING THENCE easterly parallel with the northerly side of 59<sup>th</sup> Street and part of the way through a party wall, 105 feet;

THENCE northerly parallel with Third Avenue, 75 feet ¼ inch;

THENCE westerly parallel with 59<sup>th</sup> Street, 105 feet to the easterly side of Third Avenue;  
and

THENCE southerly along the easterly side of Third Avenue, 75 feet ¼ inch to the point or place of BEGINNING.

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**SCHEDULE B****Schedule of Mortgages**

1. Mortgage made by SUTTON HILL PROPERTIES, LLC to EUROHYPO AG, NEW YORK BRANCH in the original principal amount of \$15,000,000.00 dated June 28, 2007 and recorded in the Office of the City Register, County of New York (the "Register's Office") on July 10, 2007 as CRFN No. 2007000350847 (upon which mortgage recording tax in the amount of \$420,000.00 was duly paid);

Which said mortgage (1) was thereafter duly assigned by Assignment of Mortgage from EUROHYPO AG, NEW YORK BRANCH to WELLS FARGO BANK, AS TRUSTEE, IN TRUST FOR THE REGISTERED HOLDERS OF BANK OF AMERICA COMMERCIAL MORTGAGE INC., COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2007-3 dated June 28, 2007 and recorded in the Register's Office on February 21, 2008 under CRFN No. 2008000070990.

Which said mortgage (1) was thereafter further duly assigned by Assignment of Mortgage from WELLS FARGO BANK, AS TRUSTEE, IN TRUST FOR THE REGISTERED HOLDERS OF BANK OF AMERICA COMMERCIAL MORTGAGE INC., COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2007-3 to U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE, IN TRUST FOR THE REGISTERED HOLDERS OF BANK OF AMERICA COMMERCIAL MORTGAGE INC., COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2007-3 dated July 6, 2009 and recorded in the Register's Office on December 11, 2009 under CRFN No. 2009000407157.

Which said mortgage (1) was thereafter further duly assigned by Assignment of Mortgage from U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE, IN TRUST FOR THE REGISTERED HOLDERS OF BANK OF AMERICA COMMERCIAL MORTGAGE INC., COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2007-3 to SOVEREIGN BANK, N.A. dated June 28, 2012 and recorded in the Register's Office on July 20, 2012 under CRFN No. 2012000288511.

Amended and Restated Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing made by SUTTON HILL PROPERTIES, LLC to SOVEREIGN BANK, N.A. dated June 28, 2012 and recorded in the Register's Office on July 20, 2012 under CRFN No. 2012000288512 (amends and restates said mortgage (1), as assigned).

Amendment No. 1 to Amended and Restated Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing made by SUTTON HILL PROPERTIES, LLC to SANTANDER BANK, N.A., f/k/a SOVEREIGN BANK, N.A. dated June 26, 2014 and recorded in the Register's Office on August 4, 2014 under CRFN No. 2014000256252 (amends said mortgage (1), as amended, restated and assigned).

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Which mortgage (1), as amended, restated and assigned, was thereafter assigned by Assignment of Mortgage from SANTANDER BANK, N.A., f/k/a SOVEREIGN BANK, N.A. to VALLEY NATIONAL BANK dated August 31, 2016 and intended to be duly recorded in said Register's Office simultaneously herewith.

The outstanding principal balance secured by said mortgage, as assigned, is \$15,000,000.00.

2. Gap Mortgage made by SUTTON HILL PROPERTIES, LLC to VALLEY NATIONAL BANK in the original principal amount of \$5,000,000.00 dated August 31, 2016 and intended to be duly recorded in said Register's Office simultaneously herewith (upon which the mortgage recording tax imposed by law was duly paid).
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**SCHEDULE C**  
**Consolidated Mortgage**



**AMENDED AND RESTATED MORTGAGE  
AND  
SECURITY AGREEMENT  
FROM  
SUTTON HILL PROPERTIES, LLC  
TO  
VALLEY NATIONAL BANK  
DATED: AUGUST 31, 2016**

**RECORD AND RETURN TO:**

Commercial Mortgage Department  
Valley National Bank  
1720 Route 23 North  
Wayne, New Jersey 07470

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**AMENDED AND RESTATED MORTGAGE AND SECURITY AGREEMENT**

This Amended and Restated Mortgage and Security Agreement ("Mortgage" and referred in the Consolidation Agreement as the "Consolidated Mortgage") is made on the 31st day of August, 2016

BY SUTTON HILL PROPERTIES, LLC, a Nevada limited liability company, having its principal place of business at 6100 Center Drive, Suite 900, Los Angeles, California 90045 ("Mortgagor"),

AND VALLEY NATIONAL BANK, a national banking association, having offices at 1455 Valley Road, Wayne, New Jersey 07470 ("Mortgagee");

**Background.** This Mortgage secures various Obligations (as defined below) including, without limitation, a loan by Mortgagee to Mortgagor in the original principal amount of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00), plus interest thereon, as evidenced by the Note. In consideration of the above-referenced loan and other good and valuable consideration, receipt of which is hereby acknowledged, Mortgagor agrees as follows:

**SECTION 1 - DEFINITIONS AND INTERPRETATIONS**

The definitions of the capitalized terms used in this Mortgage and the Note are set forth in the body of this Mortgage and in Appendix A attached hereto and incorporated herein in its entirety.

**SECTION 2 - GRANTING CLAUSE**

To secure the observance, payment and performance of all Obligations, Mortgagor hereby mortgages, grants a security interest in, and **absolutely** assigns all rents, profits, leases, income and proceeds arising from, the Mortgaged Property to Mortgagee and to Mortgagee's successors and assigns forever. These grants are, however, made upon the express condition that after all Obligations are paid and performed in full, Mortgagee shall discharge this Mortgage upon Mortgagor's request.

**SECTION 3 - MORTGAGED PROPERTY**

The "Mortgaged Property" consists of a two story commercial building located at 1001-1007 Third Avenue, New York, New York 10022 as more particularly described on the attached Exhibit "A" (the "Mortgaged Property") located upon the Land, the Improvements, all of Mortgagor's right, title and interest in and to the Fixtures and Equipment, all Leases and Rents, all Awards and Proceeds, all Other Rights, and all present and future estate, right, title, interest, property, possessory interest and claims whatsoever in law as well as in equity of Mortgagor or any other owner in and to the

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Land, Improvements and Fixtures, Equipment and Other Rights.

#### **SECTION 4 - REPRESENTATIONS**

Mortgagor, knowing and agreeing that Mortgagee shall rely hereon, hereby represents and warrants to Mortgagee that:

4.1 Warranty of Title. Mortgagor holds good and marketable title in fee simple to the Mortgaged Property free of all liens, restrictions, taxes and encumbrances, other than any Permitted Encumbrances, and warrants and forever defend that title and the enforceability and priority of all liens created under this Mortgage against all claims whatsoever, except for Permitted Encumbrances, at Mortgagor's sole expense.

4.2 Valid Obligations. The Loan Documents are the valid and binding obligations of Mortgagor, enforceable in accordance with their terms to the maximum extent permitted by law. This Mortgage constitutes a valid first priority mortgage lien on, and absolute assignment of Leases and Rents, and security interest in the Mortgaged Property, subject to any Permitted Encumbrances.

4.3 Existence and Authority. Mortgagor is a duly organized and validly existing limited liability company that is in good standing under the laws of the State of Nevada and is authorized to do business in and is in good standing under the laws of the State of New York. Mortgagor has full power, authority and license to enter into and perform this Mortgage and the other Loan Documents to which Mortgagor is a party and Mortgagor has full power, authority and license to own and operate the Mortgaged Property and to conduct its business as now being conducted. Mortgagor has obtained all necessary consents, authorizations, permits, licenses and approvals required before Mortgagor may execute and deliver this Mortgage and operate the Mortgaged Property. There is no provision in Mortgagor's Articles of Organization or Operating Agreement (as the same may have been heretofore amended or modified), or in any other document applicable to the conduct of Mortgagor, requiring further consent for such action by any other entity or person, which has not been obtained and provided to Mortgagee.

4.4 No Conflicts. The execution, delivery and performance of this Mortgage and other Loan Documents by Mortgagor will violate no charter, bylaw, lease, indenture, agreement, instrument, law, ordinance, regulation, order or administrative ruling to which Mortgagor is subject or a party or that affects or relates to the Mortgaged Property.

4.5 Proceedings. Except as otherwise previously disclosed to Mortgagee pursuant to that certain Disclosure Schedule of even date herewith by Mortgagor (the "Disclosure Schedule"), there is no action, application, petition, proceeding or hearing pending or, to Mortgagor's knowledge, threatened against any Obligor or the Mortgaged Property that might (a) adversely affect any Obligor's ability to perform the Mortgage or

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any other Loan Document, (b) involve the possibility of any material adverse change in any Obligor's economic condition, (c) relate to any land use variance, subdivision, zoning or other similar matters, (d) involve the possibility of any limitation on any intended uses of the Mortgaged Property, (e) impair the lien or security of this Mortgage or the value of the Mortgaged Property or (f) involve possible or threatened claims totaling in excess of \$10,000.00, except as heretofore disclosed to Mortgagee and its attorney in writing.

4.6 Compliance with Laws. Except as otherwise expressly set forth in the Title Report (hereinafter defined) and Environmental Report (hereinafter defined), Mortgagor and the Mortgaged Property are in compliance with all laws, regulations, ordinances and codes that are applicable to the use and operation of the Mortgaged Property, including, without limitation, all Environmental Laws. All present and planned uses and tenants of the Mortgaged Property are in full compliance with applicable zoning, environmental and building laws, ordinances, regulations and codes. Mortgagor and all tenants of the Mortgaged Property have obtained all certificates of occupancy and building and other permits that are required for all intended uses of, and for any construction, renovations and repairs with respect to, the Mortgaged Property.

4.7 Condition of Property. The Mortgaged Property is structurally sound, in good condition and suitable for its intended use. To Mortgagor's knowledge, there are no violations of any federal, state or local law, ordinance or regulation affecting or against the Mortgaged Property, except those violations which have been listed by the New York Metro Title Agency, Inc. (the "Title Company") in its title report #16-30624, dated May 18, 2016 and re-dated as of the date hereof (the "Title Report"), which violations are dealt with in that certain Undertaking of even date herewith made by Mortgagor to Mortgagee (the "Undertaking").

4.8 Taxes. All property taxes and assessments due and owing in connection with the Mortgaged Property have been paid in full through the date of this Mortgage, including any penalties, deficiency assessments and interest. Mortgagor has filed all federal, state, county, municipal, and city income and other tax returns required to be filed by it and has paid all taxes that are due and owing pursuant to such returns or pursuant to any assessments received by it, including penalties, deficiency assessments and interest.

4.9 Financial Information and Condition. The financial statement of Mortgagor and all tax returns delivered to Mortgagee truly set forth the financial condition of Mortgagor and the results of operations as of that date and there has been no material adverse change since then. All other statements, representations and warranties made by or, to Mortgagor's knowledge, on behalf of Mortgagor to Mortgagee have been, and as of the date of the Mortgage are, accurate and complete and no information has been omitted that would make any of them misleading or incomplete. Immediately prior to and after the making of this Mortgage, Mortgagor was not, nor will be, "insolvent" as that term is defined in, New York Business Corporation Law §1201, et. seq. or 11 U.S.C.A.

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101(31).

4.10 Leases. There exist no leases or tenancies with respect to the Mortgaged Property other than as set forth on the Schedule of Leases (as more particularly described in that certain Assignment of Leases and Rents dated of even date herewith made by Mortgagor in favor of Mortgagee) (being herein collectively referred to as the "Existing Lease"), copies of which have been delivered to Mortgagee. The Existing Lease is in full force and effect and has not been further amended or modified. There has not occurred, and, to Mortgagor's knowledge, there is no circumstance or state of facts that with notice or lapse of time would constitute, a default under any the Existing Lease. Mortgagee shall have all of the rights against any lessees of the Mortgaged Property set forth in Section 291-f of the Real Property Law of New York.

4.11 No Broker. No broker or finder other than Meridian Capital Group (the "Broker") introduced Mortgagor to Mortgagee. The Broker's commission shall be paid in full by Mortgagor on the date hereof.

4.12 Commercial Mortgage. This Mortgage does not encumber real property principally improved or to be improved by one or more structures containing in the aggregate not more than six (6) residential units each having their own separate cooking facilities.

4.13 Governmental Licenses. All licenses, consents and approvals required from, and all registrations and filings required to be made with, any governmental or other public body or authority to authorize the performance of its obligations under this Mortgage have been obtained and effected.

4.14 Litigation Affecting Mortgaged Property. There is no action, suit, proceeding or investigation pending or threatened, or, to the best of Mortgagor's knowledge, any basis therefor known to Mortgagor, which questions the validity of this Mortgage or the Note, or any action taken or threatened to be taken pursuant thereto. No notice has been given by any governmental authority of any proceeding to condemn, purchase or otherwise acquire the Mortgaged Property or any part thereof or interest therein and, to Mortgagor's knowledge, no such proceeding is contemplated.

4.15 Compliance with Laws. Except as otherwise expressly set forth in the Disclosure Schedule, the Title Report and the Environmental Report, Mortgagor is in compliance in all material respects with all governmental laws, rules and regulations and other requirements which are applicable to the Mortgaged Property or any part thereof, or any use or condition of the Mortgaged Property or any part thereof. Mortgagor has no knowledge of any violation, nor is there any notice or other record of violation, of any zoning, health, safety, building, fire, labor, environment, or other statute, ordinance, rule, regulation or restriction applicable to the Mortgaged Property or any part or use thereof, except as set forth in the Title Report.

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4.16 Survival. All representations and warranties made by, or on behalf of Mortgagor in this Mortgage or otherwise made to Mortgagee shall survive the closing of this Mortgage and any independent investigation by Mortgagee.

## **SECTION 5 - MORTGAGOR'S COVENANTS**

Mortgagor and any other owner of the Mortgaged Property who shall assume the Obligations covenant and agree that they shall do all of the following:

5.1 Obligations. Pay all indebtedness, and abide by all terms and conditions, under all Obligations, including without limitation this Mortgage and the Note;

5.2 Escrow Account. At the time of each monthly payment, pay to Mortgagee (A) the sum equal to one-twelfth (1/12th) of the known (or if not known, reasonably estimated by Mortgagee) annual real estate taxes and assessments, water, sewer, property, casualty and liability insurance and other charges levied or to be levied against the premises by governmental entities and (B) such sums, if required by Mortgagee, as are necessary to assure the timely payment of all charges described in Section 6 below, to be held by Mortgagee in a non-interest bearing account and applied by Mortgagee to the payment of such taxes, assessments and other charges when due. If the total of such monthly payments shall exceed the amounts actually paid by Mortgagee for taxes, assessments and other charges, as the case may be, such excess shall be credited on subsequent monthly payments of the same nature or promptly refunded to Mortgagor upon payment and performance in full of all Obligations; but if the total of such monthly payments shall be insufficient to pay taxes, assessments and other charges when due, then Mortgagor shall pay to Mortgagee, on demand, any amount necessary to make up the deficiency. Notwithstanding the foregoing, upon the occurrence of an Event of Default, Mortgagee may apply all sums in said escrow account to the reduction of the Obligations. Notwithstanding the above, the Mortgagee shall not require such escrow for annual real estate taxes and assessments, water, sewer, property, casualty, liability or any other insurance unless:

- (a) intentionally omitted;
- (b) an Event of Default exists;
- (c) intentionally omitted.

5.3 Financial Reporting. Immediately notify Mortgagee of any material adverse change in the financial condition of Mortgagor and deliver to the Mortgagee the following:

(a) annually, as soon as available but no later than 120 days after the close of each fiscal year of Mortgagor, compiled financial statements for Mortgagor

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which annual financial statements shall disclose in reasonable detail all assets and liabilities of Mortgagor and shall be certified by an officer of Reading;

(b) annually, copies of filed federal income tax returns for Mortgagor, including all schedules thereto (including, without limitation, K-1's for all principals thereof), within 30 days after filing of same; provided that if Mortgagor shall file an extension, Mortgagor shall provide evidence satisfactory to Mortgagee of each such request and approval, and thereafter, a copy of the filed federal income tax return, including all schedules thereto, within 30 days after filing of same;

(c) intentionally omitted;

(d) annually, a copy of Form 10-K annual report of Guarantor, including all schedules thereto, within 30 days after filing of same;

(e) simultaneously with the submission of financial statements for Mortgagor, a certificate of Mortgagor's CFO stating that (i) the signer has no knowledge of a default under any Loan Document for the Mortgagor or (ii) if any default existed or exists, its nature, when it occurred and what remedial action is being taken;

(f) intentionally omitted;

(g) a certified rent roll for the Mortgaged Property, within thirty (30) days after the end of each calendar year or simultaneously with the submission of financial statements for Mortgagor, whichever is later, which rent roll shall include the name of each tenant, the term of each tenancy, the current rent due from each such tenant, and a schedule of any arrears or prepaid rents and security deposits for each tenant of the Mortgaged Property; and

(h) such other information as Mortgagee reasonably may request.

5.4 Use of Property. Make or permit no use of the Mortgaged Property other than as a **movie theater**, or as otherwise permitted under the current certificate of occupancy, in compliance with all laws, ordinances, regulations and restrictions affecting the Mortgaged Property.

5.5 Condition of Property. Prevent any waste with respect to the Mortgaged Property, keep or cause the tenant under the Existing Lease or any other tenant(s) to keep the Mortgaged Property in good and clean condition and make all repairs that are required in the ordinary course of business to operate the Mortgaged Property.

5.6 Alterations. Make no material change to or renovation of, nor remove, any material Improvements or Fixtures and Equipment without the express prior written consent of Mortgagee in its reasonable discretion (except that Mortgagee's consent shall not be required with respect to non-structural alterations necessary or convenient

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to achieve ADA compliance required by law or as a result of a settlement or resolution of a claim, and work required in the ordinary course in connection with the maintenance and operation of a cinema, including, but not limited to, repair of HVAC system, the hard and soft costs of which work shall be less than \$250,000.00, provided, however, that Mortgagor shall provide written notice to Mortgagee prior to the commencement of any such work which shall require a building permit or other approval from any Governmental Authority). All changes, renovations, removals and repairs shall be made in a good and workmanlike manner to the reasonable satisfaction of Mortgagee and in accordance with all applicable building and zoning laws. As used herein, the term "ADA" means the Americans with Disabilities Act of 1990, as amended and supplemented from time to time, and any New York City laws, rules, and regulations concerning the subject matter thereof.

5.7 Notice of Loss or Condemnation. Notify Mortgagee immediately in writing upon learning that (a) there has occurred any casualty on, or loss to or of, any Mortgaged Property or (b) condemnation proceedings have commenced with respect to the Mortgaged Property.

5.8 Inspections. At any time during regular business hours and as often as requested upon not less than 24 hours prior notice (which may be oral), permit Mortgagee and its agents and employees to examine, audit and make copies and abstracts from any and all books and records of Mortgagor, and, subject to any rights of the tenant under the Existing Lease, if any, to visit and inspect the Mortgaged Property.

5.9 Compliance With Laws. Comply with all laws, ordinances, regulations and restrictions affecting the Mortgaged Property.

5.10 Transfers of Interests. Without the express prior written consent of Mortgagee in its absolute discretion, make or permit no Transfer in the ownership or control of Mortgagor or the Mortgaged Property or any part thereof (including, without limitation, the conveyance of all or any portion of the air rights with respect to the Mortgaged Property), directly or indirectly, voluntarily or involuntarily. Without the prior written consent of Mortgagee in its absolute discretion, Mortgagor shall not create or permit to exist any lien, encumbrance or security interest in favor of any third party with respect to the Mortgaged Property and Mortgagor shall keep the Mortgaged Property free from any such lien or security interest other than those created in favor of Mortgagee pursuant to the Loan Documents and liens for taxes not yet due and payable. Notwithstanding the foregoing, so long as Reading International, Inc., a Nevada corporation ("Reading"), shall remain a publicly traded company, Mortgagee's prior written consent shall not be required for any Permitted Transfer (as defined below), so long as all Transfer Requirements (as defined below) are timely satisfied. For purposes of this Section, (i) the term "Permitted Transfer" shall mean the transfer of any or all of the Equity Interests (as defined below) in Reading, (ii) the term "Transfer Requirements" means, with respect to any Permitted Transfer, all of the following: (1) Reading shall not be released from any liability under any guaranty, and (2) no Event of

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Default hereunder or under any of the other Loan Documents shall exist and be continuing, and (iii) the term "Equity Interest" means shares of stock of Reading.

5.11 Preservation. Preserve and maintain all authorizations, consents, licenses, permits, registrations and qualifications that are necessary for the transaction of business and the operation of the Mortgaged Property.

5.12 Indemnification. Indemnify, defend (with counsel reasonably acceptable to Mortgagee) and hold harmless Mortgagee (including Mortgagee's agents, employees, officers and directors) against all losses, claims, suits, fines, damages and expenses, including reasonable attorney's fees and disbursements, incurred by reason of, or in connection with, this Mortgage or the Mortgaged Property or in maintaining Mortgagee's interest in the Mortgaged Property, including, without limitation, all losses, claims, suits, fines, damages and expenses incurred by reason of, or in connection with, Mortgagor's breach of any provision of Section 7 of this Mortgage or any violation of any Environmental Law of the Use of Hazardous Substances on the Mortgaged Property.

5.13 Cooperation. Mortgagor will, at its sole cost and expense, and without expense to Mortgagee, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignment, transfers and assurances as Mortgagee shall from time to time reasonably require for the better assuring, conveying, assigning, transferring and confirming unto Mortgagee the property and rights hereby conveyed, mortgaged or assigned or intended now or hereafter so to be, or which Mortgagor may be or may hereafter become bound to convey, mortgage or assign to Mortgagee or for carrying out the intention or facilitating the performance of the terms of this Mortgage, and for filing or recording this Mortgage and, on demand, will execute and deliver, and hereby authorizes Mortgagee to execute in the name of Mortgagor to the extent it may lawfully do so, one or more financing statements or comparable security instruments, and renewals thereof to evidence more effectively the lien hereof upon the Fixtures and Equipment.

5.14 Governmental Charges re: Mortgage. Mortgagor will pay all taxes, filing and recording fees, and all expenses incident to the execution and acknowledgement of the Note, this Mortgage, any mortgage supplemental hereto, and any security instrument with respect to the Fixtures and Equipment, any instrument of further assurance, and all federal, state, county and municipal stamp taxes and other taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Note, this Mortgage, any mortgage supplemental hereto, any security instrument with respect to the Fixtures and Equipment or any instrument of further assurance, other than income, franchise or other similar taxes imposed upon Mortgagee.

5.15 Mechanic's Liens. Mortgagor will pay, from time to time when the same shall become due, all lawful claims and lawful demands of mechanics, materialmen, laborers and others, which, if unpaid, might result in, or permit the creation of, a lien on

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the Mortgaged Property or any part thereof, or on the revenues, rents, issues, income and profits arising therefrom, and in general will do or cause to be done everything necessary so that the lien hereof shall be fully preserved, at the cost of Mortgagor, without expense to Mortgagee.

5.16 Taxation of Mortgage. Mortgagor will pay all taxes, including, without limitation, any taxes imposed on Mortgagee by reason of its ownership of the Note or this Mortgage or foreclosure of same. Mortgagor shall not, however, be liable for any income taxes payable by or due from Mortgagee with respect to interest earned on the Loan or for any taxes payable by or due from Mortgagee by reason of the sale or transfer of this Mortgage or the Note. In the event of the present existence or the passage after the date of this Mortgage of any law of the State of New York deducting from the value of real property for the purposes of taxation any lien thereon or changing in any way the laws for the taxation of mortgages or debts secured by a mortgage for state or local purposes or the manner of collection of any such taxes and imposing a tax, either directly or indirectly, on this Mortgage or the Note, Mortgagor shall promptly pay or cause such tax to be paid or discharged. In the event Mortgagor does not promptly cause any such tax to be discharged, the holder of this Mortgage shall have the right to declare the unpaid principal balance of the Note and all accrued and unpaid interest due on a date to be specified by not less than twenty (20) days' written notice to be given to Mortgagor by Mortgagee.

5.17 Leases. As to all Leases and Rents, comply with each of the following:

(a) The Mortgagor will not, without the prior written consent and approval of the Mortgagee in each instance, (i) execute an assignment of the rents for the Mortgaged Property or any part thereof, (ii) enter into any leases, lettings or license arrangements affecting the Mortgaged Property or any part thereof, (iii) enter into modification of leases in existence on the date hereof, or (iv) in any other manner impair the value of the Mortgaged Property or the security of the Mortgage. Reference is made to Section 291-(f) of the Real Property Law with respect to the following: Mortgagor will not, without the prior written consent and approval of the Mortgagee, in each instance (x) terminate or consent to the cancellation or surrender of any lease of the Mortgaged Property or of any part thereof, now existing or hereafter to be made, (y) materially modify or vary any such lease, or (z) accept prepayments of any installments of rents to become due under such leases, except prepayments in the nature of security for the performance of the lessees thereunder. Notwithstanding the foregoing, Mortgagee's prior written consent shall not be required with respect to written license agreements ("License Agreements") for short term (i.e., less than seven (7) calendar days) individual auditorium usage

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(e.g., film festival, church service, birthday party, etc.), provided that all such license agreements shall be revocable at will and shall expressly provide that they are subordinate to this Mortgage and shall in no way be construed as granting to any licensee, and licensee shall not receive, be deemed to have received or under any circumstances claim to have received, whether expressly or implicitly, any title, easement, lien, possession or any property interest in, or rights (in rem or otherwise) to, the Mortgaged Property or any part thereof or anything contained therein.

(b) The Mortgagor will at all times promptly and faithfully perform, or cause to be performed, all of the covenants, conditions and agreements contained in all leases of the Mortgaged Property or any part thereof now or hereafter existing on the part of the lessor thereunder to be kept and performed, and shall do all things commercially reasonably necessary to compel performance by the lessee under each lease of all obligations, covenants and agreements by such lessee to be performed thereunder. If any of such leases provide for the giving by the lessee of certificates with respect to the status of such leases, the Mortgagor shall exercise its right to request such certificates within five (5) business days of any demand therefor by the Mortgagee. The Mortgagor shall promptly notify the Mortgagee of (i) the commencement of any action or proceeding by any lessee, the purpose of which shall be the cancellation of any lease or diminution or offset against the rent payable under any such lease, or (ii) the interposition by any lessee of any defense in any action or proceeding brought by the Mortgagor against such lessee, or (iii) a written notice received by the Mortgagor from any lessee claiming constructive eviction, and will cause a copy of any process, pleading or notice received by the Mortgagor in reference to any such action, defense or claim to be promptly delivered to the Mortgagee.

(c) The Mortgagor shall furnish to the Mortgagee, within thirty (30) days after a request by the Mortgagee to do so, a written statement containing a schedule of all leases of all or any part of the Mortgaged Property, the names of the respective lessees, the terms of their respective leases, the space occupied and the rentals payable thereunder, and, if also requested, true copies of all such leases.

5.18 Payments by Mortgagee. If Mortgagor shall fail to perform an act which it

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is required to perform hereunder or any of the covenants contained herein or any covenant contained in the Note, or fails to pay any money which it is required to pay hereunder or under the Note, Mortgagee may, after notice to Mortgagor and expiration of any applicable cure period (except in the event of emergency, in which event no notice shall be required and no cure period shall apply), but shall not be obligated to, make advances and/or disbursements to perform the same, and all sums so advanced and/or disbursed shall bear interest at the Default Rate from the date of such advance, and shall be a lien upon the Mortgaged Property and be secured hereby. Mortgagee, in making such advance or payment, shall be subrogated to all the rights of the person receiving such payment. Mortgagor will repay on demand all sums so advanced and/or disbursed with interest at the Default Rate from the date of making such advance and/or disbursement until paid. Any action taken by Mortgagee pursuant to this Section shall not constitute a waiver of any Event of Default or an undertaking to perform or complete any of the Mortgagor's duties, nor shall it impose any responsibility on Mortgagee to perform any of Mortgagor's duties in the future.

5.19 Mortgagee's Inspection Requests. Mortgagor will keep adequate records and books of account in accordance with generally accepted accounting principles (as defined by the American Association of Certified Public Accountants) and will permit Mortgagee, by its agents, accountants and attorneys, to visit and inspect the Mortgaged Property and examine its records and books of account with respect to the Mortgaged Property (whether or not the same shall be kept at the Mortgaged Property) and to discuss its affairs, finances and accounts with Mortgagor, at such reasonable times as may be requested by Mortgagee. Mortgagor shall deliver to Mortgagee annually, within one hundred twenty (120) days after the end of Mortgagor's fiscal year, a financial statement of the operation of the Property, certified by the Mortgagor as true and correct.

5.20 No Waste. Mortgagor will not (i) threaten, commit, permit or suffer any waste to occur on or to the Mortgaged Property or any part thereof, or (ii) make any change in its use which will in any way (other than to a de minimis extent) increase any fire or other hazards arising out of renovation or operation of the Mortgaged Property. Mortgagor will, at all times, maintain the Mortgaged Property in good operating order and condition and will promptly make, from time to time, all repairs, renewals, replacements, additions and improvements in connection therewith which are needful to such end. The Improvements shall not be removed, demolished or substantially altered, nor shall any Fixtures and Equipment be removed, without the prior written consent of Mortgagee except where appropriate replacements, free of superior title, liens and claims, are promptly made of value or utility at least equal to the value or utility of the Fixtures and Equipment removed, or except where the Fixtures and Equipment are obsolete or no longer useful, in which events Mortgagee shall be entitled to the proceeds of the Fixtures and Equipment so removed.

5.21 Mortgagee Litigation Expense. Mortgagor agrees that if any action or proceedings be commenced, excepting an action to foreclose this Mortgage or to collect

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the indebtedness hereby secured, to which action or proceeding Mortgagee is made a party by reason of the execution of this Mortgage or the Note which it secures, or in which it becomes necessary to defend or uphold the lien of this Mortgage, all sums paid by Mortgagee for the expense of any litigation to prosecute or defend the transaction and the rights and lien created hereby (including in every case reasonable attorneys' fees and disbursements, and all such sums incurred by Mortgagee in any appellate proceedings and any bankruptcy or reorganization proceedings) shall be paid by Mortgagor together with interest thereon from date of payment by Mortgagee at the Note Rate. All such sums paid and the interest thereon shall, at option of Mortgagee, be immediately due and payable, shall be a lien upon the Mortgaged Property, and shall be secured hereby as shall be all such sums incurred in connection with enforcement by Mortgagee of its rights hereunder.

5.22 Curing Violations. Except for those violations disclosed in the Title Report, Mortgagor will promptly cause to be dismissed any and all violations of any federal, state or local laws, ordinances, or regulations affecting or against the Mortgaged Property, but in any event all municipal violations shall be dismissed prior to the date such violations would become a lien or encumbrance against the Mortgaged Property. The violations disclosed in the Title Report are dealt with in the Undertaking signed by Mortgagor and delivered to Mortgagee on this date.

5.23 Leasing Covenants. Supplementing Section 5.17 above as to all Leases and Rents, comply with each of the following:

(a) accept no payments more than one month in advance of the due date under any leases relating to the Mortgaged Property; and

(b) permit no use of the Mortgaged Property that would violate any provision of this Mortgage, including all provisions relating to environmental matters; and

(c) intentionally omitted; and

(d) intentionally omitted; and

(e) any existing or future lease, or other agreement for the use or occupancy, of any Mortgaged Property shall provide that:

(i) it is subordinate and subject in all respects to the lien and provisions of this Mortgage including all covenants and restrictions as to the use and condition of the Mortgaged Property; and

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(ii) all representations and covenants as to environmental matters, including those set forth in Section 7, are to become express covenants and representations of the tenant or occupant; and

(iii) copies of notices or letters asserting or discussing any defaults on the part of the landlord shall be simultaneously sent to Mortgagee (attention: Commercial Loan Department) by certified mail; and

(iv) within fifteen (15) days of request by Mortgagee, the lessee or occupant will deliver to Mortgagee a notarized statement as to the default status of any lease or occupancy agreement and execute any document reasonably requested by Mortgagee to confirm that any lease or occupancy agreement is subordinate and subject to the lien and provisions of this Mortgage.

5.24 Mortgage Tax. At all times pay all required mortgage taxes for this Mortgage, including at the time of original filing and at such time of any supplements or amendments thereto.

5.25 Service Contracts; Additional Liabilities. Mortgagor shall not, without the prior written consent of Mortgagee in each instance, such consent not to be unreasonably withheld, enter into any service contracts or other agreements or incur any other liability which would be binding upon a successor owner of the Mortgaged Property or which would create a Mortgagor liability in excess of One Hundred Thousand and 00/100 (\$100,000.00) dollars, in each instance, except no consent shall be required to enter into contracts for the performance of capital improvements or repair work required by law and to be performed in accordance with the Mortgage.

5.26 Property Management. The Mortgaged Property shall be managed at all times by the Mortgagor or a manager that is approved by Mortgagee, which approval shall not be unreasonably withheld. Any manager, shall be a reputable management company having substantial experience in the management of real property of a similar type, size and quality in New York, New York and shall be reasonably acceptable to Mortgagee. Subject in all respects to this Section 5.26, Mortgagee agrees that Citadel Cinemas, Inc. (the "Managing Agent") is acceptable as managing agent as of the date hereof and approves the Management Agreement between Mortgagor and Managing Agent, as amended, copies of which have been furnished to Mortgagee. Mortgagor shall cause any manager of the Mortgaged Property to agree that any management agreement shall be subject and subordinate in all respects to the Loan and the lien of this Mortgage and the other Loan Documents. The management agreement may not be modified, amended, or terminated by Mortgagor without Mortgagee's prior written consent, which consent shall not be unreasonably withheld. Mortgagor shall not consent to the assignment or transfer by a manager of any of its rights or obligations under its management agreement, without the prior written consent of Mortgagee, such consent not to be unreasonably withheld. Mortgagor shall not pay any management fees with respect to the Mortgaged Property except as contemplated by a management

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agreement reasonably acceptable to Mortgagee in all material respects. Such manager shall maintain a fidelity bond in an amount and with an insurer reasonably acceptable to Mortgagee and in keeping with bond amounts typically required by Mortgagee with respect to similarly situated properties in Manhattan, New York. Within sixty (60) days after receipt by Mortgagor of a notice from Mortgagee, Mortgagor shall terminate any managing agent if, in the reasonable judgment of Mortgagee, the management of the Mortgaged Property by such managing agent may have an adverse material effect on the value of the Mortgaged Property or on the ability of the Mortgagor to perform its obligations under this Mortgage.

5.27 Debt Service Coverage. Mortgagor shall at all times maintain a minimum Debt Service Coverage Ratio of at least 1.25:1, tested annually, commencing with the calendar year ending December 31, 2017, "Debt Service Coverage Ratio" means the ratio of (a) net income (which shall include, among other things, all rent and additional rent payable under the Existing Lease, without deduction for the expense represented by such rent and additional rent payable under the Existing Lease) plus depreciation and amortization expense plus interest expense less distributions to any person other than to an Affiliate of Guarantor; to (b) the annual payments of principal and interest hereunder and under the Note. Failure to comply with the provisions of this paragraph, continuing within thirty (30) days after notice, shall constitute an Event of Default under this Mortgage as if such default were specifically listed in Section 8 hereof. If, at any time, a receiver is appointed with respect to all or any portion of the Mortgaged Property, Mortgagor agrees that the order appointing the receiver may contain a provision requiring the receiver to pay all debt service payments under any loan evidenced by the Note and/or secured by this Mortgage, it being recognized that such debt service payments are proper obligations of Mortgagor and must be paid out of the rental charges payable under any leases.

5.28 No Stay; Exemption or Moratorium. The Mortgagor will not, except as, and in such event only to the extent, required by law, at any time insist upon, or plead, or in any manner whatsoever claim or take any benefit or advantage of any stay or extension or moratorium law, any exemption from execution or sale of the Mortgaged Property or any part thereof, wherever enacted, now or at any time hereafter in force, which may affect the covenants and terms of performance of this Mortgage, nor claim, take or insist upon any benefit or advantage of any law now or hereafter in force providing for the valuation or appraisal of the Mortgaged Property, or any part thereof, prior to any sale or sales thereof which may be made pursuant to any provision herein, or pursuant to the decree, judgment, or order of any court of competent jurisdiction, and covenants not to hinder, delay or impede the execution of any power herein granted or delegated to the Mortgagee, but to suffer and permit the execution of every power as though no such law or laws had been made or enacted. The Mortgagor for itself and all who may claim under it, waives, to the extent that it lawfully may, all right to have the Mortgaged Property or any part thereof marshaled upon any foreclosure hereof.

5.29 No Further Encumbrance. Mortgagor shall not cause, or permit any lien  
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encumbrance to be filed against, or attached to, the Mortgaged Property, other than the lien of this Mortgage.

5.30 Reserve Account. Mortgagor hereby covenants to open and maintain for the term of the Loan with the Mortgagee an operating account in respect of the Mortgaged Property, which account shall, at all times during the ninety (90) day period commencing from and after the date hereof, have a minimum account balance of at least One Million and 00/100 (\$1,000,000.00) Dollars.

## **SECTION 6 - INSURANCE**

6.1 Insurance Coverage. Mortgagor shall keep or cause the tenant under the Existing Lease to keep the Mortgaged Property insured as follows:

(a) Property Insurance. Maintain extended coverage property insurance written in the name of Mortgagor in the broadest "all risks" or "special form" causes of loss available on a full replacement cost basis covering all Mortgaged Property, including all Improvements and Fixtures and Equipment. That insurance shall be in amounts that are no less than the full replacement cost value of the Mortgaged Property (without any deduction for depreciation) with a deductible amount of no greater than \$25,000.

(b) Liability Insurance. Maintain commercial general liability insurance in the name of Mortgagor, including contractual liability for an insured contract and completed operations and personal injury coverage, with a combined single limit for any one occurrence in amounts reasonably satisfactory to Mortgagee.

(c) Flood Insurance. If any portion of the Mortgaged Property is located in a flood hazard area in Special Flood Hazard Areas (Flood Zones prefixed in "A" or "V") for which insurance is available under the Flood Disaster Protection Act of 1973 or the National Flood Insurance Act of 1968, maintain flood insurance on that portion in an amount reasonably acceptable to Mortgagee, not to exceed the lesser of the full replacement cost value or the maximum coverage available through the National Flood Insurance Program.

(d) Interruption Insurance. Business interruption insurance for loss caused by perils of the type covered by the above-referenced casualty insurance in amounts as may be reasonably required by Mortgagee covering the loss of rental income and all expenses and carrying costs of the Mortgaged Property for a period of not less than one (1) year.

(e) Boiler and machinery insurance in amounts reasonably acceptable to Mortgagee.

(f) Policy Terms. All policies shall meet the following requirements:

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(i) overall blanket or excess coverage policies may be supplied provided, however, that all insurance shall be in amounts sufficient to prevent any insured from being a co-insurer and that the amount of the casualty insurance coverage attributable to the Mortgaged Property is clearly set forth; and

(ii) all policies shall (x) name Mortgagee "and its successors and assigns as their interests may appear" as "mortgagee insured" and "loss payee" on all property insurance as outlined in clauses (a), (c), (d) and (e) above and as "additional insured" as to general liability insurance, (y) contain an endorsement stating that, as to the interest of Mortgagee, such policy "shall not be impaired, invalidated or affected by any statement, act or neglect of any insured, loss payee or other Person, or by any failure to make any report to the insurer, or by the institution of any proceeding to execute upon any lien", and (z) contain a provision stating that such policy "shall not be canceled or modified except after thirty (30) days prior written notice, except ten (10) days prior written notice for non-payment of premium", delivered to Mortgagee (Attn: Commercial Mortgage Department) at Mortgagee's address first listed above or as subsequently directed in writing by Mortgagee; and

(iii) all policies shall be in a form reasonably acceptable to Mortgagee and shall be issued by financially sound insurers duly authorized to conduct that type of insurance business in New York; and

(iv) all policies of insurance and endorsements thereof, together with a paid receipt with respect to any installment(s) of premium(s) which shall be due pursuant to any commercial premium finance agreement in effect with respect thereto, shall be deposited with Mortgagee prior to the closing of this Mortgage. At least thirty (30) days prior to the expiration of any such policies, Mortgagee shall furnish paid receipts and other evidence satisfactory to Mortgagee that all such policies have been renewed or replaced; and

(v) all policies shall provide that the insurance proceeds and awards may be adjusted only after obtaining the prior written consent of Mortgagee and shall be paid directly to Mortgagee to the extent required in Section 6.2.

6.2 Insurance Proceeds. Mortgagee shall have the exclusive authority to do each of the following in Mortgagee's absolute discretion:

- (a) Receive directly all Awards and Proceeds;
- (b) Settle or compromise all claims relating to all Awards and Proceeds;

and

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(c) Determine whether to apply any Awards and Proceeds to reduce the Note or any other Obligations or to repair or replace any Mortgaged Property.

Notwithstanding the foregoing, if the cost of restoration, as estimated by Mortgagee in its sole discretion, does not exceed fifteen (15%) percent of the then outstanding principal balance of the Loan, then, provided there then exists no Event of Default or state of facts which with the giving of notice and passage of time, or both, would become an Event of Default hereunder or under any of the other Loan Documents, the Awards and Proceeds of such casualty loss shall be made available for the restoration of the Mortgaged Property and in such event shall not cause an acceleration, nor permit Mortgagee to accelerate, the balance due under the Note.

## **SECTION 7 - ENVIRONMENTAL MATTERS**

7.1 Environmental Representations. Except as otherwise expressly set forth in the Environmental Report, Mortgagor hereby represents and warrants to Mortgagee that:

(a) Neither Mortgagor nor, to the best knowledge of Mortgagor, any other existing or former occupant of the Mortgaged Property, has (i) Used any Hazardous Substances in violation of any Environmental Law, (ii) received any notice, or is on notice, of any claim, investigation, cleanup or testing program, government expenditures, litigation or administrative proceeding, actual or threatened, or any order, writ or judgment that relates to any Use of pollutants of any kind, including any Hazardous Substances, on, or by any occupant of, the Mortgaged Property.

(b) No Hazardous Substances have been, or will be, used on, or by any occupant of the Mortgaged Property, other than common cleaning and maintenance agents in small quantities for standard maintenance uses.

(c) No asbestos exists on the Mortgaged Property in any form, condition or quantity.

7.2 Restrictions on Hazardous Uses. Without Mortgagee's prior written consent, which may be granted or withheld in Mortgagee's sole discretion, Mortgagor shall make or permit no use of the Mortgaged Property that would involve the Use of any Hazardous Substances, except for properly stored safe cleaning and maintenance agents in reasonable amounts for standard maintenance uses or as specifically permitted in advance in writing by Mortgagee in its absolute discretion.

7.3 Notice to Mortgagee. Mortgagor shall notify Mortgagee immediately in writing upon learning of:

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- (a) any spill, discharge or release of any Hazardous Substances on or near the Mortgaged Property that may involve a cleanup;
- (b) any circumstances that may result in a violation of Section 7.2;
- (c) any governmental inquiry or inspection is undertaken or an enforcement notice issued with respect to Hazardous Substances on or Used with respect to the Mortgaged Property.

7.4 Environmental Audits. If Mortgagee has reason to believe that there are any Hazardous Substances on the Mortgaged Property and/or that Mortgagor has breached any of the terms and conditions of this Section 7, Mortgagee may, as it deems necessary in its sole discretion, conduct environmental assessments of the Mortgaged Property from time to time, such audits and tests to be conducted by an environmental consultant chosen by Mortgagee. Mortgagor shall pay Mortgagee on demand the reasonable costs of such audits or tests. Any such environmental assessments shall be considered the property of Mortgagee, and Mortgagee shall owe no duty of confidentiality to Mortgagor with respect to the contents thereof. However, Mortgagor shall be provided with copies of all reports and relevant correspondence. It is hereby acknowledged by Mortgagor that Mortgagee shall not vouch for or assume any responsibility for the scope of detail, contents or accuracy of any such environmental assessment, and that neither Mortgagor nor any other party shall have any recourse to or claim against Mortgagee for any act of omission or commission of the environmental consultant. Mortgagor shall fully cooperate with the environmental consultant. Mortgagee may also from time to time, as it deems to be reasonably necessary and at the expense of Mortgagor, obtain legal advice from an attorney competent in environmental law regarding the environmental condition of the Mortgaged Property. Mortgagee shall also have the right to require, from time to time, but, provided there has occurred no Event of Default, not more frequently than once per year, a certification by Mortgagor and any tenants of the Mortgaged Property whether or not there has been any change(s) in the environmental condition of the Mortgaged Property.

7.5 Security for Cleanup. If any investigation, environmental report or governmental investigation or order indicates that there may exist any damage or risk to the Mortgaged Property, or any liability of any Mortgagor relating to any Hazardous Substances or other environmental conditions with respect to the Mortgaged Property, Mortgagee may require Mortgagor to furnish immediately an indemnity bond in an amount reasonably determined by Mortgagee, in its sole discretion, to be sufficient to pay all actual and estimated cleanup costs and to protect against any liens that are likely to arise with respect to such potential cleanup costs. Mortgagee's demand that Mortgagor post any bond or other security shall not be a waiver of any Event of Default or of any other right or remedy available to Mortgagee. Such obligation to post a bond shall not apply during the last six (6) months of the term of the Loan, provided and for so long as no Event of Default shall have occurred and be continuing.

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7.6 Indemnification. Mortgagor shall fully indemnify, defend and hold harmless Mortgagee, and its successors and assigns, from and against: (a) any third party claims involving Hazardous Substances on or affecting the Mortgaged Property or any violation of Environmental Laws and (b) any fines, penalties, reasonable attorney's fees, sums paid in connection with any judicial or administrative investigation or proceedings, costs of cleanup assessed by a Governmental Authority, and all similar expenditures that relate in any way to Mortgagor or the Mortgaged Property, without regard to whether Mortgagor would have ultimately been responsible for such third party claims, fines, payments, fees, sums or costs. Any amounts that Mortgagor must pay to Mortgagee under this Section 7.6 are payable upon demand and, if unpaid, shall bear interest per annum, at the "Default Rate" (as defined in the Note) and such amounts, with interest, shall be added to the Indebtedness. The provisions of this Section 7.6 shall not be decreased or rendered ineffective in the event that Mortgagee elects not to pursue its remedies to foreclose the Mortgage. The liability of Mortgagor and any other Obligor hereunder shall be joint and several and shall survive the repayment of the Note and/or the release and/or assignment of the Mortgage or Note or any Guaranty.

7.7 Environmental Report. Mortgagor has fully examined and considered the Environmental Review of Merritt Environmental Consulting Corp. dated April 29, 2016 in review of the Phase I Environmental Site Assessment dated June 12, 2012 prepared by Nova Consulting Group, Inc. for Sovereign Santander (collectively, the "Environmental Report") and has no actual knowledge of any environmental condition on or affecting the Mortgaged Property which is not set forth in such report.

## **SECTION 8 - EVENTS OF DEFAULT**

Any of the following events or conditions shall, at the option of Mortgagee, constitute an "Event of Default" under this Mortgage and the other Loan Documents and Obligations if not cured within the applicable cure period, if any, set forth below:

8.1 Payments. Any failure to make on its due date any payment required to be made by Mortgagor under this Mortgage, the Note or any other Loan Document or Obligations (and any applicable grace, notice or cure period as to such payment set forth in that Loan Document shall have expired); or

8.2 Other Terms. Any failure to perform or observe any non-monetary term or condition (not otherwise recited under this Section 8) under this Mortgage, the Note or any other Loan Document or Obligations which continues for thirty (30) days after notice thereof by the Mortgagee to the Mortgagor, provided, however, that if such default is capable of cure, but with due diligence cannot be cured within such thirty (30) day period and Mortgagor has promptly commenced to cure within such period and continuously pursues same diligently and expeditiously, then such period to cure shall be extended for so long as is reasonably necessary for Mortgagor in the exercise of due diligence to cure such default, it being agreed that no such extension shall be for a period in excess of one hundred twenty (120) days (subject to further extension by

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Mortgagee, in Mortgagee's sole discretion); or

8.3 Representations. Any representation, statement or warranty made by or on behalf of any Obligor in this Mortgage, the Affidavit of Title or any other Loan Document, certificate or other writing made or given to Mortgagee at any time shall be incorrect, incomplete or misleading when made in any material respect; or

8.4 Failure to Obtain Permission. Mortgagor shall do, or permit to be done, any act for which Mortgagee's consent is required under this Mortgage or any other Loan Document without first obtaining such consent in writing (except in the event of emergency); or

8.5 Financial Information and Inspections. Any failure to furnish financial information which continues for thirty (30) days after notice thereof or to permit inspection of the Mortgaged Property or any records as required under this Mortgage or any other Loan Document; or

8.6 Failure to Maintain Insurance. Any failure to maintain, or provide, within five (5) business days after notice, satisfactory evidence of, any insurance coverage required under this Mortgage or any other Loan Document; or

8.7 Lien Defaults or Foreclosures. Any default or modification (without Mortgagee's prior written consent) shall have occurred in any mortgage, assignment, encumbrance or agreement constituting a Permitted Encumbrance, and any applicable cure period as to such default shall have expired, or proceedings shall have been instituted or actions taken for the foreclosure or enforcement of any mortgage, judgment, assignment or other lien or encumbrance affecting the Mortgaged Property and such proceedings have not been dismissed with prejudice within thirty (30) days after the commencement thereof; or

8.8 Warrants and Tax Liens. Any warrant of attachment or for distraint, or notice of tax or other lien shall be issued relating to, or encumbering, any portion of the Mortgaged Property that is not discharged, or stayed and bonded, to the reasonable satisfaction of Mortgagee within thirty (30) days of notice of entry; or

8.9 Judgments. Any judgment that would adversely affect in any material respect Mortgagor's ability to perform any obligations under any of the Loan Documents or the value of the Mortgaged Property or any other collateral under any of the Loan Documents shall be entered against Mortgagor that is not (a) within thirty (30) days of entry, discharged, or stayed and bonded, to the reasonable satisfaction of Mortgagee or (b) fully covered by insurance and the insurance company has unconditionally accepted liability for that judgment; or

8.10 Loss of Collateral. There occurs any casualty on, or loss or destruction of, any Mortgaged Property that, in Mortgagee's reasonable judgment, involves material

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damage to or loss of property, unless such loss or destruction is fully covered by insurance (subject to a standard insurance policy deductible provision of \$25,000 or less) to the reasonable satisfaction of Mortgagee; or

8.11 Hazardous Substances. There occurs, or it is found that there has previously occurred, any Use of any Hazardous Substances on the Mortgaged Property or by Mortgagor that will require Mortgagor to remedy and the cost of such remedy shall exceed \$125,000; or

8.12 Insolvency. Any filing of a petition by or against any Obligor under any bankruptcy or insolvency law or an assignment by any Obligor of any property or assets for the benefit of creditors, or the failure of any Obligor to pay debts in the ordinary course as those debts become due, or the calling of a meeting of creditors of any Obligor to obtain any general financial accommodation provided, however, that any Obligor shall have sixty (60) days to obtain a court order dismissing any bankruptcy or insolvency proceeding that is filed without consent of the debtor; or

8.13 Seizure of Property. Any seizure by governmental authorities of, or the imposition of legal restraints against, the Mortgaged Property, which is not, within thirty (30) days of such seizure or imposition, released, discharged or fully bonded to the reasonable satisfaction of Mortgagee; or

8.14 Non-Permitted Encumbrance. Any mortgage, assignment, lien, judgment or interest shall encumber any Mortgaged Property with the exception of any Permitted Encumbrances which shall not be discharged within thirty (30) days after notice thereof; or

8.15 Default in Leases. Any material default on the part of Mortgagor shall occur under or there shall be a termination of any leases that presently or may in the future affect the Mortgaged Property and account for more than five percent (5%) of the annual rentals from the Mortgaged Property or result in a failure to maintain the required Debt Service Coverage Ratio; or

8.16 Dissolution. Any Obligor shall fail to remain in good standing in its state of incorporation or organization or dissolves or ceases to exist; or

8.17 Adverse Change. Any adverse change in the creditworthiness or financial condition of any Obligor that, in the reasonable opinion of Mortgagee, materially increases Mortgagee's risk; or

8.18. Legal Changes. Any laws are enacted whereby there is a change which deducts the value of land or a change in taxation of mortgages and Mortgagor fails to enter into a reasonably satisfactory agreement with Mortgagee; or

8.19 Entry. If Mortgagee or its representatives are not permitted, at all

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reasonable times, to enter upon the Property and to inspect the Improvements and Fixtures and Equipment in accordance with the terms and provisions of this Mortgage; or

8.20 Other Obligations. If the Mortgagor shall default beyond applicable grace and notice periods in the payment of any other indebtedness owed to Mortgagee or default under the terms of any Loan Document between Mortgagor and Mortgagee; or

8.21 Transfer or Hypothecation. If Mortgagor or any interest in the Mortgagor is pledged, hypothecated, levied upon, encumbered, assigned or transferred (by operation of law or otherwise) in any manner, without the prior written consent of Mortgagee; or

8.22 Easements. If any easement over, across, under or otherwise affecting the Mortgaged Property or any portion thereof shall be granted or released by Mortgagor without the Mortgagee's prior written consent except that Mortgagor may grant utility and other usual easements reasonably necessary for its use of the Mortgaged Property for their intended purposes; or

8.23 Other Debts. If the Mortgagor shall default beyond applicable grace periods (as principal or surety) on any indebtedness for borrowed money or otherwise in an amount in excess of \$125,000 in any one case or in the aggregate; or

8.24 Additional Borrowings. Except as otherwise expressly set forth in this Mortgage, other than unsecured credit extensions or unsecured borrowings between Mortgagor and Affiliates, if the Mortgagor shall borrow funds or obtain credit, whether on a secured or unsecured basis, without the express written consent of Mortgagee, which consent may be granted or withheld in the Mortgagee's sole discretion.

## **SECTION 9 - REMEDIES**

9.1 Remedies. Upon the occurrence of an Event of Default, Mortgagee may, at its option, do any of the following in any order at any time and in any combination:

(a) Acceleration of Obligations. Declare all principal, interest and expenses outstanding under the Note, this Mortgage and any other Obligations to be immediately due and payable in full; or

(b) Foreclosure. Institute proceedings to foreclose on all or any portion of the Mortgaged Property, and following receipt of a judgment of foreclose, cause the sale of the Mortgaged Property in accordance with applicable law, in one or several parcels, at Mortgagee's option; or

(c) Receiver. Appoint a receiver of the rents, profits, leases, income

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and refunds arising from the Mortgaged Property without the necessity of proving either the inadequacy of the security or insolvency of any Obligor, and each Obligor does hereby waive such proof and consent to the appointment of a receiver; Mortgagee shall be entitled to the appointment of a receiver as a matter of right in accordance with Section 254 of the New York Real Property Law.

(d) Absolute Assignment of Rents. With or without instituting proceedings to foreclose on, or appoint a receiver for, the Mortgaged Property, revoke Mortgagor's license to collect rents and exercise all of Mortgagee's remedies under the Assignment of Rents and Leases from Mortgagor to Mortgagee of even date, including, without limitation, the right to notify tenants of the Mortgaged Property to pay rents directly to Mortgagee, take possession of and rent the Mortgaged Property, either in Mortgagee's name or in the name of the owner of such Mortgaged Property, receive and apply the rents and profits, after the payment of any collection, operating and management expenses, including management commissions and reasonable attorney's fees and disbursements, against the Note and other Obligations, being accountable only for the rents and profits that are actually received by it while in possession; or

(e) UCC Remedies. Exercise all rights and remedies available to a secured party under the New York Uniform Commercial Code as in effect from time to time; or

(f) Collection Action. Institute a collection action directly against any Obligor, either without acceleration for the balance of any Obligations then past due or, following acceleration, for all Obligations; or

(g) Freeze; Setoff. Hold, apply, freeze or set-off (without notice) on account of any Obligations, funds of any Obligor on deposit with Mortgagee in any account, fund or certificate, any indebtedness that Mortgagee may owe to any Obligor or any other tangible or intangible property owned by any Obligor that may be in the possession or under the control of Mortgagee; or

(h) Increase in Interest Rate. Increase the rate of interest under any Obligation, including, without limitation, the Note, to a rate five (5) percentage points above the Note Rate. This increase shall be retroactive to the date of the first occurrence of an Event of Default, shall be computed on the basis of actual days elapsed over a 360-day year and shall survive entry of any judgment relating to the Loan; or

(i) Other Remedies. Exercise any other rights and remedies available under this Mortgage, any other Loan Document, Obligations or other document or agreements of any kind, or that are available at law or in equity, including, without limitation, all rights set forth in Section 254 of the New York Real Property Law and in Article 14 of the New York State Real Property Actions and Proceedings Law allowing for Power of Sale; or

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(j) Proceeds. Apply proceeds of any sale of the Mortgaged Property first to costs and expenses of liquidation, sale or collection, including any reasonable attorneys' fees and disbursements and then to payment of any Obligation in whatever order Mortgagee may, in its discretion, elect, with the remaining proceeds, if any, to be paid to Mortgagor; or

(k) Expenses. Collect all of the collection expenses permitted under Section 10 of this Mortgage or otherwise permitted under law and have the amount of such expenses, together with all prepayment penalties due pursuant to the Note, which penalties shall be computed pursuant to the terms thereof and treating prepayment as occurring on the date of default, included in any judgment or decree obtained by Mortgagee, to the extent permitted by law.

9.2 Authorization of Mortgagee. Mortgagor irrevocably appoints Mortgagee the true and lawful attorney in fact coupled with an interest of Mortgagor, in its name and on its behalf, for the purpose of effectuating any sale, assignment, transfer or delivery for the enforcement hereof, whether pursuant to power of sale, foreclosure or otherwise, to execute and deliver all such deeds, leases, bills of sale, assignments, releases and other instruments as may be necessary, with full power of substitution, provided that Mortgagor shall not exercise its rights under this Section 9.2 prior to the occurrence of an Event of Default.

9.3 Purchase by Mortgagee. Mortgagee may be a purchaser of the Mortgaged Property or of any party thereof or of any interest therein at any sale thereof, whether pursuant to foreclosure or otherwise, and may apply the purchase price thereof to the Obligations. Mortgagee shall, upon any such purchase, acquire good title to the Mortgaged Property so purchased, free of the lien of this Mortgage and free of all rights of redemption in Mortgagor.

#### **SECTION 10 - COLLECTION EXPENSES**

If Mortgagee employs counsel for advice or representation after an Event of Default (whether or not formally declared) relating to the collection or enforcement of this Mortgage, the Note, or any other Loan Document or Obligations (whether or not suit is actually instituted), Mortgagee may collect from any Obligor all of Mortgagee's reasonable expenses and fees including (a) all fees and disbursements of Mortgagee's counsel and (b) all expenses of, or in anticipation of, litigation including fees and expenses of witnesses, experts, stenographers, title and lien searches and appraisals. All those collection fees and expenses shall be due and payable upon demand, shall bear interest at the Default Rate in effect from time to time under the Note and shall become Obligations secured by this Mortgage and any other collateral that secures any Obligations.

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**SECTION 11 - MORTGAGEE'S****PERFORMANCE**

If Mortgagor fails to perform any duty or obligation imposed upon Mortgagor under this Mortgage or any other Loan Document when due, Mortgagee may, after notice to Mortgagor and expiration of any applicable cure period (except in the event of emergency, in which event no notice shall be required and no cure period shall apply), at its option (with or without declaring an Event of Default), perform any such duty or obligation including payment of any tax, governmental charge or insurance premium, making repairs to the Mortgaged Property, rendering it free of any Hazardous Substances or liens or performing any lease obligation. The out-of-pocket expenses incurred by Mortgagee in performing any of the Mortgagor's duties or obligations shall be added to the monies owing under the Note, with interest at the rate in effect from time to time under the Note, and shall be secured by this Mortgage and by all collateral given to secure any Obligations. Any action taken by Mortgagee pursuant to this Section shall not constitute a waiver of any Event of Default or an undertaking to perform or complete any of the Mortgagor's duties, nor shall it impose any responsibility on Mortgagee to perform any of Mortgagor's duties in the future.

**SECTION 12 - SECURITY AGREEMENT**

12.1 Mortgagor hereby grants Mortgagee a security interest, under the Uniform Commercial Code as enacted in the State of New York, in all of the Mortgagor's right, title and interest in and to all existing and future-acquired Fixtures and Equipment, Awards and Proceeds, Leases and Rents, Other Rights, and all tax and insurance escrows held by Mortgagee pursuant to this Mortgage. In order to perfect the security interests granted hereunder, this Mortgage shall be filed in the appropriate state real property records, Mortgagor, as debtor, hereby authorizes Mortgagee to execute UCC-1 financing statements in favor of Mortgagee, as secured party, which statements shall be filed with all appropriate county filing offices.

12.2 If any Event of Default shall occur, the Mortgagee shall have, in addition to any and all other rights and remedies set forth in this Mortgage, and may exercise without demand, any and all rights and remedies granted to a secured party under the Code, including, but not limited to, the right to take possession of the Other Rights, Fixtures and Equipment, Awards and Proceeds, Leases and Rents, and all tax and insurance escrows held by Mortgagee, or any part thereof, and the right to advertise and sell the Fixtures and Equipment and the Other Rights, or any part thereof, pursuant to and in accordance with the power of sale provided for in this Mortgage. The Mortgagor agrees that any notice of public or private sale or other action intended by the Mortgagee with respect to the Fixtures and Equipment and the Other Rights, or any part thereof, shall constitute reasonable notice if it is sent to the Mortgagor not less than ten (10) days prior to any such sale or intended action. The proceeds of any such sale of the Fixtures and Equipment and the Other Rights, or any part thereof, shall be applied in the manner set forth in Article II of this Mortgage.

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**SECTION 13 - ABSOLUTE ASSIGNMENT OF****LEASES AND RENTS**

This Mortgage also serves as an **absolute** assignment of all existing and future rentals, leases, profits, income, revenues and proceeds arising from the Mortgaged Property as provided and set forth in the Assignment of Rents and Leases from Mortgagor to Mortgagee of even date, provided, however, that so long as there is no Event of Default, Mortgagor shall be granted a revocable license from Mortgagee to remain in possession of, and to collect all rentals arising from, the Mortgaged Property, and to exercise the rights of landlord thereunder. This assignment shall not, however, render Mortgagee responsible for the performance of any duties under any lease, nor for any negligence in the management, operation or maintenance of the Mortgaged Property or for any resulting damage, loss or injury. The receipt by Mortgagee of any rentals or profits pursuant to this assignment shall not cure any Event of Default or affect any foreclosure or other liquidation proceeding that may be pending at any time. Mortgagor hereby irrevocably appoints Mortgagee as Mortgagor's attorney-in-fact to exercise all rights and remedies of Mortgagor as landlord and manager of the Mortgaged Property, provided, however, that Mortgagee agrees not to exercise such rights and remedies until the occurrence of an Event of Default.

**SECTION 14 - MODIFICATIONS**

This Mortgage is subject to modification. To the extent permitted by law, this Mortgage secures all modifications from the date upon which this Mortgage was originally recorded, including future loans and extensions of credit and changes in the interest rate, due date, amount or other terms and conditions of any Obligations.

**SECTION 15 - MISCELLANEOUS**

15.1 Further Assurances; Corrections. Mortgagor shall, within ten (10) days of Mortgagee's request, execute any documents, provide any lien or other searches, and do anything that Mortgagee determines to be reasonably necessary to establish, perfect, assure or maintain the existence and priorities of, Mortgagee's liens against the Mortgaged Property, the reasonable costs of so doing be paid by Mortgagor. In case of the occurrence of any errors in the execution of the Loan Documents, Mortgagor authorizes Mortgagee to make all necessary corrections in order to cause the Loan Documents to conform to the terms and conditions agreed to by Mortgagor and Mortgagee.

15.2 Notices. All notices, demands, requests, consents and other communications shall be in writing and served by hand delivery, by certified mail, return receipt requested, or by a recognized overnight delivery service, if to Mortgagee, to the address set forth in the caption of this Mortgage, with a copy in like manner to Romer Debbas LLP, 275 Madison Avenue, Suite 801, New York, New York 10016, Attn: Guy Arad, Esq., and if to Mortgagor, to Mortgagor at the address set forth in the caption of this Mortgage, with a copy in like manner to Marcus Rosenberg & Diamond LLP, 488 Madison Avenue, 17<sup>th</sup> Floor, New York, New York 10022, Attn: Jeffrey M. Diamond, Esq., unless proper written notice has been given to all other parties of any change in address. Notices and other written communication shall be deemed to have been properly served upon delivery to the designated address provided, however, that any notice or other communication sent by certified mail, return receipt requested, shall be deemed to have been properly served on the third business day after mailing, regardless of when it is actually received.

15.3 No Jury Trial. MORTGAGOR HEREBY WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO ANY ASPECT OF THIS MORTGAGE OR ANY OTHER LOAN DOCUMENT AND REPRESENTS THAT MORTGAGOR HAS CONSULTED WITH COUNSEL SPECIFICALLY AS TO THIS WAIVER. BY ACCEPTING THIS MORTGAGE, MORTGAGEE ALSO WAIVES ITS RIGHT TO REQUEST A TRIAL BY JURY.

15.4 No Waivers. Mortgagee shall not be deemed to have waived any of its rights or remedies under this Mortgage or any other Loan Document by:

(a) forbearing or failing to exercise, or delaying in exercising, any rights and remedies; or

(b) forbearing or failing to insist upon, or delaying in insisting upon, the strict performance of any term or condition of this Mortgage or any other Loan Document;

(c) granting any extension, modification or waiver of any term or condition of this Mortgage or any other Loan Document, except to the extent expressly

provided in any written extension, modification, or waiver; or

(d) any other act, omission, forbearance or delay by Mortgagee, its officers, agents, servants or employees; or

(e) any waiver of any rights or remedies on any one occasion.

15.5 Collection Duties. Mortgagee shall be under no duty or obligation to:

(a) preserve, protect or marshal any Mortgaged Property or other collateral for any Obligations; or

(b) preserve or protect any rights in any Mortgaged Property or other Collateral against any person claiming an interest adverse to that of Mortgagor; or

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(c) realize upon any Mortgaged Property or other collateral in any particular order or manner or seek repayment of any Obligations from any particular source.

15.6 Waiver of Defense. Mortgagor hereby waives any defense based on the failure to name any tenant or occupant of the Mortgaged Property as a defendant in any foreclosure action or other litigation with respect to this Mortgage.

15.7 Written Changes Only. No change, extension, modification, amendment or waiver of any term or condition of this Mortgage or any other Loan Document shall be valid or binding upon any party hereto, unless it is in writing and has been executed by duly authorized officer of such party.

15.8 Correction of Documents. If any Loan Documents contain an error or incorrect terms or were improperly prepared or executed, or if a document intended to constitute part of the Loan Documents was inadvertently omitted, then in each such case Mortgagor agrees to execute proper documents promptly.

15.9 Successors and Assigns. This Mortgage shall be binding upon Mortgagor and its successors and assigns, and inure to the benefit of Mortgagee, and its successors and assigns.

15.10 Governing Law and Jurisdiction. This Mortgage has been executed and delivered in the State of New York; all terms of this Mortgage shall be governed by and construed according to the laws of the State of New York since the premises are located in the State of New York. All terms of the other Loan Documents shall be governed by and constructed according to the Laws of the State of New York. Mortgagor and Mortgagee each hereby consents to personal jurisdiction in the State of New York with respect to any and all matters arising under or relating to this Mortgage and all other Loan Documents.

15.11 Partial Invalidity. If any term or provision of this Mortgage is at any time held to be invalid by any court of competent jurisdiction, that invalidity shall not affect the remaining terms and provisions of this Mortgage, which shall continue to be in full force and effect.

15.12 Receipt of Copies. Mortgagor hereby acknowledges receipt of a true copy of this Mortgage, the Note and the other Loan Documents without charge.

15.13 Intentionally Omitted.

15.14. Cross Default. The occurrence of an Event of Default shall constitute a default under any other Obligations of Mortgagor and a default under any other Obligations of Mortgagor shall constitute an Event of Default under the Note, this Mortgage and all other Loan Documents.

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15.15. Intentionally Omitted.

15.16. Satisfaction or Assignment of Mortgage. Upon the payment in full of all amounts due under, evidenced or secured by this Mortgage and the payment of a reasonable attorney fee for the preparation of a Satisfaction of Mortgage, the Mortgagee shall only be required to deliver a satisfaction instrument, and not an assignment. However, upon no less than thirty (30) days prior written notice, Mortgagor may request that, upon the indefeasible repayment in full (except by reason of foreclosure of the lien of this Mortgage) of the Obligations, Mortgagee prepare and deliver, at Mortgagor's expense, to the person or entity making such payment, an assignment, without recourse, representation or warranty, of Mortgagee's right, title, and interest in the Note and this Mortgage. Mortgagee's agreement to provide said assignment shall be subject only to the Mortgagor's payment of Mortgagee's customary assignment fee, if any (which fee is currently \$3,500 and which fee shall not in any event exceed \$5,000), reasonable legal fees, including attendance at closing, if necessary, at the customary hourly rates of Mortgagee's counsel, and any other out-of-pocket expenses incurred by Mortgagee in connection with the assignment. Mortgagee's agreement to provide said assignment shall not be deemed to impose any liability or obligation on Mortgagee in the event any of the original notes and/or mortgages shall be lost or misplaced.

15.17 Mortgage Commitment. The terms and provisions of the Commitment Letter are incorporated herein by reference and shall survive the closing of the Loan. In the event the terms of the Commitment Letter are inconsistent with the provisions of this Mortgage, the terms and provisions of this Mortgage shall govern.

15.18 Usury. In the event that Mortgagee, in enforcing its rights hereunder, determines that charges and fees incurred in connection with the Loan may, under the laws of the State of New York, cause the interest rate herein to exceed the maximum allowed by law, then such interest shall be recalculated and any excess over the maximum interest permitted by said laws shall be credited to the then outstanding principal balance to reduce said balance by that amount. It is the intent of the parties hereto that Mortgagor under no circumstances shall be required to pay, nor shall Mortgagee be entitled to collect, any interest which is in excess of the maximum legal rate permitted under the laws of the State of New York.

15.19 Maximum Amount Secured. Notwithstanding anything contained herein to the contrary, the maximum amount of indebtedness secured by this Mortgage at execution or which under any contingency may become secured hereby at any time hereafter is TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00), plus interest thereon, plus all amounts expended by the Mortgagee after default by the Mortgagor which constitute payment of (i) taxes, charges or assessments which may be imposed by law upon the Property; (ii) premiums on insurance policies covering the Property; (iii) expenses incurred in protecting or upholding the lien of this Mortgage, including, but not limited to the expenses of any litigation to prosecute or defend the rights and lien

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created by this Mortgage; (iv) expenses incurred in protecting the collateral encumbered by this Mortgage; or (v) any amount, cost or charge to which the Mortgagee becomes subrogated upon payment, whether under recognized principles of law or equity, or under express statutory authority.

15.20 Mortgagee's Consent and Approval. If Mortgagor shall request Mortgagee's consent or approval pursuant to any of the provisions of this Mortgage or otherwise, and Mortgagee shall fail or refuse to give, or shall delay in giving, such consent or approval, Mortgagor shall in no event make, or be entitled to make, any claim for damages (nor shall Mortgagor assert, or be entitled to assert, any such claim by way of defense, set off, or counterclaim) based upon any claim or assertion by Mortgagor that Mortgagee unreasonably withheld or delayed its consent or approval, and Mortgagor hereby waives any and all rights that it may have from whatever source derived, to make or assert any such claim. Mortgagor's sole remedy for any such failure, refusal, or delay shall be an action for a declaratory judgment, specific performance, or injunction, and such remedies shall be available only in those instances where Mortgagee has expressly agreed in writing not to unreasonably withhold or delay its consent or approval or where, as a matter of law, Mortgagee may not unreasonably withhold or delay the same.

## **SECTION 16 – INTENTIONALLY OMITTED**

## **SECTION 17 – NEW YORK STATE SPECIFIC PROVISIONS**

17.1 Real Property Law. All covenants contained in this Mortgage, which are in addition to those set forth in Sections 254 and 291-F of the Real Property Law shall be construed as affording to Mortgagee rights additional to, and not exclusive of, the rights conferred under the provisions of said Sections 254 and 291-f of the Real Property Law.

17.2 Lien Law. In compliance with Section 13 of the New York Lien Law, the Mortgagor will receive the advances secured by this Mortgage and will hold such advances in trust, to be applied first for the purpose of paying the cost of any improvements heretobefore made or now being made on, in and under the premises hereby mortgaged and will apply the same first payment of the cost of improvements before using any part of the total of the same for any other purpose.

17.3 Costs, Expenses and Attorneys' Fees. Should one or more Events of Default occur under this Mortgage or the Loan Documents, and should an action be commenced for the foreclosure of this Mortgage, Mortgagee shall be entitled to recover all sums due hereunder, statutory costs, and additional allowances made pursuant to Section 8303(a) of the Civil Practice Laws and Rules of the State of New York, and addition thereto, reasonable attorneys' fees in such proceeding, and such amount shall be added to the principal balance and interest then due and shall be a lien on the Mortgaged Property prior to any right or title to, interest in or claim upon the Mortgage

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Property attaching and accruing subsequent to the lien of this Mortgage, and shall be deemed to be secured by this Mortgage, and the indebtedness which it secures.

17.4 Intervening Liens. Should any agreement be hereafter entered into modifying or changing the terms of this Mortgage or the Note in any manner, the rights of the parties to such agreement shall be superior to the rights of the holder of any intervening lien.

17.5 Time is of the Essence. Time is of the essence with respect to each and every covenant, agreement and obligation of Mortgagor under this Mortgage, the Note and any and all other Loan Documents.

17.6 Terms. It is understood that the words "Mortgagor" and "Mortgagee" herein shall include their respective heirs, successors and assigns of Mortgagor and Mortgagee.

17.7 Entire Agreement. This Mortgage and the other Loan Documents, constitute the entire understanding between Mortgagor and Mortgagee and to the extent that any writings not signed by Mortgagee or oral statements or conversations at any time made or had shall be inconsistent with the provisions of this Mortgage or the other Loan Documents, the same shall be null and void

17.8 Tax Law Section 253 Statement. This Mortgage does not cover real property principally improved or to be improved by one or more structured containing in the aggregate not more than six (6) residential dwelling units, each having their own separate cooking facilities.

17.9 Nonjudicial Foreclosure. To the extent permitted by law, Mortgagee may choose to utilize the procedures set forth in Article 14 of the Real Property Actions and Proceedings Law of New York to commence a non-judicial foreclosure of this Mortgage by power of sale. To the extent permitted by law, Mortgagor waives any right granted pursuant to Section 1421 or any other provision of the Real Property Actions and Proceedings Law of New York to challenge the Mortgagee's election to enforce this Mortgage by means of such non-judicial foreclosure by power of sale. If the Mortgaged Premises consists of two or more distinct parcels, all of such parcels shall be sold as one parcel, unless Mortgagee shall elect otherwise.

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**CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT**

CIVIL CODE § 1189

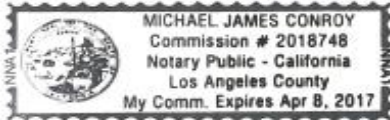
A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California )  
County of Los Angeles )  
On August 29, 2016 before me, Michael James Conroy As Notary Public  
Date Here Insert Name and Title of the Officer  
personally appeared Devasis Ghose  
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Signature Michael James Conroy  
Signature of Notary Public

Place Notary Seal Above

**OPTIONAL**

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

**Description of Attached Document**

Title or Type of Document: Amended and restated Mortgage #3 Document Date: \_\_\_\_\_  
Number of Pages: \_\_\_\_\_ Signer(s) Other Than Named Above: \_\_\_\_\_

**Capacity(ies) Claimed by Signer(s)**

Signer's Name: \_\_\_\_\_  
 Corporate Officer — Title(s): \_\_\_\_\_  
 Partner —  Limited  General  
 Individual  Attorney in Fact  
 Trustee  Guardian or Conservator  
 Other: \_\_\_\_\_  
Signer Is Representing: \_\_\_\_\_

Signer's Name: \_\_\_\_\_  
 Corporate Officer — Title(s): \_\_\_\_\_  
 Partner —  Limited  General  
 Individual  Attorney in Fact  
 Trustee  Guardian or Conservator  
 Other: \_\_\_\_\_  
Signer Is Representing: \_\_\_\_\_

**"EXHIBIT A"****LEGAL DESCRIPTION**

ALL that certain plot piece or parcel of land, situate, lying and being in the Borough of Manhattan, City of New York, County of New York, State of New York, bounded and described as follows:

BEGINNING at the point of the easterly side of Third Avenue, distant northerly 100 feet 4 inches from the corner formed by the intersection of the northerly side of 59<sup>th</sup> Street and the easterly side of Third Avenue;

RUNNING THENCE easterly parallel with the northerly side of 59<sup>th</sup> Street and part of the way through a party wall, 105 feet;

THENCE northerly parallel with Third Avenue, 75 feet  $\frac{1}{4}$  inch;

THENCE westerly parallel with 59<sup>th</sup> Street, 105 feet to the easterly side of Third Avenue;  
and

THENCE southerly along the easterly side of Third Avenue, 75 feet  $\frac{1}{4}$  inch to the point or place of BEGINNING.

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"EXHIBIT B"

PERMITTED ENCUMBRANCES

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## APPENDIX A

## GLOSSARY OF DEFINED TERMS

"Affidavit of Title" means the affidavit of title given by Mortgagor to Mortgagee in connection with this Mortgage.

"Affiliates" of a party means (a) any Person directly or indirectly controlling, under common control with, or controlled by, that party, (b) any Person in which that party directly or indirectly owns or controls any interest, (c) any employee, officer, shareholder, director, subsidiary or joint venture of that party and (d) any relative of the foregoing.

"Appendix" means an Appendix to this Mortgage.

"Awards and Proceeds" means all awards, damages, claims, payments, insurance proceeds (other than from liability insurance coverage) and other compensation with respect to the Land, Improvements, Fixtures and Equipment and other interests described in Section 3 (collectively referred to as "Awards and Proceeds") including those arising from: (a) any governmental taking or exercise of eminent domain, (b) any damage, injury, casualty or other destruction or loss or (c) any change of grade or vacation of any street.

"CFO" means Mortgagor's chief financial officer.

"Commitment Letter" means the letter dated July 14, 2016 from Mortgagee to Mortgagor setting forth certain terms of the Loan Documents, as modified by that certain acceptance subject to modification letter dated July 15, 2016.

"Consolidation Agreement" means the Mortgage Consolidation, Modification and Extension Agreement of this same date in the consolidated principal sum of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00) which merges all prior Mortgages of Mortgagor to cause one new consolidated lien for purpose of saving Mortgage recording tax.

"Environmental Laws" means the New York Environmental Conservation Laws, the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. s. 9601 *et seq.*), the Resource Conservation and Recovery Act (42 U.S.C. s. 6901, *et seq.*), the New York Environmental Conservation Laws and all other federal, state and local laws, rules and regulations regarding environmental matters.

"Expenses" means any and all fees, out-of-pocket costs and expenses, including reasonable legal fees and disbursements, copying costs, delivery and postage charges and all filing and recording costs.

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"Event of Default" has the meaning set forth in Section 8.

"Fixtures and Equipment" means all fixtures, machinery, equipment, appliances, goods, chattels, furniture, furnishings and personal property of every nature presently or in the future attached to, or used or intended to be used in connection with, the Land or Improvements, or to be erected on the Land or Improvements, or to be erected on the Land or Improvements, to the extent owned by Mortgagor, including gas and electric fixtures, radiators, heaters, engines, machinery, boilers, ovens, elevators, bathtubs, sinks, water closets, faucets, air conditioning equipment, plumbing and heating fixtures, refrigerators, freezers, shades, blinds, draperies, carpets and all replacement and substitutions for, proceeds of, and warranties with respect to, such property.

"Governmental Authority" means any federal, state or local political subdivision, governmental authority, agency, commission or board.

"Guarantor(s)" means any Person who at any time guarantees payment or performance of any Obligations to the Mortgagee, and such Person's successors or heirs, and assigns.

"Guaranty(ies)" means all guaranties of any Obligations presently or in the future executed by any Guarantor in favor of Mortgagee.

"Hazardous Substances" means any pollutants and dangerous substances including radon, and any "hazardous wastes" or hazardous substances" as defined in any Environmental Law.

"Improvements" means all buildings, structures and other improvements of every nature presently or in the future on, attached to or used in connection with the Land, including all betterments, substitutions, replacements and proceeds, and all appurtenances, easements, rights of way or use, air rights, development rights, and other rights, privileges and appurtenances to the Mortgaged Property, and paved roads and walkways adjacent, or relating to, the foregoing or to the Land, and all claims or demands, either in law or in equity, in possession or expectancy, of, in, and to the Mortgaged Property.

"Land" means the land and property commonly known as 1001-1007 Third Avenue, New York, New York, designated Block 1414, Lot 48 on the official Tax Map of the County of New York, and having a legal description as set forth on Exhibit A to this Mortgage;

"Leases and Rents" means all rents, issues, profits, revenues, royalties and benefits now or hereafter due to Mortgagor in connection with the Land or Improvements including all rights and interests of Mortgagor as landlord under any existing and future leases with respect to the Land, Improvements and Fixtures and Equipment;

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"Loan" means the loan in the principal sum of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00) evidenced by the Note and secured by this Mortgage.

"Loan Documents" means this Mortgage, the Note, the Mortgage Consolidation, Modification and Extension Agreement, the Guaranty, the Commitment Letter and all other agreements, documents, notes, affidavits and certificates executed in connection with this Mortgage.

"Mortgage" and "Consolidated Mortgage" as referred in the Consolidation Agreement means this mortgage given by Mortgagor to Mortgagee to secure the Note and all modifications, renewals and extensions of, and all amendments or supplements to, this mortgage; this Mortgage is the Mortgage referred to in the Note and Consolidated Note as referred to in the Consolidation Agreement.

"Mortgagee" means the mortgagee named in the above caption of this Mortgage and its successors and assigns.

"Mortgagor" means the mortgagor named in the above caption of this Mortgage and its successors and assigns.

"Mortgaged Property" shall have the meaning set forth in Section 3 of this Mortgage.

"Note" and "Consolidated Note" as referred to in the Consolidation Agreement means the consolidated, amended and restated mortgage promissory note of this same date from Mortgagor to the order of Mortgagee in the original principal amount of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00) as amended, modified, renewed, extended or replaced from time to time.

"Obligations" means all debts, liabilities, duties and obligations owing from any Obligor to Mortgagee, whether direct or indirect, now existing or in the future created or acquired, contingent or non-contingent, due or to become due, liquidated or unliquidated, including the Note, any Guaranty of the Note, all other Loan Documents, all modifications thereof and all expenses of Mortgagee to protect the Mortgaged Property or Mortgagee's interest in the Mortgaged Property.

"Obligor(s)" means each Mortgagor and each Guarantor, and every other Person who may now or in the future have any duties, debts or liabilities to Mortgagee pursuant to any Loan Document.

"Other Rights" means all other rights whatsoever that any Mortgagor or any other future owner has or may acquire in the Land, Improvements, Fixtures and Equipment, Awards and Proceeds and all other above-described property and interests, including all rights, privileges, rights of way, easements, public spaces, streets, alleys, appurtenances and sewer, air, mineral, water and subsurface rights of all kinds and all agreements, licenses, contracts and permits affecting the Mortgaged Property.

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"Permitted Encumbrances" means (a) any lien for municipal real estate taxes, assessments or utilities that are not yet due and payable, and (b) any easements that do not, in Mortgagee's reasonable judgment, interfere with the intended use or operation, or impair the value, of the Mortgaged Property, and (c) any other interests expressly referenced on Exhibit B to this Mortgage.

"Person(s)" means an individual, corporation, limited liability company, non-profit corporation, partnership, limited partnership, joint venture, trust, joint stock company, unincorporated organization, association, Governmental Authority or other business entity.

"Prime Rate" means the rate of interest that Mortgagee adopts from time to time as its official prime rate. The Prime Rate is not tied to any external rate of interest or index and does not necessarily reflect the lowest rate of interest actually charged at any given time by Mortgagee to any particular class or category of customers of Mortgagee. Any change in the Prime Rate shall be effective immediately when adopted by the Mortgagee, without notice to any Obligor.

"Section" means a section or subsection of this Mortgage.

"Transfer" means any change in ownership or control, whether or not that change is voluntary, involuntary or by operation of law, direct or indirect, or by merger (regardless of who is the survivor of that merger) or by any pledge, mortgage, assignment, sale, lease, lien, encumbrance, option, transfer or disposal of any kind.

To "Use" a substance means to generate, store, refine, treat, discharge, handle, refine, spill, release, emit, leach or dispose of that substance in any manner.

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# CONSOLIDATED, AMENDED AND RESTATED MORTGAGE PROMISSORY NOTE

August 31, 2016

New York, New York

FOR VALUE RECEIVED, SUTTON HILL PROPERTIES, LLC, a Nevada limited liability company, having its principal place of business at 6100 Center Drive, Suite 900, Los Angeles, California 90045 (the "**Borrower**") hereby promises to pay to the order of VALLEY NATIONAL BANK, a national banking association at its offices at 1455 Valley Road, Wayne, New Jersey 07470, and its successors and assigns ("**Mortgagee**"), the principal sum of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00) together with interest according to the following terms and conditions:

1. Payments.

This Consolidated, Amended and Restated Mortgage Promissory Note ("**Note**" and "**Consolidated Note**" as referred to in the Consolidation Agreement of even date herewith between Borrower and Mortgagee) shall be repaid as follows:

(A) Interest hereon for the period from the date hereof through the end of the current calendar month shall be due and payable simultaneously with the execution of this Note.

(B) Thirty-five (35) equal consecutive monthly installments of principal and interest, in an amount as calculated pursuant to Interest Rate and Interest Calculations (as defined below) commencing on October 1, 2016 (the "**First Payment Date**"), and continuing on the first day of each month thereafter until and including August 1, 2019.

(C) A final installment of principal in such amount as shall constitute the entire outstanding principal balance of this Note, plus all accrued and unpaid interest as calculated pursuant to Interest Rate and Interest Calculations (as defined below), and all other sums due under this Note and/or the Mortgage (as defined below) due and payable in full on September 1, 2019 (the "**Maturity Date**").

The monthly installments of principal and interest described above shall be based on a thirty (30) year amortization schedule.

Provided that all of the following conditions are fully satisfied, the Borrower shall have the one-time option to extend the Maturity Date for one (1) additional term of twelve (12) months (the "**Renewal Term**"), commencing on the next successive day immediately following the originally scheduled Maturity Date and ending on September 1, 2020 (the "**Renewal Term Maturity Date**"):

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(1) no event of default hereunder or under any of the other Loan Documents shall have occurred and be continuing prior to the time that the one-time extension option is exercised and as of the date the Renewal Term is commenced;

(2) the Borrower shall notify the Mortgagee in writing (the "**Renewal Notice**") of its election to extend the Maturity Date not earlier than ninety (90) days and no later than thirty (30) days prior to the originally scheduled Maturity Date;

(3) the Borrower shall pay to the Mortgagee a commitment fee (the "**Commitment Fee**") equal to one-half of one percent (0.50%) of the then outstanding principal balance of the loan evidenced hereby (the "**Loan**"); and

(4) the Borrower shall deliver to Mortgagee, together with the Renewal Notice and the Commitment Fee, a certificate in form acceptable to Mortgagee executed by Borrower's managing member certifying that each of the representations and warranties of the Borrower contained in the Loan Documents is true, complete and correct in all material respects as of the date of such managing member's certificate except to the extent such representations and warranties are matters which by their nature can no longer be true and correct as a result of the passage of time.

The Borrower shall have no further right to extend the Maturity Date beyond the Renewal Term Maturity Date.

In the event that the Borrower shall exercise Borrower's right to extend the Maturity Date in accordance with the terms and provisions of this Note, during the Renewal Term, the outstanding principal amount advanced to Borrower under this Note shall be repaid as follows:

(A) Eleven (11) equal consecutive monthly installments of principal and interest, in an amount as calculated pursuant to Interest Rate and Interest Calculations (as defined below) commencing on October 1, 2019, and continuing on the first day of each month thereafter until and including August 1, 2020.

(B) A final installment of principal in such amount as shall constitute the entire outstanding principal balance of this Note, plus all accrued and unpaid interest as calculated pursuant to Interest Rate and Interest Calculations (as defined below), and all other sums due under this Note and/or the Mortgage (as defined below) due and payable in full on the Renewal Term Maturity Date.

The monthly installments of principal and interest described above shall be based on a twenty-seven (27) year amortization schedule.

## 2. Interest Rate.

(A) The annual rate of interest payable under this Note ("**Interest**") for the period commencing on and including the date hereof through and including the Maturity Date (the "**Initial Term**") shall be calculated at a fixed rate equal to three and one fourth of one percent (3.25%) per annum, provided that the interest rate may be increased to the Default Interest Rate (as defined below) in accordance with the terms and provisions of the Loan Documents.

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(B) Interest for the Renewal Term shall be calculated at a fixed rate equal to the prevailing One Year US Treasury Rate as of the date which is five (5) days preceding the Maturity Date, plus 225 basis points (2.25%), with the resulting number being rounded upwards to the nearest one-eighth of one percentage point (0.125%), provided that the interest rate may be increased to the Default Interest Rate in accordance with the terms and provisions of the Loan Documents. "One Year US Treasury Rate" shall mean the amount payable on the most recently issued one (1) year United States Treasury Bond, as quoted by the Wall Street Journal. If the One Year US Treasury Rate is no longer available, Mortgagee shall choose a new index based upon comparable information. In no event shall the Interest rate be less than three and one-quarter of one percent (3.25%) per annum.

3. Interest Calculations. Interest shall accrue on the unpaid principal amount of this Note from the date hereof until all sums under this Note are paid in full. Interest during the term hereof shall be computed on the basis of a 360-day year and actual number of days elapsed.

4. Application of Payments. Payments received under this Note (including prepayments) shall be applied first to accrued interest and then to installments of principal, in inverse order of their maturity dates. Notwithstanding the previous sentence, Mortgagee shall have the right, at its sole option, to apply any payment received under this Note first to any late fees, collection or other expenses to which Mortgagee may be entitled under this Note, the Mortgage (as defined below) or any other Loan Document. The making of any partial prepayment shall not change the due dates or amounts of monthly installment payments next becoming due, but shall only change the allocations of future payments of interest and principal based on such prepayment and produce possibly an earlier payoff date on this Note.

5. Late Fee. If any payment (including tax or insurance escrow payments) is not received by Mortgagee within fifteen (15) days following its due date, without limiting any right or remedy under this Note, the Mortgage or any other Loan Document, Mortgagee may charge a late fee equal to Four Percent (4%) of the total amount overdue.

6. Prepayments. Prepayment of the Loan is permitted at any time upon not less than thirty (30) days prior written notice to Mortgagee. Such prepayment must be accompanied by payment of all accrued interest on the amount being prepaid and any and all applicable charges due under the Loan Documents. All prepayments shall be applied first to any outstanding charges or fees relating to the Loan, then to interest and then to principal.

On the date of any prepayment or modification of the Loan, in whole or in part, (each, a "**Prepayment Date**"), the Borrower shall pay, in the Mortgagee's sole discretion under such modification agreement, if any, to the Mortgagee a prepayment premium, equal to the following:

(a) two percent (2%) of the amount being prepaid or modified if paid or modified before the first year anniversary of the First Payment Date,

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(b) one percent (1%) of the amount being prepaid or modified if paid or modified on or after the first year anniversary of the First Payment Date and before the second year anniversary of the First Payment Date,

(c) one percent (1%) of the amount being prepaid or modified if paid or modified on or after the second year anniversary of the First Payment Date and before the twenty-seventh month anniversary of the First Payment Date, and

(d) no prepayment premium if paid or modified on or after the twenty-seventh month anniversary of the First Payment Date and on or before the Maturity Date.

In the event that the Borrower shall exercise Borrower's right to extend the Maturity Date in accordance with the terms and provisions of this Note, on any Prepayment Date which occurs during the Renewal Term, the Borrower shall pay to the Mortgagee a prepayment premium, equal to one-half of one percent (0.50%) of the then outstanding principal amount of the Loan, provided that no prepayment premium shall be due with respect to any Prepayment Date which occurs during the last ninety (90) days of the Renewal Term.

Except as otherwise expressly set forth in this Note, the Mortgagee shall not be required to accept partial prepayments of the Loan.

Borrower acknowledges that the prepayment premiums provided for in this Note were a material inducement for Mortgagee to make the Loan, advance funds under this Note and offer the interest rate provided for in this Note. Borrower further acknowledges and agrees that the prepayment premiums shall be unconditionally due and payable if prepayment in full or in part of this Note is made prior to **THE ACTUAL DATE AFTER WHICH NO PREMIUM WILL BE OWED**, regardless of whether the prepayment occurs after the occurrence of an Event of Default, the acceleration of the Loan and/or the institution of legal proceedings by Mortgagee to collect on this Note or foreclose on the Mortgage.

The above prepayment premium shall apply if the Loan is modified by Mortgagee and Borrower during the Prepayment Date.

Notwithstanding the foregoing, provided that no Event of Default exists hereunder or under any of the other Loan Documents, in the event of any involuntary prepayment due to a casualty or condemnation relating to the Mortgaged Property, no prepayment premium shall be due.

Notwithstanding anything to the contrary contained in this Note, provided no Event of Default exists hereunder or under any of the other Loan Documents, Borrower may prepay up to ten percent (10%) of the then outstanding principal balance of the Loan during each year of the Loan (i.e., once per year) with no prepayment premium.

7. Place and Manner of Payment. Payments under this Note are to be made in United States currency at the offices of Mortgagee listed in this Note or at such other location designated by Mortgagee. Without limiting in any way Mortgagee's right of setoff against Borrower, Mortgagee is authorized and directed to apply funds in any account in the name of

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Borrower with Mortgagee to make any payments under this Note without any additional authorization, from, and without prior notice to, the undersigned. Any delay by Mortgagee in submitting a statement of any amount due under this Note shall not relieve Borrower of its duty to inquire as to the amount due and to make timely payments.

8. Collateral. This is the Note referred to in, and secured by the Mortgage ("Mortgage") of this date from the undersigned in favor of Mortgagee, the terms and conditions of which are hereby incorporated into this Note. Capitalized terms in this Note that are defined in the Mortgage, and not otherwise defined in this Note, shall have the meaning set forth in the Mortgage.

9. Defaults and Remedies. Upon the occurrence of an Event of Default, all sums outstanding under this Note may, at Mortgagee's sole option, become, or may be declared to be, immediately due and payable in full, and the Mortgagee may exercise any of its other rights and remedies as set forth in the Mortgage and/or all other Loan Documents, including, without limitation, the right to increase the interest rate on such sums to the Default Interest Rate. Mortgagee's delay or failure to accelerate this Note or to exercise any other available right or remedy shall not impair any such right or remedy, nor shall it be construed to be a forbearance or waiver. The term "Default Interest Rate" means a rate of Five Percent (5%) in excess of the interest rate provided for in this Note. Unless otherwise agreed to by Mortgagee, the Default Interest Rate shall (a) be applied retroactively to the date of the first occurrence of the default, (b) be computed on a three hundred sixty (360) day year based on a 30/360 day basis, and (c) survive entry of any judgment relating to the Loan.

10. New York Law. This Note has been executed and delivered at and shall be deemed to have been made in the State of New York and shall in all respects be governed by and construed, applied and enforced in accordance with the internal laws, including the conflict of law rules, of the State of New York, except to the extent that procedural matters must be governed by the law of the jurisdiction wherein the Mortgaged Property is located. Whenever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law; but if any provision of this Note shall be prohibited by or be invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Note.

11. Partial Invalidity. If any term or provision of this Note is at any time held to be invalid by any court of competent jurisdiction, the remaining terms and provisions of this Note shall not be affected and shall remain in full force and effect.

12. Waivers. Without limiting any other provisions of the Mortgage or the Loan Documents, Borrower, for itself and all endorsers, guarantors and sureties of this Note, and their heirs, legal representatives, successors and assigns, hereby waives, to the fullest extent permitted by law, valuation, appraisal, presentment for payment, demand, notice of nonpayment, notice of dishonor, protest, notice of protest, lack of diligence, delays in collection or enforcement of this Note, notice of the intention to accelerate, the benefit of all applicable law affording any right or redemption or cure and all other notices in connection with the delivery, acceptance, performance, default or enforcement of the payment of this Note, except as

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expressly provided herein or in the Mortgage, and in connection with any suit, action or proceeding brought by Mortgagee on this Note, any and every right it may have to (a) a trial by jury, (b) interpose any counterclaim therein (other than a counterclaim which can only be asserted in a suit, action or proceeding brought by Mortgagee on this Note and cannot be maintained in a separate action), and (c) have the same consolidated with any other or separate suit, action or proceeding, and agrees that their respective liability shall be unconditional and without regard to the liability of any other party and shall not be in any manner affected by any indulgence, extension of time, renewal, waiver or modification granted or consented to by Mortgagee. BORROWER HEREBY REPRESENTS THAT BORROWER'S COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER. By accepting this Note, Mortgagee also waives its right to request a trial by jury.

Borrower (or each of them, if more than one) hereby expressly waives, for the benefit of the Mortgagee: (i) any right to require the Mortgagee, as a condition of payment or performance by either Borrower, to (A) proceed against the other Borrower or any other person or entity, (B) proceed against or exhaust any collateral for the Loan held from the other Borrower or any other person or entity, (C) proceed against or have resort to any balance of any deposit account, securities account, or credit on the books of the Mortgagee in favor of the other Borrower or any other person or entity, or (D) pursue any other remedy in the power of the Mortgagee whatsoever; (ii) any defense arising by reason of the incapacity, lack of authority or any disability or other defense of the other Borrower, including any defense based on or arising out of the lack of validity or the unenforceability of the Loan or any document, agreement or instrument relating thereto or by reason of the cessation of the liability of the other Borrower from any cause other than payment in full of the Loan; (iii) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal; (iv) any defense based upon the Mortgagee's errors or omissions in the administration of the Loan; (v) (1) any principles or provisions of law, statutory or otherwise, which are or might be in conflict with the terms hereof and any legal or equitable discharge of its obligations hereunder, (2) the benefit of any statute of limitations affecting its liability hereunder or the enforcement hereof, (3) any rights to set-offs, recoupments and counterclaims, and (4) promptness, diligence and any requirement that the Mortgagee protect, secure, perfect or insure any security interest or lien or any property subject thereto; (vi) notices, demands, presentments, protests, notices of protest, notices of dishonor and notices of any action or inaction, including acceptance hereof, notices of default thereunder or under this Note, the Mortgage or the Loan Documents, any agreement or instrument related thereto, notices of any renewal, extension or modification of the Loan or any agreement related thereto, notices of any extension of credit to the other Borrower and notices of any matters referred to in any guaranty securing this Note and any right to consent to any thereof; and (vii) any defenses or benefits that may be derived from or afforded by law which limit the liability of or exonerate sureties, or which may conflict with the terms hereof.

13. Consent to Jurisdiction. FOR ANY CLAIM, ACTION, OR DISPUTE ARISING UNDER, OR TO INTERPRET OR APPLY, THIS NOTE OR ANY OTHER LOAN DOCUMENT, OR TO RESOLVE ANY DISPUTE ARISING UNDER THE FOREGOING OR THE RELATIONSHIP BETWEEN THE PARTIES, BORROWER AND MORTGAGEE IRREVOCABLY

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SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES DISTRICT COURT LOCATED IN THE BOROUGH OF MANHATTAN IN NEW YORK CITY, NEW YORK, AND APPELLATE COURTS FROM ANY OF SUCH COURTS. BORROWER AND MORTGAGEE IRREVOCABLY WAIVES ANY OBJECTION THAT IT MAY HAVE AT ANY TIME TO VENUE OF ANY SUCH SUIT, ACTION, OR PROCEEDING BROUGHT IN ANY SUCH COURT, INCLUDING ANY CLAIM THAT ANY SUCH SUIT, ACTION, OR PROCEEDING SO BROUGHT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING IN THE MORTGAGE OR OTHER LOAN DOCUMENTS SHALL BE DEEMED TO PRECLUDE MORTGAGEE FROM BRINGING ANY SUIT, ACTION, OR PROCEEDING RELATING TO ANY OTHER LOAN DOCUMENT OR THE INDEBTEDNESS EVIDENCED HEREBY IN ANY OTHER JURISDICTION WHERE MORTGAGEE COULD OTHERWISE PROPERLY BRING SUCH SUIT, ACTION, OR PROCEEDING. BORROWER FURTHER CONSENTS AND AGREES TO SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER LEGAL PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING BY REGISTERED OR CERTIFIED U.S. MAIL, POSTAGE PREPAID, TO BORROWER AT THE ADDRESS SET FORTH ON PAGE 1 HEREOF, AND CONSENTS AND AGREES THAT SUCH SERVICE SHALL CONSTITUTE IN EVERY RESPECT VALID AND EFFECTIVE SERVICE (BUT NOTHING HEREIN SHALL AFFECT THE VALIDITY OR EFFECTIVENESS OF PROCESS SERVED IN ANY OTHER MANNER PERMITTED BY LAW).

14. Interest Limits. If any provision of this Note relating to the rate of interest violates any applicable law in effect at the time payment is due, the interest rate then in effect shall be automatically reduced to the maximum rate then permitted by law. If for any reason Mortgagee should receive as interest an amount that would exceed the highest applicable lawful rate of interest, the amount that would exceed that highest lawful rate shall be deemed to be credited against principal and not to the payment of interest.

15. Successors and Assigns. This Note shall be binding on Borrower and its successors and assigns, and shall inure to the benefit of Mortgagee and its successors and assigns. The term "Mortgagee" in this Note shall refer to Valley National Bank or to any other future holder of this Note.

16. Cross Default. The occurrence of an Event of Default shall constitute a default under any other Obligations of Borrower and a default under any other Obligations of Borrower shall constitute an Event of Default under this Note, the Mortgage and all other Loan Documents.

17. Intentionally Omitted.

18. End of Term. If the Borrower (a) fails to pay the Loan in full at the end of the Initial Term of this Note and fails to timely exercise Borrower's right to extend the Initial Term in accordance with the terms and provisions of this Note, or (b) timely exercises Borrower's right to extend the Initial Term in accordance with the terms and provisions of this Note and fails to pay the Loan in full at the end of the Renewal Term, and if, in either event described in (a) or (b) above, Borrower thereafter requests the Mortgagee to renew the Loan, then if the Mortgagee agrees to renew the Loan in its sole absolute discretion and same does not occur within thirty (30) days

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following the date on which the Loan came due, the Borrower shall be required to pay a late fee equal to one (1%) percent of the then outstanding principal balance of the Loan.

19. Time of the Essence. **TIME IS OF THE ESSENCE** with regard to Borrower's performance of all the terms, covenants and conditions of this Note.

20. Notices. All notices to be given under this Note shall be given in the same manner as provided in the Mortgage.

21. Amendment. This Note, and any provisions hereof, may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower or Mortgagee, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

22. Consolidated, Amended and Restated Note. This Note consolidates, amends and restates in their entirety the terms and provisions of those certain promissory notes secured by those certain mortgages as more fully described on Exhibit A attached hereto (said promissory notes being hereinafter collectively referred to as the "**Existing Notes**") so that this Note shall hereafter constitute evidence of but one debt in the aggregate principal amount of TWENTY MILLION AND 00/100 DOLLARS (\$20,000,000.00). The conditions contained in this Note shall supersede and control the terms, covenants, agreements, rights, obligations and conditions of the Existing Notes (it being agreed that the modification of the Existing Notes shall not impair the debt evidenced by each of the Existing Notes). This Note does not create new or additional indebtedness but evidences the same indebtedness evidenced by the Existing Notes and secured by the Mortgage and shall continue to be secured by, inter alia, the Mortgage without interruption in the lien or priority thereof.

[SIGNATURE PAGE FOLLOWS.]

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IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed on the date first written above.

**SUTTON HILL PROPERTIES, LLC,**  
a Nevada limited liability company

By: Citadel Cinemas, Inc.,  
a Nevada corporation,  
its Manager

By:   
Name: Devasis Ghose  
Title: Chief Financial Officer

**UNIFORM FORM CERTIFICATE OF ACKNOWLEDGMENT**  
**(Outside of New York State)**

State, District of Columbia, Territory, Possession, or Foreign Country

State of                                )  
  ) ss.:  
County of                            )

On the \_\_\_\_ day of August in the year 2016 before me, the undersigned, personally appeared DEVASIS GHOSE personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is(are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument, and that such individual(s) made such appearance before the undersigned in \_\_\_\_\_ the

*(insert city or other political subdivision and state or country or other place the acknowledgment was taken).*

\_\_\_\_\_  
*(signature and office of individual taking acknowledgment)*



**CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT**

**CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California )  
County of Los Angeles )

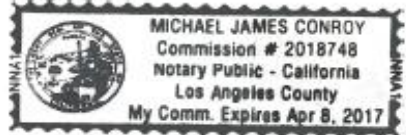
On August 29, 2016 before me, Michael James Conroy As Notary Public  
Date Here Insert Name and Title of the Officer

personally appeared DEVASIS GHOSE  
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Signature Michael James Conroy  
Signature of Notary Public

Place Notary Seal Above

**OPTIONAL**

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document: Restated Mortgage Promissory #2  
Title or Type of Document: Consolidated Amended Note Document Date: \_\_\_\_\_  
Number of Pages: \_\_\_\_\_ Signer(s) Other Than Named Above: \_\_\_\_\_

Capacity(ies) Claimed by Signer(s)  
Signer's Name: \_\_\_\_\_  
 Corporate Officer — Title(s): \_\_\_\_\_  
 Partner —  Limited  General  
 Individual  Attorney in Fact  
 Trustee  Guardian or Conservator  
 Other: \_\_\_\_\_  
Signer Is Representing: \_\_\_\_\_

EXHIBIT A

Description of Existing Notes

1. Promissory Note made by SUTTON HILL PROPERTIES, LLC to EUROHYPO AG, NEW YORK BRANCH in the original principal amount of \$15,000,000.00 dated June 28, 2007;

The outstanding principal balance evidenced by said Note is \$15,000,000.00.

3. Gap Mortgage Note made by SUTTON HILL PROPERTIES, LLC to VALLEY NATIONAL BANK in the original principal amount of \$5,000,000.00 dated as of August 31, 2016.
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**CERTIFICATIONS**  
**PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ellen M. 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 generally 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/ Ellen M. Cotter  
Ellen M. Cotter  
Chief Executive Officer  
November 8, 2016

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## CERTIFICATIONS

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

I, Devasis Ghose, 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 generally 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/ Devasis Ghose  
Devasis Ghose  
Chief Financial Officer  
November 8, 2016

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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 or her 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 or her knowledge:

- The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2016 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 8, 2016

/s/ Ellen M. Cotter

Name: Ellen M. Cotter  
Title: Chief Executive Officer

/s/ Devasis Ghose

Name: Devasis Ghose  
Title: Chief Financial Officer

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