

**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: June 30, 2012

OR

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

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

Commission file number 1-8625



**READING INTERNATIONAL, INC.**

(Exact name of Registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

6100 Center Drive, Suite 900

Los Angeles, CA

(Address of principal executive offices)

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

**95-3885184**

(IRS Employer Identification No.)

90045

(Zip Code)

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 August 8, 2012, there were 21,571,953 shares of Class A Nonvoting Common Stock, \$0.01 par value per share and 1,495,490 shares of Class B Voting Common Stock, \$0.01 par value per share outstanding.



READING INTERNATIONAL, INC. AND SUBSIDIARIES

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**PART 1 - Financial Information**

**Item 1 - Financial Statements**

**Reading International, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets**

(U.S. dollars in thousands)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 22,678	\$ 31,597
Time deposits	8,000	--
Receivables	6,762	6,973
Inventory	758	1,035
Investment in marketable securities	49	2,874
Restricted cash	2,377	2,379
Deferred tax asset	3,525	1,985
Prepaid and other current assets	3,893	3,781
Assets held for sale	2,100	1,848
<b>Total current assets</b>	<b>50,142</b>	<b>52,472</b>
Property held for and under development	95,817	91,698
Property & equipment, net	211,640	215,428
Investment in unconsolidated joint ventures and entities	7,648	7,839
Investment in Reading International Trust I	838	838
Goodwill	22,536	22,277
Intangible assets, net	16,817	17,999
Deferred tax asset, net	10,468	12,399
Other assets	11,151	9,814
<b>Total assets</b>	<b>\$ 427,057</b>	<b>\$ 430,764</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 16,645	\$ 16,905
Film rent payable	5,948	6,162
Notes payable – current portion	21,795	29,630
Taxes payable	14,638	14,858
Deferred current revenue	8,707	10,271
Other current liabilities	204	137
<b>Total current liabilities</b>	<b>67,937</b>	<b>77,963</b>
Notes payable – long-term portion	144,914	143,071
Notes payable to related party – long-term portion	9,000	9,000
Subordinated debt	27,913	27,913
Noncurrent tax liabilities	10,508	12,191
Other liabilities	36,955	35,639
<b>Total liabilities</b>	<b>297,227</b>	<b>305,777</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, 31,936,123 issued and 21,571,953 outstanding at June 30, 2012 and 31,675,518 issued and 21,311,348 outstanding at December 31, 2011	221	220
Class B voting common stock, par value \$0.01, 20,000,000 shares authorized and 1,495,490 issued and outstanding at June 30, 2012 and at December 31, 2011	15	15
Nonvoting preferred stock, par value \$0.01, 12,000 shares authorized and no issued or outstanding shares at June 30, 2012 and December 31, 2011	--	--
Additional paid-in capital	135,691	135,171
Accumulated deficit	(66,082)	(66,079)
Treasury shares	(4,512)	(4,512)
Accumulated other comprehensive income	59,875	58,937
<b>Total Reading International, Inc. stockholders' equity</b>	<b>125,208</b>	<b>123,752</b>
Noncontrolling interests	4,622	1,235
<b>Total stockholders' equity</b>	<b>129,830</b>	<b>124,987</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 427,057</b>	<b>\$ 430,764</b>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Operating revenue</b>				
Cinema	\$ 57,988	\$ 62,236	\$ 115,390	\$ 111,710
Real estate	5,156	4,937	10,406	9,706
<b>Total operating revenue</b>	<b>63,144</b>	<b>67,173</b>	<b>125,796</b>	<b>121,416</b>
<b>Operating expense</b>				
Cinema	46,465	48,234	92,798	89,709
Real estate	2,645	2,594	5,441	5,026
Depreciation and amortization	4,007	4,292	8,204	8,421
General and administrative	4,326	4,756	8,746	8,990
<b>Total operating expense</b>	<b>57,443</b>	<b>59,876</b>	<b>115,189</b>	<b>112,146</b>
<b>Operating income</b>	<b>5,701</b>	<b>7,297</b>	<b>10,607</b>	<b>9,270</b>
Interest income	193	409	393	841
Interest expense	(5,876)	(5,815)	(9,836)	(10,178)
Net loss on sale of assets	(2)	(68)	(2)	(68)
Other expense	68	91	23	74
<b>Income (loss) before income tax expense and equity earnings of unconsolidated joint ventures and entities</b>	<b>84</b>	<b>1,914</b>	<b>1,185</b>	<b>(61)</b>
Income tax benefit (expense)	(259)	13,774	(1,884)	13,138
<b>Income (loss) before equity earnings of unconsolidated joint ventures and entities</b>	<b>(175)</b>	<b>15,688</b>	<b>(699)</b>	<b>13,077</b>
Equity earnings of unconsolidated joint ventures and entities	399	269	812	633
<b>Income (loss) before discontinued operations</b>	<b>224</b>	<b>15,957</b>	<b>113</b>	<b>13,710</b>
Gain on sale of discontinued operation	--	1,656	--	1,656
<b>Net income</b>	<b>\$ 224</b>	<b>\$ 17,613</b>	<b>\$ 113</b>	<b>\$ 15,366</b>
Net (income) loss attributable to noncontrolling interests	15	(181)	(116)	(414)
<b>Net income (loss) attributable to Reading International, Inc. common shareholders</b>	<b>\$ 239</b>	<b>\$ 17,432</b>	<b>\$ (3)</b>	<b>\$ 14,952</b>
Basic and diluted income per common share attributable to Reading International, Inc. shareholders:				
Earnings (loss) from continuing operations	\$ 0.01	\$ 0.69	\$ --	\$ 0.58
Earnings from discontinued operations, net	--	0.07	--	0.07
<b>Basic and diluted income (loss) per share attributable to Reading International, Inc. shareholders</b>	<b>\$ 0.01</b>	<b>\$ 0.76</b>	<b>\$ --</b>	<b>\$ 0.65</b>
<b>Weighted average number of shares outstanding – basic</b>	<b>23,009,209</b>	<b>22,789,718</b>	<b>22,969,392</b>	<b>22,749,202</b>
<b>Weighted average number of shares outstanding – diluted</b>	<b>23,177,815</b>	<b>22,960,713</b>	<b>22,969,392</b>	<b>22,920,198</b>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	\$ 224	\$ 17,613	\$ 113	\$ 15,366
Foreign currency translation gain (loss)	(3,206)	8,782	789	11,437
Realized (gain) loss on available for sale investments	--	(23)	(109)	(23)
Unrealized gain (loss) on available for sale investments	3	(219)	102	106
Amortization of pension prior service costs	76	82	152	164
Comprehensive income (loss)	(2,903)	26,235	1,047	27,050
Net income (loss) attributable to noncontrolling interest	15	(181)	(116)	(414)
Comprehensive income (loss) attributable to noncontrolling interest	9	(17)	4	(24)
Comprehensive income (loss) attributable to Reading International, Inc.	\$ (2,879)	\$ 26,037	\$ 935	\$ 26,612

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2012	2011
<b>Operating Activities</b>		
Net income	\$ 113	\$ 15,366
<i>Adjustments to reconcile net income to net cash provided by operating activities:</i>		
Gain recognized on foreign currency transactions	(19)	--
Equity earnings of unconsolidated joint ventures and entities	(812)	(633)
Distributions of earnings from unconsolidated joint ventures and entities	911	375
(Gain) loss on sale of assets	2	(1,588)
Change in valuation allowance on net deferred tax assets	373	(14,422)
Gain on sale of marketable securities	(109)	(23)
Depreciation and amortization	8,204	8,421
Amortization of prior service costs	152	164
Amortization of above and below market leases	204	406
Amortization of deferred financing costs	657	621
Amortization of straight-line rent	395	496
Stock based compensation expense	213	94
Changes in assets and liabilities:		
(Increase) decrease in receivables	232	(920)
(Increase) decrease in prepaid and other assets	170	629
Decrease in accounts payable and accrued expenses	(302)	(750)
Increase (decrease) in film rent payable	(222)	814
Increase (decrease) in taxes payable	(1,921)	970
Increase (decrease) in deferred revenue and other liabilities	(1)	72
<b>Net cash provided by operating activities</b>	<b>8,240</b>	<b>10,092</b>
<b>Investing Activities</b>		
Acquisition of property	(5,510)	--
Purchases of and additions to property and equipment	(3,188)	(3,183)
Change in restricted cash	33	(136)
Purchase of notes receivable	(1,800)	(5,034)
Sale of marketable securities	2,974	123
Distributions of investment in unconsolidated joint ventures and entities	132	--
Proceeds from sale of property	1,862	6,750
Cinema sale proceeds from noncontrolling shareholder	--	1,867
Purchase of term deposits	(8,000)	--
<b>Net cash provided by (used in) investing activities</b>	<b>(13,497)</b>	<b>387</b>
<b>Financing Activities</b>		
Repayment of long-term borrowings	(22,510)	(112,425)
Proceeds from borrowings	15,945	105,311
Capitalized borrowing costs	(445)	(684)
Repurchase of Class A Nonvoting Common	--	(111)
Proceeds from the exercise of stock options	308	--
Noncontrolling interest contributions	3,275	--
Noncontrolling interest distributions	--	(554)
<b>Net cash used in financing activities</b>	<b>(3,427)</b>	<b>(8,463)</b>
<b>Effect of exchange rate on cash</b>	<b>(235)</b>	<b>1,650</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(8,919)</b>	<b>3,666</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>31,597</b>	<b>34,568</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>\$ 22,678</b>	<b>\$ 38,234</b>
<b>Supplemental Disclosures</b>		
Cash paid during the period for:		
Interest on borrowings, net of amounts capitalized	\$ 7,912	\$ 8,244
Income taxes	\$ 3,706	\$ 407
<b>Non-Cash Transactions</b>		
Foreclosure of a mortgage note to obtain title of the underlying property	--	1,125
Noncontrolling interest contribution from bonus accrual	255	--

See accompanying notes to consolidated financial statements.

**Reading International, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**For the Six Months Ended June 30, 2012**

**Note 1 – Basis of Presentation**

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

- the development, ownership and operation of multiplex cinemas in the United States, Australia, and New Zealand; and
- the development, ownership, and operation of retail and commercial real estate in Australia, New Zealand, and the United States.

The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”) for interim reporting. As such, certain information and disclosures typically required by US GAAP for complete financial statements have been condensed or omitted. The financial information presented in this quarterly report on Form 10-Q for the period ended June 30, 2012 (the “June Report”) should be read in conjunction with our Annual Report filed on Form 10-K for the year ended December 31, 2011 (our “2011 Annual Report”) which contains the latest audited financial statements and related notes. The periods presented in this document are the three (“2012 Quarter”) and six (“2012 Six Months”) months ended June 30, 2012 and the three (“2011 Quarter”) and six (“2011 Six Months”) months ended June 30, 2011.

In the opinion of management, all adjustments of a normal recurring nature considered necessary to present fairly in all material respects our financial position as of June 30, 2012 and our results of our operations and cash flows for the three and six months ended June 30, 2012 and 2011 have been made. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results of operations to be expected for the entire year.

Liquidity Requirements

*Liberty Theatre Term Loans*

As our Liberty Theater Term Loans are due to mature on April 1, 2013, the June 30, 2012 outstanding balance of this debt of \$6.5 million is classified as current on our balance sheet. We intend to refinance the property’s debt with similar financing.

*Tax Settlement Liability*

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



For the abovementioned liabilities, we believe that we have sufficient borrowing capacity under our various credit facilities, together with our \$30.7 million of cash and time deposits, to meet our anticipated short-term working capital requirements for the next twelve months.

#### Time Deposits

Time deposits are cash depository investments in which the maturity of the investments is greater than 90 days. During May 2012, we purchased \$8.0 million in U.S. dollar time deposits in Australia which are scheduled to mature on January 3, 2013 having an interest rate of 1.26%.

#### Marketable Securities

We had investments in marketable securities of \$49,000 and \$2.9 million at June 30, 2012 and December 31, 2011, respectively. We account for these investments as available for sale investments. We assess our investment in marketable securities for other-than-temporary impairments in accordance with Accounting Standards Codification ("ASC") 320-10 for each applicable reporting period. These investments have a cumulative income (loss) of \$4,000 and \$(11,000) included in accumulated other comprehensive income at June 30, 2012 and December 31, 2011, respectively. For the three and six months ended June 30, 2012, our net unrealized income (loss) on marketable securities was \$3,000 and (\$7,000), respectively. For the three and six months ended June 30, 2011, our net unrealized gain (loss) on marketable securities was \$126,000 and \$(43,000), respectively. During the six months ended June 30, 2012, we sold \$3.0 million of our marketable securities with a realized gain of \$109,000.

#### Deferred Leasing Costs

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

#### Deferred Financing Costs

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

#### Accounting Pronouncements Adopted During 2012

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

ASU No. 2011-05 requires that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present other comprehensive income in the statement of changes in equity. Under either choice, items that are reclassified from other comprehensive income to net income are required to be presented on the face of the financial statements where the components of net income and the components of other comprehensive income are presented. This amendment is effective for our Company in 2012 and was applied retrospectively.

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

#### New Accounting Pronouncements

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

### **Note 2 – Equity and Stock Based Compensation**

#### Stock-Based Compensation

During the six months ended June 30, 2012 and 2011, we issued 155,925 and 174,825, respectively, of Class A Nonvoting shares to an executive employee associated with the vesting of his prior years' stock grants, and, during the three months ended June 30, 2012, we issued 9,680 as a one-time stock grant of Class A Nonvoting shares to our employees valued at \$44,000 which we accounted for as compensation expense. During the three and six months ended June 30, 2012, we accrued \$238,000 and \$476,000, respectively, in compensation expense associated with the vesting of executive employee stock grants. During the three and six months ended June 30, 2011, we accrued \$188,000 and \$375,000, respectively, in compensation expense associated with the vesting of executive employee stock grants.

#### *Employee/Director Stock Option Plan*

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

When the Company's tax deduction from an option exercise exceeds the compensation cost resulting from the option, a tax benefit is created. FASB ASC 718-20 relating to Stock-Based Compensation ("FASB ASC 718-20"), requires that excess tax benefits related to stock option exercises be reflected as financing cash inflows instead of operating cash inflows. For the three and six months ended June 30, 2012 and 2011, there was no impact to the unaudited condensed consolidated statement of cash flows because there were no recognized tax benefits from stock option exercises during these periods.

FASB ASC 718-20 requires companies to estimate forfeitures. Based on our historical experience and the relative market price to strike price of the options, we do not currently estimate any forfeitures of vested or unvested options.

In accordance with FASB ASC 718-20, we estimate the fair value of our options using the Black-Scholes option-pricing model, which takes into account assumptions such as the dividend yield, the risk-free interest rate, the expected stock price volatility, and the expected life of the options. As we intend to retain all earnings, we exclude the dividend yield from the calculation. We expense the estimated grant date fair values of options issued on a straight-line basis over the vesting period.

For the 40,000 options granted during 2012, we estimated the fair value of these options at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	<b>2012</b>
Stock option exercise price	\$ 4.99
Risk-free interest rate	1.710%
Expected dividend yield	--
Expected option life	10 yrs
Expected volatility	31.87%
Weighted average fair value	\$ 2.19

We did not grant any options during the three or six months ended June 30, 2011.

Based on the above calculation and prior years' assumptions, and, in accordance with the FASB ASC 718-20, we recorded compensation expense for the total estimated grant date fair value of stock options that vested of \$89,000 and \$169,000 for the three and six months ended June 30, 2012, respectively, and \$47,000 and \$94,000 for the three and six months ended June 30, 2011, respectively. At June 30, 2012, the total unrecognized estimated compensation cost related to non-vested stock options granted was \$27,000, which we expect to recognize over a weighted average vesting period of 0.17 years. 95,000 options were exercised during the six months ended June 30, 2012 having a realized value of \$136,000 for which we received \$308,000 of cash. There were no options exercised during the six months ended June 30, 2011. The intrinsic, unrealized value of all options outstanding, vested and expected to vest, at June 30, 2012 was \$430,000 of which 77.7% are currently exercisable.

Pursuant to both our 1999 Stock Option Plan and our 2010 Stock Incentive Plan, all stock options expire within ten years of their grant date. The aggregate total number of shares of Class A Nonvoting Common Stock and Class B Voting Common Stock authorized for issuance under our 2010 Stock Incentive Plan is 1,250,000. At the discretion of our Compensation and Stock Options Committee, the vesting period of stock options is usually between zero and four years.

We had the following stock options outstanding and exercisable as of June 30, 2012 and December 31, 2011:

	Common Stock Options Outstanding		Weighted Average Exercise Price of Options Outstanding		Common Stock Exercisable Options		Weighted Average Price of Exercisable Options	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
			\$	\$			\$	\$
Outstanding- January 1, 2011	622,350	185,100	\$ 5.65	\$ 9.90	449,750	150,000	\$ 6.22	\$ 10.24
No activity during the period	--	--	\$ --	\$ --				
Outstanding-December 31, 2011	622,350	185,100	\$ 5.65	\$ 9.90	544,383	167,550	\$ 5.86	\$ 10.05
Granted	40,000	--	\$ 4.99	\$ --				
Exercised	(95,000)	--	\$ 4.68	\$ --				
Outstanding-June 30, 2012	567,350	185,100	\$ 6.01	\$ 9.90	489,383	167,550	\$ 6.30	\$ 10.05

The weighted average remaining contractual life of all options outstanding, vested, and expected to vest at June 30, 2012 and December 31, 2011 was approximately 4.41 and 4.13 years, respectively. The weighted average remaining contractual life of the exercisable options outstanding at June 30, 2012 and December 31, 2011 was approximately 4.23 and 3.85 years, respectively.

### Note 3 – Business Segments

We organize our operations into two reportable business segments within the meaning of FASB ASC 280-10 - *Segment Reporting*. Our reportable segments are (1) cinema exhibition and (2) real estate. The cinema exhibition segment is engaged in the development, ownership, and operation of multiplex cinemas. The real estate segment is engaged in the development, ownership, and operation of commercial properties. Incident to our real estate operations we have acquired, and continue to hold, raw land in urban and suburban centers in Australia, New Zealand, and the United States.

The tables below summarize the results of operations for each of our principal business segments for the three and six months ended June 30, 2012 and 2011, respectively. Operating expense includes costs associated with the day-to-day operations of the cinemas and the management of rental properties including our live theater assets (dollars in thousands):

Three Months Ended June 30, 2012	Cinema Exhibition	Real Estate	Intersegment Eliminations	Total
Revenue	\$ 57,988	\$ 7,038	\$ (1,882)	\$ 63,144
Operating expense	48,347	2,645	(1,882)	49,110
Depreciation & amortization	2,733	1,177	--	3,910
General & administrative expense	782	146	--	928
Segment operating income	\$ 6,126	\$ 3,070	\$ --	\$ 9,196

<b>Three Months Ended June 30, 2011</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 62,236	\$ 6,604	\$ (1,667)	\$ 67,173
Operating expense	49,901	2,594	(1,667)	50,828
Depreciation & amortization	3,000	1,285	--	4,285
General & administrative expense	669	207	--	876
<b>Segment operating income</b>	<b>\$ 8,666</b>	<b>\$ 2,518</b>	<b>\$ --</b>	<b>\$ 11,184</b>

<b>Reconciliation to net income attributable to Reading International, Inc. shareholders:</b>	<b>2012 Quarter</b>	<b>2011 Quarter</b>
Total segment operating income	\$ 9,196	\$ 11,184
Non-segment:		
Depreciation and amortization expense	97	7
General and administrative expense	3,398	3,880
Operating income	5,701	7,297
Interest expense, net	(5,683)	(5,406)
Other income	68	91
Loss on sale of assets	(2)	(68)
Income tax benefit (expense)	(259)	13,774
Equity earnings of unconsolidated joint ventures and entities	399	269
Income from discontinued operations	--	1,656
<b>Net income</b>	<b>\$ 224</b>	<b>\$ 17,613</b>
Net (income) loss attributable to noncontrolling interests	15	(181)
<b>Net income attributable to Reading International, Inc. common shareholders</b>	<b>\$ 239</b>	<b>\$ 17,432</b>

<b>Six Months Ended June 30, 2012</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 115,390	\$ 14,171	\$ (3,765)	\$ 125,796
Operating expense	96,563	5,441	(3,765)	98,239
Depreciation & amortization	5,563	2,405	--	7,968
General & administrative expense	1,484	325	--	1,809
<b>Segment operating income</b>	<b>\$ 11,780</b>	<b>\$ 6,000</b>	<b>\$ --</b>	<b>\$ 17,780</b>

<b>Six Months Ended June 30, 2011</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 111,710	\$ 13,040	\$ (3,334)	\$ 121,416
Operating expense	93,043	5,026	(3,334)	94,735
Depreciation & amortization	5,904	2,507	--	8,411
General & administrative expense	1,280	394	--	1,674
<b>Segment operating income</b>	<b>\$ 11,483</b>	<b>\$ 5,113</b>	<b>\$ --</b>	<b>\$ 16,596</b>

<b>Reconciliation to net income (loss) attributable to Reading International, Inc. shareholders:</b>	<b>2012 Six Months</b>	<b>2011 Six Months</b>
Total segment operating income	\$ 17,780	\$ 16,596
Non-segment:		
Depreciation and amortization expense	236	10
General and administrative expense	6,937	7,316
Operating income	10,607	9,270
Interest expense, net	(9,443)	(9,337)
Other income	23	74
Loss on sale of assets	(2)	(68)
Income tax benefit (expense)	(1,884)	13,138
Equity earnings of unconsolidated joint ventures and entities	812	633
Income from discontinued operations	--	1,656
Net income	\$ 113	\$ 15,366
Net income attributable to noncontrolling interests	(116)	(414)
Net income (loss) attributable to Reading International, Inc. common shareholders	\$ (3)	\$ 14,952

**Note 4 – Operations in Foreign Currency**

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

Presented in the table below are the currency exchange rates for Australia and New Zealand as of June 30, 2012 and December 31, 2011:

	<b>US Dollar</b>	
	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Australian Dollar	\$ 1.0236	\$ 1.0251
New Zealand Dollar	\$ 0.8027	\$ 0.7805

**Note 5 – Earnings (Loss) Per Share**

Basic earnings (loss) per share is computed by dividing the net income (loss) attributable to Reading International, Inc. common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net income (loss) attributable to Reading International, Inc. common shareholders by the weighted average number of common shares outstanding during the period after giving effect to all potentially dilutive common shares that would have been outstanding if the dilutive common shares had been issued. Stock options and non-vested stock awards give rise to potentially dilutive common shares. In accordance with FASB ASC 260-10 - *Earnings Per Share*, these shares are included in the diluted earnings per share calculation under the treasury stock method. As noted in the table below, due to the small difference between the basic and diluted weighted average common shares, the basic and the diluted earnings (loss) per share are the same for each of the periods presented. The following is a calculation of earnings (loss) per share (dollars in thousands, except share data):

	Three months ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Income (loss) from continuing operations	\$ 239	\$ 15,776	\$ (3)	\$ 13,296
Income from discontinued operations	--	1,656	--	1,656
Net income (loss) attributable to Reading International, Inc. common shareholders	239	17,432	(3)	14,952

**Basic and diluted loss per share attributable to Reading International, Inc. common share holders:**

Earnings (loss) from continuing operations	\$ 0.01	\$ 0.69	\$ --	\$ 0.58
Earnings from discontinued operations	--	0.07	--	0.07
Basic and diluted earnings (loss) per share attributable to Reading International, Inc. common shareholders:	\$ 0.01	\$ 0.76	\$ --	\$ 0.65
Weighted average shares of common stock – basic	23,009,209	22,789,718	22,969,392	22,749,202
Weighted average shares of common stock – diluted	23,177,815	22,960,713	22,969,392	22,920,198

For the three and six months ended June 30, 2012, we recorded losses from continuing operations; therefore, we excluded 168,606 of in-the-money incremental stock options from the computation of diluted loss per share because they were anti-dilutive. For the three and six months ended June 30, 2011, the weighted average common stock – diluted included 170,995 of stock compensation and in-the-money incremental stock options. In addition, 692,789 of out-of-the-money stock options were excluded from the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2012, and 714,417 of out-of-the-money stock options were excluded from the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2011.

**Note 6 – Property Acquired, Property Sold, Property Held for Sale, Property Held For and Under Development, and Property and Equipment**Acquisitions*Coachella, California Land Acquisition*

On January 10, 2012, Shadow View Land and Farming, LLC, a limited liability company owned by our Company, acquired a 202-acre property, zoned for the development of up to 843 single-family residential units, located in the City of Coachella, California. The property was acquired at a foreclosure auction for \$5.5 million. The property was acquired as a long-term investment in developable land. Half of the funds used to acquire the land were provided by Mr. James J. Cotter, our Chairman, Chief Executive Officer and controlling shareholder. Upon the approval of our Conflicts Committee, these funds were converted on January 18, 2012 into a 50% interest. The limited liability company is administratively managed by our Company. See Note 14 – *Noncontrolling Interests*.

DisposalsTaringa

On February 21, 2012, we sold our three properties in the Taringa area of Brisbane, Australia consisting of approximately 1.1 acres for \$1.9 million (AUSS\$1.8 million).

Property Held For and Under Development

As of June 30, 2012 and December 31, 2011, we owned property held for and under development summarized as follows (dollars in thousands):

<b>Property Held For and Under Development</b>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Land	\$ 90,479	\$ 86,667
Construction-in-progress (including capitalized interest)	5,338	5,031
<b>Property Held For and Under Development</b>	<b>\$ 95,817</b>	<b>\$ 91,698</b>

At the beginning of 2010, we curtailed the development activities of our properties under development and are not currently capitalizing interest expense. As a result, we did not capitalize any interest during the three months ended June 30, 2012 or 2011.

Property and Equipment

As of June 30, 2012 and December 31, 2011, we owned investments in property and equipment as follows (dollars in thousands):

<b>Property and Equipment</b>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Land	\$ 65,483	\$ 65,281
Building and improvements	145,211	144,155
Leasehold interests	41,712	40,855
Construction-in-progress	1,273	525
Fixtures and equipment	106,165	104,804
Total cost	359,844	355,620
Less: accumulated depreciation	(148,204)	(140,192)
<b>Property and equipment, net</b>	<b>\$ 211,640</b>	<b>\$ 215,428</b>

Depreciation expense for property and equipment was \$4.0 million and \$7.5 million for the three and six months ended June 30, 2012, respectively, and \$3.6 million and \$7.1 million for the three and six months ended June 30, 2011, respectively.



**Note 7 – 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, and, as of June 30, 2012 and December 31, 2011, included the following (dollars in thousands):

	Interest	June 30, 2012	December 31, 2011
Rialto Distribution	33.3%	\$ --	\$ --
Rialto Cinemas	50.0%	1,688	1,586
205-209 East 57th Street Associates, LLC	25.0%	33	33
Mt. Gravatt	33.3%	5,927	6,220
<b>Total investments</b>		<b>\$ 7,648</b>	<b>\$ 7,839</b>

For the three months ended June 30, 2012 and 2011, we recorded our share of equity earnings from our investments in unconsolidated joint ventures and entities as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Rialto Distribution	\$ 51	\$ 55	\$ 112	\$ 112
Rialto Cinemas	26	(65)	57	(53)
205-209 East 57th Street Associates, LLC	--	--	--	33
Mt. Gravatt	322	279	643	541
<b>Total equity earnings</b>	<b>\$ 399</b>	<b>\$ 269</b>	<b>\$ 812</b>	<b>\$ 633</b>

**Note 8 – Goodwill and Intangible Assets**

In accordance with FASB ASC 350-20-35, Goodwill - Subsequent Measurement and Impairment, we perform an annual impairment review in the fourth quarter of our goodwill and other intangible assets on a reporting unit basis, or earlier if changes in circumstances indicate an asset may be impaired. No such circumstances existed during the 2012 Quarter. As of June 30, 2012 and December 31, 2011, we had goodwill consisting of the following (dollars in thousands):

	Cinema	Real Estate	Total
Balance as of December 31, 2011	\$ 17,053	\$ 5,224	\$ 22,277
Foreign currency translation adjustment	259	--	259
<b>Balance at June 30, 2012</b>	<b>\$ 17,312</b>	<b>\$ 5,224</b>	<b>\$ 22,536</b>

We have intangible assets other than goodwill that are subject to amortization, which we amortize over various periods. We amortize our beneficial leases over the lease period, the longest of which is 30 years; our trade name using an accelerated amortization method over its estimated useful life of 45 years; and our other intangible assets over 10 years. For the three and six months ended June 30, 2012, the amortization expense of intangibles totaled \$572,000 and \$1.2 million, respectively, and, for the three and six months ended June 30, 2011, the amortization expense of intangibles totaled \$677,000 and \$1.3 million, respectively. The accumulated amortization of intangibles includes \$540,000 and \$406,000 of the amortization of acquired leases which are recorded in operating expense for the six months ended June 30, 2012 and 2011, respectively.

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

<b>As of June 30, 2012</b>	<b>Beneficial Leases</b>	<b>Trade name</b>	<b>Other Intangible Assets</b>	<b>Total</b>
Gross carrying amount	\$ 24,499	\$ 7,220	\$ 457	\$ 32,176
Less: Accumulated amortization	12,154	2,804	401	15,359
<b>Total, net</b>	<b>\$ 12,345</b>	<b>\$ 4,416</b>	<b>\$ 56</b>	<b>\$ 16,817</b>

<b>As of December 31, 2011</b>	<b>Beneficial Leases</b>	<b>Trade name</b>	<b>Other Intangible Assets</b>	<b>Total</b>
Gross carrying amount	\$ 24,471	\$ 7,220	\$ 456	\$ 32,147
Less: Accumulated amortization	11,238	2,553	357	14,148
<b>Total, net</b>	<b>\$ 13,233</b>	<b>\$ 4,667</b>	<b>\$ 99</b>	<b>\$ 17,999</b>

**Note 9 – Prepaid and Other Assets**

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Prepaid and other current assets</b>		
Prepaid expenses	\$ 1,510	\$ 1,168
Prepaid taxes	555	781
Deposits	601	605
Other	1,227	1,227
<b>Total prepaid and other current assets</b>	<b>\$ 3,893</b>	<b>\$ 3,781</b>

<b>Other non-current assets</b>		
Other non-cinema and non-rental real estate assets	\$ 1,134	\$ 1,134
Long-term deposits	231	264
Deferred financing costs, net	3,514	3,725
Note receivable	1,800	--
Tenant inducement asset	845	1,064
Straight-line rent asset	2,752	2,776
Mortgage notes receivable	876	851
Other	(1)	--
<b>Total non-current assets</b>	<b>\$ 11,151</b>	<b>\$ 9,814</b>

*Short Term Note Receivable*

On February 29, 2012, at a discount, we acquired for \$1.8 million from the original lender a promissory note which is currently in default. We believe the note is indirectly secured by the operating income of a cinema in which we have an interest.

**Note 10 – Income Tax**

The provision for income taxes is different from the amount computed by applying U.S. statutory rates to consolidated losses before taxes. The significant reason for these differences is as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Expected tax provision (benefit)	\$ 174	\$ 1,510	\$ 659	\$ 729
Increase (reduction) in tax expense resulting from:				
Change in valuation allowance, other	(241)	(15,709)	(668)	(14,799)
Foreign income tax provision	(414)	195	490	295
Foreign withholding tax provision	273	111	640	214
Tax effect of foreign tax rates on current income	67	(152)	8	(281)
State and local tax provision	158	109	272	234
Federal tax litigation settlement	242	162	483	470
Actual tax provision (benefit)	\$ 259	\$ (13,774)	\$ 1,884	\$ (13,138)

Pursuant to ASC 740-10, a provision should be made for the tax effect of earnings of foreign subsidiaries that are not permanently invested outside the United States. Our intent is that earnings of our foreign subsidiaries are not permanently invested outside the United States. Current earnings were available for distribution in the Reading Australia consolidated group of subsidiaries as of June 30, 2012. There is no withholding tax on dividends paid by an Australian company to its 80% or more U.S. public company shareholder, thus we have not provided foreign withholding taxes for these current retained earnings. We believe the U.S. tax impact of a dividend from our Australian subsidiary, net of loss carry forward and potential foreign tax credits, would not have a material effect on the tax provision as of June 30, 2012.

Deferred income taxes reflect the “temporary differences” between the financial statement carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, adjusted by the relevant tax rate. In accordance with FASB ASC 740-10 – Income Taxes (“ASC 740-10”), we record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax assets and liabilities, projected future taxable income, tax planning strategies, and recent financial performance. ASC 740-10 presumes that a valuation allowance is required when there is substantial negative evidence about realization of deferred tax assets, such as a pattern of losses in recent years, coupled with facts that suggest such losses may continue.

In the period ended June 30, 2011, the Company determined that substantial negative evidence regarding the realizable nature of deferred tax assets continues to exist in the U.S., New Zealand, and Puerto Rico subsidiaries, arising from ongoing pre-tax financial losses. Accordingly, the Company continues to record a full valuation allowance for net deferred tax assets available in these subsidiaries. After consideration of a number of factors for the Reading Australia group, including its recent history of pretax financial income, its expected future earnings, the increase in market value of its real estate assets, which would cause taxable gain if sold, and having executed in June 2011 a credit facility of over \$100.0 million to resolve potential liquidity issues, the Company determined that it is more likely than not that deferred tax assets in Reading Australia will be realized. Accordingly, during 2011, Reading Australia reversed \$13.8 million of the valuation allowance previously recorded against its net deferred tax, which mainly reflects the loss carryforwards available to offset future taxable income in Australia.

We have accrued \$25.1 million in income tax liabilities as of June 30, 2012, of which \$14.6 million has been classified as income taxes payable and \$10.5 million have been classified as non-current tax liabilities. As part of current tax liabilities, we have accrued \$3.5 million in connection with the negotiated Tax Court judgment, dated January 6, 2011, implementing our agreement with the IRS as to the final disposition of the 1996 tax litigation matter. We believe these amounts represent an adequate provision for our income tax exposures, including income tax contingencies related to foreign withholding taxes.

In accordance with FASB ASC 740-10-25 – Income Taxes - Uncertain Tax Positions (“ASC 740-10-25”), we record interest and penalties related to income tax matters as part of income tax expense.

The following table is a summary of the activity related to unrecognized tax benefits, excluding interest and penalties, for the periods ending June 30, 2012 and December 31, 2011, and December 31, 2010 (dollars in thousands):

	<b>Six Months Ended June 30, 2012</b>	<b>Year Ended December 31, 2011</b>	<b>Year Ended December 31, 2010</b>
Unrecognized tax benefits – gross beginning balance	\$ 1,974	\$ 8,058	\$ 11,412
Gross increases – current period tax positions	94	151	405
Settlements	--	(6,235)	(3,189)
Statute of limitations lapse	--	--	(570)
Unrecognized tax benefits – gross ending balance	<u>\$ 2,068</u>	<u>\$ 1,974</u>	<u>\$ 8,058</u>

For the three months ended June 30, 2012 we recorded no material change to our gross unrecognized tax benefits. The net tax balance is approximately \$2.1 million, of which \$1.0 million would impact the effective rate if recognized.

It is difficult to predict the timing and resolution of uncertain tax positions. Based upon the Company’s assessment of many factors, including past experience and judgments about future events, it is probable that within the next 12 months the reserve for uncertain tax positions will increase within a range of \$0.9 million to \$1.8 million. The reasons for such changes include but are not limited to tax positions expected to be taken during the next twelve months, reevaluation of current uncertain tax positions, expiring statutes of limitations, and interest related to the “Tax Audit/Litigation” settlement which occurred January 6, 2011.

Our company and subsidiaries are subject to U.S. federal income tax, income tax in various U.S. states, and income tax in Australia, New Zealand, and Puerto Rico.

Generally, changes to our federal and most state income tax returns for the calendar year 2007 and earlier are barred by statutes of limitations. Our income tax returns of Australia filed since inception in 1995 are generally open for examination because of operating losses. The income tax returns filed in New Zealand and Puerto Rico for calendar year 2007 and afterward generally remain open for examination as of June 30, 2012.

#### Note 11 – Notes Payable

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

Name of Note Payable or Security	June 30, 2012 Interest Rate	December 31, 2011 Interest Rate	Maturity Date	June 30, 2012 Balance	December 31, 2011 Balance
NAB Australian Corporate Term Loan	6.28%	7.20%	June 30, 2014	\$ 84,959	\$ 88,671
NAB Australian Corporate Revolver	6.28%	7.20%	June 30, 2014	--	--
Australian Shopping Center Loans	-	-	2012-2014	256	384
New Zealand Corporate Credit Facility	4.70%	4.15%	March 31, 2015	22,476	21,854
Trust Preferred Securities	4.47%	9.22%	April 30, 2027	27,913	27,913
US Cinema 1, 2, 3 Term Loan	-	6.73%	July 1, 2012	--	15,000
US Cinema 1, 2, 3 Term Loan	5.25%	-	June 27, 2013	15,000	--
US GE Capital Term Loan	5.50%	5.50%	December 1, 2015	28,906	32,188
US Liberty Theaters Term Loans	6.20%	6.20%	April 1, 2013	6,507	6,583
US Nationwide Loan 1	8.50%	8.50%	February 21, 2013	595	597
Bank of America Letter of Credit	3.74%	-	August 31, 2014	945	--
US Sanborn Note	-	7.00%	January 31, 2012	--	250
US Sutton Hill Capital Note – Related Party	8.25%	8.25%	December 31, 2013	9,000	9,000
US Union Square Theatre Term Loan	5.92%	5.92%	May 1, 2015	7,065	7,174
Total				\$ 203,622	\$ 209,614

#### Derivative Instruments

As indicated in Note 17 – *Derivative Instruments*, for our NAB Australian Corporate Credit Facility (“NAB Loan”) and GE Capital Term Loan (“GE Loan”), we have entered into interest rate swap agreements for all or part of these facilities. These swap agreements result in us paying a total fixed interest rate of 8.15% (5.50% swap contract rate plus a 2.65% margin) for our NAB Loan and a total fixed interest rate of 5.84% (1.34% swap contract rate plus a 4.50% margin) for our GE Loan instead of the above indicated 6.28% and 5.50%, respectively, the obligatorily disclosed loan rates.

#### Trust Preferred Securities

Effective May 1, 2012, the interest rate on our Trust Preferred Securities changed from a fixed rate of 9.22%, which was in effect for the past five years, to a variable rate of 3 month LIBOR plus 4.00%, which will reset each quarter through the end of the loan.

**Refinanced US Cinema 1, 2, 3 Loan**

On June 28, 2012, Sutton Hill Properties LLC (“SHP”), one of our consolidated subsidiaries, paid off its Eurohypo AG, New York Branch loan with a new \$15.0 million term loan (the “Sovereign Bank Loan”) from Sovereign Bank, N.A. The Sovereign Bank Loan has a one-year term ending on June 27, 2013, with a one year extension option to June 26, 2014 subject to an extension fee equal to 1% of the ending principal balance and a compliance requirement with certain special covenants. As we currently intend to exercise this option, we have classified this loan as long-term. The terms of the Sovereign Bank Loan require interest only payments at LIBOR plus a 5.00% margin to be calculated and paid monthly. This loan is secured by SHP’s interest in the Cinemas 1, 2, & 3 land and building. The Sovereign Bank Loan covenants include maintaining a loan to value ratio of at least 50% of fair market value and an 11% debt yield (with a numerator of the cash available for debt service and a denominator of the outstanding principal balance of the loan). SHP is owned 75% by Reading and 25% by Sutton Hill Capital, LLC, a joint venture indirectly wholly owned by Mr. James J. Cotter, our Chairman and Chief Executive Officer, and an unrelated third party. The Sovereign Bank Loan is further secured by a guaranty provided by Reading International, Inc.

**Renewed New Zealand Credit Facility**

On February 8, 2012, we received an approved amendment from Westpac renewing our existing \$36.9 million (NZ\$45.0 million) New Zealand credit facility with a 3-year credit facility. The renewed facility decreased the overall facility by \$4.1 million (NZ\$5.0 million) to \$32.8 million (NZ\$40.0 million) and increased the facility margin from 0.55% to 2.0%. No other significant changes to the facility were made.

**Note 12 – Other Liabilities**

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

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>Current liabilities</b>		
Security deposit payable	\$ 164	\$ 137
Other	40	--
Other current liabilities	<u>\$ 204</u>	<u>\$ 137</u>
<b>Other liabilities</b>		
Foreign withholding taxes	\$ 6,346	\$ 6,212
Straight-line rent liability	8,215	8,067
Lease liability	5,800	5,746
Environmental reserve	1,656	1,656
Accrued pension	4,466	4,289
Interest rate swap	6,219	4,722
Acquired leases	2,410	2,742
Other payable	1,191	1,243
Other	652	962
Other liabilities	<u>\$ 36,955</u>	<u>\$ 35,639</u>

Included in our other liabilities are accrued pension costs of \$4.5 million at June 30, 2012. The benefits of our pension plans are fully vested, and, as such, no service costs were recognized for the three months ended June 30, 2012 and 2011. Our pension plans are unfunded; therefore, the actuarial assumptions do not include an estimate for expected return on plan assets. For the three and six months ended June 30, 2012, we recognized \$87,000 and \$177,000, respectively, of interest cost and \$76,000 and \$152,000, respectively, of amortized prior service cost. For the three and six months ended June 30, 2011, we recognized \$100,000 and \$190,000, respectively, of interest cost and \$82,000 and \$164,000, respectively, of amortized prior service cost.

**Note 13 – Commitments and Contingencies****Unconsolidated Debt**

Total debt of unconsolidated joint ventures and entities was \$1.1 million and \$663,000 as of June 30, 2012 and December 31, 2011. Our share of unconsolidated debt, based on our ownership percentage, was \$356,000 and \$221,000 as of June 30, 2012 and December 31, 2011. This debt is guaranteed by one of our subsidiaries to the extent of our ownership percentage.

**Note 14 – Noncontrolling interests**

Noncontrolling interests are composed of the following enterprises:

- Angelika Film Centers LLC (“AFC LLC”) 50% membership interest owned by a subsidiary of iDNA, Inc.;
- Australia Country Cinemas Pty Ltd (“ACC”) 25% noncontrolling interest owned by Panorama Cinemas for the 21<sup>st</sup> Century Pty Ltd.;
- Coachella Land 50% interest owned by Mr. James J. Cotter, Sr.; and
- Sutton Hill Properties, LLC 25% noncontrolling interest owned by SHC.

The components of noncontrolling interests are as follows (dollars in thousands):

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
AFC LLC	\$ 1,419	\$ 1,125
Australian Country Cinemas	578	360
Coachella Land	2,699	--
Sutton Hill Properties	(74)	(250)
<b>Noncontrolling interests in consolidated subsidiaries</b>	<b>\$ 4,622</b>	<b>\$ 1,235</b>

The components of income attributable to noncontrolling interests are as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
AFC LLC	\$ 116	\$ 181	\$ 294	\$ 373
Australian Country Cinemas	9	62	72	136
Coachella Land	(34)	--	(56)	--
Elsternwick unincorporated joint venture	--	1	--	25
Sutton Hill Properties	(106)	(63)	(194)	(120)
Net income (loss) attributable to noncontrolling interest	\$ (15)	\$ 181	\$ 116	\$ 414

#### Coachella Land Purchase

During the 2012 Quarter, Mr. James J. Cotter, our Chairman, Chief Executive Officer and controlling shareholder, contributed \$2.5 million of cash and \$255,000 of his 2011 bonus as his 50% share of the purchase price of a land parcel in Coachella, California. Pursuant to FASB ASC 810-10-05, we have consolidated Mr. Cotter's interest in the property and its expenses with that of our interest and shown his interest as a noncontrolling interest. See Note 6 – *Property Acquired, Property Sold, Property Held for Sale, Property Held For and Under Development, and Property and Equipment*.

#### 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, 2012	\$ 123,752	\$ 1,235	\$ 124,987
Net income (loss)	(3)	116	113
Increase in additional paid in capital	521	--	521
Contributions from noncontrolling stockholders	--	3,275	3,275
Accumulated other comprehensive income (loss)	938	(4)	934
Equity at – June 30, 2012	\$ 125,208	\$ 4,622	\$ 129,830



	<b>Controlling Stockholders' Equity</b>	<b>Noncontrolling Stockholders' Equity</b>	<b>Total Stockholders' Equity</b>
Equity at – January 1, 2011	\$ 111,787	\$ 852	\$ 112,639
Net income	14,952	414	15,366
Increase in additional paid in capital	94	--	94
Treasury stock purchased	(111)	--	(111)
Distributions to noncontrolling stockholders	--	(554)	(554)
Sale of noncontrolling interest	--	(148)	(148)
Accumulated other comprehensive income	11,661	24	11,685
Equity at – June 30, 2011	<u>\$ 138,383</u>	<u>\$ 588</u>	<u>\$ 138,971</u>

**Note 15 – Common Stock**Common Stock Issuance

During the six months ended June 30, 2012 and 2011, we issued 155,925 and 174,825, respectively, of Class A Nonvoting shares to an executive employee associated with his prior years' stock grant, and, during the three months ended June 30, 2012, we issued 9,680 as a one-time stock grant of Class A Nonvoting shares to our employees valued at \$44,000 which we accounted for as compensation expense.

95,000 options were exercised during the six months ended June 30, 2012 having a realized value of \$136,000 for which we received \$308,000 of cash. There were no options exercised during the six months ended June 30, 2011.

**Note 16 – Derivative Instruments**

We are exposed to interest rate changes from our outstanding floating rate borrowings. We manage our fixed to floating rate debt mix to mitigate the impact of adverse changes in interest rates on earnings and cash flows and on the market value of our borrowings. From time to time, we may enter into interest rate hedging contracts, which effectively convert a portion of our variable rate debt to a fixed rate over the term of the interest rate swap. In the case of our Australian borrowings, we are presently required to swap no less than 75% of our drawdowns under our Australian Corporate Credit Facility into fixed interest rate obligations. In conjunction with this NAB Credit Facility, we entered into a five-year interest swap agreement, which swaps 100% of our variable rate loan based on BBSY for a 5.50% fixed rate loan, and we have contracted for balance step-downs that correspond with the loan's principal payments through the termination of the loan. Under our GE Capital Term Loan, we are required to swap no less than 50% of our variable rate drawdowns for the first three years of the loan agreement. We elected to swap 100% of the original loan balance on the GE Capital Term Loan and have contracted for balance step-downs that correspond with the loan's principal payments through December 31, 2013. For an explanation of the impact of these swaps on our interest paid for the periods, see Note 11 – *Notes Payable*.

The following table sets forth the terms of our interest rate swap derivative instruments at June 30, 2012:

<b>Type of Instrument</b>	<b>Notional Amount</b>	<b>Pay Fixed Rate</b>	<b>Receive Variable Rate</b>	<b>Maturity Date</b>
Interest rate swap	\$ 31,406,000	1.340%	0.461%	December 31, 2013
Interest rate swap	\$ 84,959,000	5.500%	3.625%	June 30, 2016

In accordance with FASB ASC 815-10-35, *Subsequent Valuation of Derivative Instruments and Hedging Instruments* ("FASB ASC 815-10-35"), we marked our interest rate swap instruments to market on the consolidated balance sheet resulting in an increase in interest expense of \$1.8 million and \$1.5 million during the three and six months ended June 30, 2012, respectively, and an increase of \$1.5 million and \$1.7 million in interest expense during the three and six months ended June 30, 2011, respectively. At June 30, 2012 and December 31, 2011, we recorded the fair market value of our interest rate swaps of \$6.2 million and \$4.7 million, respectively, as other long-term liabilities. In accordance with FASB ASC 815-10-35, we have not designated any of our current interest rate swap positions as financial reporting hedges.

#### **Note 17 – Fair Value of Financial Instruments**

ASC 820-10 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: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data (were not used to value any of our assets requiring recurring measurements of fair value).

We used the following methods and assumptions to estimate the fair values of the assets and liabilities:

Level 1 Fair Value Measurements – are based on market quotes of our marketable securities.

Level 2 Fair Value Measurements – *Interest Rate Swaps* – The fair value of interest rate swaps are estimated based on market data and quotes from counter parties to the agreements which are corroborated by market data.

Level 3 Fair Value Measurements – *Impaired Property* – For assets measured on a non-recurring basis, such as real estate assets that are required to be recorded at fair value as a result of an impairment, our estimates of fair value are based on management's best estimate derived from evaluating market sales data for comparable properties developed by a third party appraiser and arriving at management's estimate of fair value based on such comparable data primarily based on properties with similar characteristics.

As of June 30, 2012 and December 31, 2011, we held certain items that are required to be measured at fair value on a recurring basis. These included cash equivalents, time deposits, available for sale securities, and interest rate derivative contracts. Cash equivalents consist of short-term, highly liquid, income-producing investments, all of which have maturities of 90 days or less. Time deposits are cash depository investments in which the maturity of the investments is greater than 90 days. Our available-for-sale securities primarily consist of investments associated with the ownership of marketable securities in New Zealand and the U.S. Derivative instruments are related to our economic hedge of interest rates.

The fair values of the interest rate swap agreements are determined using the market standard methodology of discounting the future cash payments and cash receipts on the pay and receive legs of the interest swap agreements that have the net effect of swapping the estimated variable rate note payment stream for a fixed rate payment stream over the period of the swap. The variable interest rates used in the calculation of projected receipts on the interest rate swap agreements are based on an expectation of future interest rates derived from observable market interest rate curves and volatilities. To comply with the provisions of ASC 820-10, we incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by our counterparties and us. However, as of June 30, 2012 and December 31, 2011, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation and determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The nature of our interest rate swap derivative instruments is described in Note 16 – *Derivative Instruments*.

We have consistently applied these valuation techniques in all periods presented and believe we have obtained the most accurate information available for the types of derivative contracts we hold. Additionally, there were no transfers of assets and liabilities between levels 1, 2, or 3 during the six months ended June 30, 2012.

We measure and record the following assets and liabilities at fair value on a recurring basis subject to the disclosure requirements of FASB ASC 820-20, *Fair Value of Financial Instruments* (dollars in thousands):

Financial Instrument	Level	Book Value		Fair Value	
		2012	2011	2012	2011
Time deposits	1	\$ 8,000	\$ --	\$ 8,000	\$ --
Investment in marketable securities	1	\$ 49	\$ 2,874	\$ 49	\$ 2,874
Interest rate swaps liability	2	\$ 6,219	\$ 4,722	\$ 6,219	\$ 4,722

We measure the following liabilities at fair value on a recurring basis subject to the disclosure requirements of FASB ASC 820-20, *Fair Value of Financial Instruments* (dollars in thousands):

Financial Instrument	Book Value		Fair Value	
	2012	2011	2012	2011
Notes payable	\$ 166,709	\$ 172,701	\$ 160,476	\$ 166,152
Notes payable to related party	\$ 9,000	\$ 9,000	\$ N/A	\$ N/A
Subordinated debt	\$ 27,913	\$ 27,913	\$ 11,525	\$ 20,544

The fair value of notes payable to related party cannot be determined due to the related party nature of the terms of the notes payable.

We estimated the fair value of our secured mortgage notes payable, our unsecured notes payable, trust preferred securities, and other debt instruments by performing discounted cash flow analyses using an appropriate market discount rate. We calculated the market discount rate by obtaining period-end treasury rates for fixed-rate debt, or LIBOR rates 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 standing, the maturity of the debt, whether the debt is secured or unsecured, and the loan-to-value ratios of the debt.

#### **Note 18 - Subsequent Events**

##### Lake Taupo Property Sale Agreement

On July 20, 2012 we entered into an agreement to sell our Lake Taupo property for \$3.9 million (NZ \$4.9 million). The transaction is subject to the satisfaction of several conditions. Accordingly, no assurances can be given that the sale will ultimately be completed. As of June 30, 2012, the property had a book value of \$2.1 million (NZ\$2.6 million) and is classified as held for sale on the accompanying balance sheet. The results of operations from the Lake Taupo property have been included in continuing operations as the contributed revenue and net income from this property was not significant to the consolidated statements of operations for the three and six month periods ended June 30, 2012 and 2011.

## **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 property assets in the United States, Australia, and New Zealand. Currently, we operate in two business segments:

- cinema exhibition, through our 56 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 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 Reading, Angelika Film Center, Consolidated Amusements, and City Cinemas brands;
- in Australia, under the Reading brand; and
- in New Zealand, under the Reading and Rialto brands.

We continue to consider opportunities to expand our cinema operations, while at the same time continuing to cull those cinema assets which are underperforming or have unacceptable risk profiles on a go forward basis.

Although we have curtailed our real estate development activities, we remain opportunistic in our acquisitions of both cinema and real estate assets. Our business plan going forward is to continue the build-out of our existing development properties and to seek out additional, profitable real estate development opportunities while continuing to use and judiciously expand our presence in the cinema exhibition business by identifying, developing, and acquiring cinema properties when and where appropriate. In addition, we will continue to investigate potential synergistic acquisitions that may not readily fall into either of our two currently identified segments.

On January 10, 2012, Shadow View Land and Farming, LLC, a limited liability company owned by our Company, acquired a 202-acre property, zoned for the development of up to 843 single-family residential units, located in the City of Coachella, California. The property was acquired at a foreclosure auction for \$5.5 million. The property was acquired as a long-term investment in developable land. Half of the funds used to acquire the land were provided by James J. Cotter, our Chairman, Chief Executive Officer and controlling shareholder. Upon the approval of our Conflicts Committee, these funds were converted on January 18, 2012 into a 50% interest. The limited liability company is administratively managed by our Company.

We continue to consider the potential sale of certain of our real estate assets. As part of this business strategy, on February 21, 2012, we sold the three properties in the Taringa area of Brisbane, Australia of approximately 1.1 acres for \$1.9 million (AUS\$1.8 million). Also, we continue to consider various methods to monetize all or at least the residential portion of our Burwood development site even though it cannot be classified as a property held for sale pursuant to FASB ASC 360-10-45. Additionally, we are currently reevaluating our options for the Cinemas 1, 2, 3 property with an intent to potentially redevelop rather than sell the property.

**Results of Operations**

At June 30, 2012, we owned and operated 51 cinemas with 429 screens, had interests in certain unconsolidated joint ventures and entities that own an additional 3 cinemas with 29 screens and managed 2 cinemas with 9 screens. In real estate during the period, we (i) owned and operated four Entertainment Themed Retail Centers (“ETRCs”) that we developed in Australia and New Zealand, (ii) owned the fee interests in four developed commercial properties in Manhattan and Chicago improved with live theaters comprising seven stages and ancillary retail and commercial space, (iii) owned the fee interests underlying one of our Manhattan cinemas, (iv) held for development an additional seven parcels aggregating approximately 129 acres located principally in urbanized areas of Australia and New Zealand, and (v) owned 50% of a 202-acre property, zoned for the development of up to 843 single-family residential units in Coachella, California.

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. Our year-to-year results of operations were impacted by the fluctuation in the value of the Australian and New Zealand dollars vis-à-vis the US dollar resulting in an increase in results of operations for our foreign operations for 2012 compared to 2011.

The tables below summarize the results of operations for each of our principal business segments for the three (“2012 Quarter”) and six (“2012 Six Months”) months ended June 30, 2012 and the three (“2011 Quarter”) and six (“2011 Six Months”) months ended June 30, 2012, respectively (dollars in thousands):

<b>Three Months Ended June 30, 2012</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 57,988	\$ 7,038	\$ (1,882)	\$ 63,144
Operating expense	48,347	2,645	(1,882)	49,110
Depreciation & amortization	2,733	1,177	--	3,910
General & administrative expense	782	146	--	928
<b>Segment operating income</b>	<b>\$ 6,126</b>	<b>\$ 3,070</b>	<b>\$ --</b>	<b>\$ 9,196</b>

<b>Three Months Ended June 30, 2011</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 62,236	\$ 6,604	\$ (1,667)	\$ 67,173
Operating expense	49,901	2,594	(1,667)	50,828
Depreciation & amortization	3,000	1,285	--	4,285
General & administrative expense	669	207	--	876
<b>Segment operating income</b>	<b>\$ 8,666</b>	<b>\$ 2,518</b>	<b>\$ --</b>	<b>\$ 11,184</b>

<b>Reconciliation to net income attributable to Reading International, Inc. shareholders:</b>	<b>2012 Quarter</b>	<b>2011 Quarter</b>
Total segment operating income	\$ 9,196	\$ 11,184
Non-segment:		
Depreciation and amortization expense	97	7
General and administrative expense	3,398	3,880
Operating income	5,701	7,297
Interest expense, net	(5,683)	(5,406)
Other income	68	91
Loss on sale of assets	(2)	(68)
Income tax benefit (expense)	(259)	13,774
Equity earnings of unconsolidated joint ventures and entities	399	269
Income from discontinued operations	--	1,656
Net income	\$ 224	\$ 17,613
Net (income) loss attributable to noncontrolling interests	15	(181)
Net income attributable to Reading International, Inc. common shareholders	\$ 239	\$ 17,432

<b>Six Months Ended June 30, 2012</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 115,390	\$ 14,171	\$ (3,765)	\$ 125,796
Operating expense	96,563	5,441	(3,765)	98,239
Depreciation & amortization	5,563	2,405	--	7,968
General & administrative expense	1,484	325	--	1,809
Segment operating income	\$ 11,780	\$ 6,000	\$ --	\$ 17,780

<b>Six Months Ended June 30, 2011</b>	<b>Cinema Exhibition</b>	<b>Real Estate</b>	<b>Intersegment Eliminations</b>	<b>Total</b>
Revenue	\$ 111,710	\$ 13,040	\$ (3,334)	\$ 121,416
Operating expense	93,043	5,026	(3,334)	94,735
Depreciation & amortization	5,904	2,507	--	8,411
General & administrative expense	1,280	394	--	1,674
Segment operating income	\$ 11,483	\$ 5,113	\$ --	\$ 16,596

<b>Reconciliation to net income (loss) attributable to Reading International, Inc. shareholders:</b>	<b>2012 Six Months</b>	<b>2011 Six Months</b>
Total segment operating income	\$ 17,780	\$ 16,596
Non-segment:		
Depreciation and amortization expense	236	10
General and administrative expense	6,937	7,316
Operating income	10,607	9,270
Interest expense, net	(9,443)	(9,337)
Other income	23	74
Loss on sale of assets	(2)	(68)
Income tax benefit (expense)	(1,884)	13,138
Equity earnings of unconsolidated joint ventures and entities	812	633
Income from discontinued operations	--	1,656
Net income	\$ 113	\$ 15,366
Net income attributable to noncontrolling interests	(116)	(414)
Net income (loss) attributable to Reading International, Inc. common shareholders	\$ (3)	\$ 14,952

Cinema Exhibition Segment

Included in the cinema exhibition segment above is revenue and expense from the operations of 51 cinema complexes with 429 screens during the 2012 Quarter and 51 cinema complexes with 416 screens during the 2011 Quarter and management fee income from 2 cinemas with 9 screens in both years. These results reflect the purchase of our CalOaks Cinema in Murrieta, California cinema with 17 screens in August 2011, the sale of our Elsternwick cinema in Australia with 5 screens in April 2011, and the closing of our Hastings, New Zealand cinema with 4 screens in January 2012. The following tables detail our cinema exhibition segment operating results for the three months ended June 30, 2012 and 2011, respectively (dollars in thousands):

<b>Three Months Ended June 30, 2012</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Admissions revenue	\$ 19,138	\$ 17,258	\$ 3,501	\$ 39,897
Concessions revenue	8,136	5,938	1,082	15,156
Advertising and other revenues	1,300	1,381	254	2,935
Total revenues	28,574	24,577	4,837	57,988
Cinema costs	23,431	18,447	3,728	45,606
Concession costs	1,281	1,189	271	2,741
Total operating expense	24,712	19,636	3,999	48,347
Depreciation and amortization	1,648	843	242	2,733
General & administrative expense	607	175	--	782
Segment operating income	\$ 1,607	\$ 3,923	\$ 596	\$ 6,126



<b>Three Months Ended June 30, 2011</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Admissions revenue	\$ 20,419	\$ 19,985	\$ 3,274	\$ 43,678
Concessions revenue	7,988	6,434	904	15,326
Advertising and other revenues	1,428	1,629	175	3,232
<b>Total revenues</b>	<b>29,835</b>	<b>28,048</b>	<b>4,353</b>	<b>62,236</b>
Cinema costs	23,490	20,149	3,370	47,009
Concession costs	1,278	1,381	233	2,892
<b>Total operating expense</b>	<b>24,768</b>	<b>21,530</b>	<b>3,603</b>	<b>49,901</b>
Depreciation and amortization	1,606	1,096	298	3,000
General & administrative expense	539	130	--	669
<b>Segment operating income</b>	<b>\$ 2,922</b>	<b>\$ 5,292</b>	<b>\$ 452</b>	<b>\$ 8,666</b>

- Cinema revenue decreased for the 2012 Quarter by \$4.2 million or 6.8% compared to the same period in 2011. The 2012 Quarter decrease was primarily due to a decrease in U.S. and Australian box office attendance of 173,000 and a decrease in the average price per ticket of \$0.27 and \$0.42, respectively, related to the available film product in 2012 compared to the same period in 2011. This was exacerbated by the temporary closure of our Townsville cinema in Australia due to the renovation of the cinema during the quarter. This resulted in a decrease in box office revenue of \$4.0 million and a decrease in concessions and other revenue of \$724,000. The decrease in U.S. revenue was partially offset by new revenue from our CalOaks cinema which was acquired in August 2011. Our New Zealand admissions increased by 68,000 resulting in an increase in box office revenue of \$227,000 and an increase in concessions and other revenue of \$257,000 primarily as a result of the reopening of our Palms cinema in early January 2012. Both the Australian and New Zealand results were affected by a decrease in the value of the Australian and New Zealand dollars compared to the U.S. dollar (see below).
- Operating expense decreased for the 2012 Quarter by \$1.6 million or 3.1% compared to the same period in 2011. This decrease followed the decreased revenues noted above associated with the overall decrease in box office admissions assisted by a decrease in the value of the Australian and New Zealand dollars compared to the U.S. dollar (see below). Overall, our operating expense as a percent of gross revenue increased from 80.2% to 83.4% primarily relating to the decrease in admissions which increased our labor per admit costs and from our fixed property rent costs relative to the aforementioned decrease in revenue.
- Depreciation expense decreased for the 2012 Quarter by \$267,000 or 8.9% compared to the same period in 2011 due to certain Australian cinema assets coming to the end of their depreciable lives in 2011.
- General and administrative costs increased for the 2012 Quarter by \$113,000 or 16.9% compared to the same period in 2011 due to an increase in payroll and travel related costs for our U.S. and Australian cinema circuits.
- For our statement of operations, the Australian and New Zealand quarterly average exchange rates decreased by 4.9% and 1.1%, respectively, since the 2011 Quarter, which had an impact on the individual components of our income statement.
- Because of the above, and driven by the decreased revenue, the cinema exhibition segment income decreased for the 2012 Quarter by \$2.5 million or 29.3% compared to the same period in 2011.

The following tables detail our cinema exhibition segment operating results for the six months ended June 30, 2012 and 2011, respectively (dollars in thousands):

<b>Six Months Ended June 30, 2012</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Admissions revenue	\$ 38,662	\$ 34,676	\$ 6,664	\$ 80,002
Concessions revenue	15,784	11,910	1,958	29,652
Advertising and other revenues	2,548	2,767	421	5,736
<b>Total revenues</b>	<b>56,994</b>	<b>49,353</b>	<b>9,043</b>	<b>115,390</b>
Cinema costs	46,653	37,251	7,258	91,162
Concession costs	2,524	2,389	488	5,401
<b>Total operating expense</b>	<b>49,177</b>	<b>39,640</b>	<b>7,746</b>	<b>96,563</b>
Depreciation and amortization	3,298	1,768	497	5,563
General & administrative expense	1,124	360	--	1,484
<b>Segment operating income</b>	<b>\$ 3,395</b>	<b>\$ 7,585</b>	<b>\$ 800</b>	<b>\$ 11,780</b>
<b>Six Months Ended June 30, 2011</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Admissions revenue	\$ 35,766	\$ 36,804	\$ 6,265	\$ 78,835
Concessions revenue	13,782	11,620	1,645	27,047
Advertising and other revenues	2,523	2,971	334	5,828
<b>Total revenues</b>	<b>52,071</b>	<b>51,395</b>	<b>8,244</b>	<b>111,710</b>
Cinema costs	43,570	37,731	6,660	87,961
Concession costs	2,166	2,509	407	5,082
<b>Total operating expense</b>	<b>45,736</b>	<b>40,240</b>	<b>7,067</b>	<b>93,043</b>
Depreciation and amortization	3,227	2,104	573	5,904
General & administrative expense	1,007	273	--	1,280
<b>Segment operating income</b>	<b>\$ 2,101</b>	<b>\$ 8,778</b>	<b>\$ 604</b>	<b>\$ 11,483</b>

- Cinema revenue increased for the 2012 Six Months by \$3.7 million or 3.3% compared to the same period in 2011. The 2012 Six Months increase was primarily due to an increase in U.S. and New Zealand box office attendance of 442,000 and 62,000, respectively. The uplift in box office admissions in the U.S. was primarily from the improved film product noted in the first quarter of 2012 and from the acquisition of our CalOaks cinema in August 2011 while the increase in New Zealand was primarily as a result of the reopening of our Palms cinema in early January 2012. These changes resulted in an increase in box office revenue of \$3.3 million and an increase in concessions and other revenue of \$2.4 million. Our New Zealand revenue was also impacted by an increase in the value of the New Zealand dollar compared to the U.S. dollar (see below) for the 2012 Six Months compared to the same period in 2011. Our Australian cinema revenue decreased by \$2.0 million primarily relating to a 64,000 decrease in admissions coupled with a \$0.44 decrease in the average ticket price per admission. This was exacerbated by the temporary closure of our Townsville cinema in Australia due to the renovation of the cinema during the quarter. As noted below, there was only a nominal change in the Australian dollar compared to the U.S. dollar for the comparable periods.

- Operating expense increased for the 2012 Six Months by \$3.5 million or 3.8% compared to the same period in 2011. This increase followed the increased revenues noted above primarily relating to the improved film product in the first quarter of 2012 compared to 2011. The operating expense was also impacted by the increase in the value of the New Zealand dollar compared to the U.S. dollar (see below). Overall, our operating expense as a percent of gross revenue remained relatively stable at 83.7% compared to 83.3%.
- Depreciation expense decreased for the 2012 Six Months by \$341,000 or 5.8% compared to the same period in 2011 due to certain Australian cinema assets coming to the end of their depreciable lives in 2011.
- General and administrative costs increased for the 2012 Six Months by \$204,000 or 15.9% compared to the same period in 2011 due to an increase in payroll and travel related costs for our U.S. and Australian cinema circuits.
- For our statement of operations, the Australian average exchange rates decreased by 0.1% the 2012 Six Months while the New Zealand average exchange rates increased 3.4% for the 2012 Six Months compared to the 2011 Six Months, which had an impact on the individual components of our income statement.
- Because of the above, and driven by the increased revenue, the cinema exhibition segment income increased for the 2012 Six Months by \$297,000 or 2.6% compared to the same period in 2011.

### Real Estate Segment

The following tables detail our real estate segment operating results for the three months ended June 30, 2012 and 2011, respectively (dollars in thousands):

<b>Three Months Ended June 30, 2012</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Live theater rental and ancillary income	\$ 977	\$ --	\$ --	\$ 977
Property rental income	410	3,779	1,872	6,061
<b>Total revenues</b>	<b>1,387</b>	<b>3,779</b>	<b>1,872</b>	<b>7,038</b>
Live theater costs	523	--	--	523
Property rental cost	181	1,417	524	2,122
<b>Total operating expense</b>	<b>704</b>	<b>1,417</b>	<b>524</b>	<b>2,645</b>
Depreciation and amortization	76	781	320	1,177
General & administrative expense	15	118	13	146
<b>Segment operating income</b>	<b>\$ 592</b>	<b>\$ 1,463</b>	<b>\$ 1,015</b>	<b>\$ 3,070</b>

<b>Three Months Ended June 30, 2011</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Live theater rental and ancillary income	\$ 698	\$ --	\$ --	\$ 698
Property rental income	437	3,621	1,848	5,906
<b>Total revenues</b>	<b>1,135</b>	<b>3,621</b>	<b>1,848</b>	<b>6,604</b>
Live theater costs	453	--	--	453
Property rental cost	88	1,563	490	2,141
<b>Total operating expense</b>	<b>541</b>	<b>1,563</b>	<b>490</b>	<b>2,594</b>
Depreciation and amortization	82	826	377	1,285
General & administrative expense	20	171	16	207
<b>Segment operating income</b>	<b>\$ 492</b>	<b>\$ 1,061</b>	<b>\$ 965</b>	<b>\$ 2,518</b>

- Real estate revenue increased for the 2012 Quarter by \$434,000 or 6.6% compared to the same period in 2011 primarily related to an increase in our live theater revenue of \$279,000 coupled with higher rents and occupancy associated with our Australian and New Zealand retail properties in 2012 compared to the same period in 2011. Both the Australian and New Zealand results were also affected by a decrease in the value of the Australian and New Zealand dollars compared to the U.S. dollar (see below).
- Operating expense for the real estate segment increased for the 2012 Quarter by \$51,000 or 2.0% compared to the same period in 2011. This increase resulted from higher property tax costs for our U.S. operating properties and from legal costs incurred in 2012 associated with our old railroad properties; offset in part by, a decrease in the value of the Australian and New Zealand dollars compared to the U.S. dollar (see below).
- Depreciation expense decreased for the 2012 Quarter by \$108,000 or 8.4% compared to the same period in 2011 primarily due to certain Australian and New Zealand assets coming to the end of their depreciable lives in 2011.
- General and administrative costs decreased for the 2012 Quarter by \$61,000 or 29.5% compared to the same period in 2011 due to a decrease in costs associated with certain development properties.
- For our statement of operations, the Australian and New Zealand quarterly average exchange rates decreased by 4.9% and 1.1%, respectively, since the 2011 Quarter, which had an impact on the individual components of our income statement.
- As a result of the above, real estate segment income increased for the 2012 Quarter by \$552,000 or 21.9% compared to the same period in 2011.

The following tables detail our real estate segment operating results for the six months ended June 30, 2012 and 2011, respectively (dollars in thousands):

<b>Six Months Ended June 30, 2012</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Live theater rental and ancillary income	\$ 1,877	\$ --	\$ --	\$ 1,877
Property rental income	829	7,637	3,828	12,294
<b>Total revenues</b>	<b>2,706</b>	<b>7,637</b>	<b>3,828</b>	<b>14,171</b>
Live theater costs	1,038	--	--	1,038
Property rental cost	483	2,865	1,055	4,403
<b>Total operating expense</b>	<b>1,521</b>	<b>2,865</b>	<b>1,055</b>	<b>5,441</b>
Depreciation and amortization	154	1,598	653	2,405
General & administrative expense	23	275	27	325
<b>Segment operating income</b>	<b>\$ 1,008</b>	<b>\$ 2,899</b>	<b>\$ 2,093</b>	<b>\$ 6,000</b>
<b>Six Months Ended June 30, 2011</b>	<b>United States</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Total</b>
Live theater rental and ancillary income	\$ 1,551	\$ --	\$ --	\$ 1,551
Property rental income	908	6,940	3,641	11,489
<b>Total revenues</b>	<b>2,459</b>	<b>6,940</b>	<b>3,641</b>	<b>13,040</b>
Live theater costs	953	--	--	953
Property rental cost	230	2,915	928	4,073
<b>Total operating expense</b>	<b>1,183</b>	<b>2,915</b>	<b>928</b>	<b>5,026</b>
Depreciation and amortization	163	1,609	735	2,507
General & administrative expense	29	328	37	394
<b>Segment operating income</b>	<b>\$ 1,084</b>	<b>\$ 2,088</b>	<b>\$ 1,941</b>	<b>\$ 5,113</b>

- Real estate revenue increased for the 2012 Quarter by \$1.1 million or 8.7% compared to the same period in 2011. Our Australian and New Zealand real estate revenue increased primarily due to higher rents in 2012 compared to the same period in 2011 coupled with a year over year increase in the value of the New Zealand dollar compared to the U.S. dollar (see below). Also, our U.S. real estate revenue increased due to improved results from our live theater operations.
- Operating expense for the real estate segment increased for the 2012 Quarter by \$415,000 or 8.3% compared to the same period in 2011. This increase resulted from higher repair, maintenance, and insurance costs for our operating properties and from legal costs incurred in 2012 associated with our old railroad properties.
- Depreciation expense decreased for the 2012 Quarter by \$102,000 or 4.1% compared to the same period in 2011 primarily due to certain Australian and New Zealand assets coming to the end of their depreciable lives in 2011.
- General and administrative costs decreased for the 2012 Quarter by \$69,000 or 17.5% compared to the same period in 2011 due to a decrease in costs associated with certain development properties.
- For our statement of operations, the Australian average exchange rates decreased by 0.1% the 2012 Six Months while the New Zealand average exchange rates increased 3.4% for the 2012 Six Months compared to the 2011 Six Months, which had an impact on the individual components of our income statement.
- As a result of the above, real estate segment income increased for the 2012 Quarter by \$887,000 or 17.3% compared to the same period in 2011.

Corporate

Quarterly Results

General and administrative expense includes expenses that are not directly attributable to other operating segments. General and administrative expense decreased by \$482,000 in the 2012 Quarter compared to the 2011 Quarter primarily related to the one-time additional labor costs incurred during 2011, associated with the transfer of our accounting functions from the U.S. and Australia to New Zealand during 2011 not being repeated in 2012.

Net interest expense increased by \$277,000 for the 2012 Quarter compared to the 2011 Quarter. The increase in interest expense during the 2012 Quarter was primarily due to larger increase in fair value of our interest rate swaps in 2012 than that noted for the same period in 2011 offset in part by a decrease in interest rates specifically from our Trust Preferred Securities. Effective May 1, 2012, the interest rate changed from a fixed rate of 9.22%, which was in effect for the past five years, to a variable rate of 3 month LIBOR plus 4.00%, which will reset each quarter through the end of the loan.

For the 2012 Quarter, our income tax expense was \$259,000 compared to an income tax benefit of \$13.8 million. The year over year change was primarily due to a one-time tax provision adjustment of \$14.4 million in 2011 caused by a reduction in the valuation allowance related to our Australian operations.

For the 2012 Quarter, we recorded an increase in our equity earnings of unconsolidated joint ventures and entities of \$130,000 primarily due to improved earnings from our Mt. Gravatt and Rialto Cinemas investments.

For the 2011 Quarter, we recorded an gain on the sale for our Elsterwick Cinema of \$1.7 million that is included in our income from discontinued operations.

Six Months Results

Depreciation expense increased by \$226,000 due to new IT systems, leasehold assets, and office assets implemented as a result of our new Wellington and Los Angeles offices.

General and administrative expense includes expenses that are not directly attributable to other operating segments. General and administrative expense decreased by \$379,000 in the 2012 Six Months compared to the 2011 Six Months due to the same reasons noted above for the quarterly results.

Net interest expense increased by \$106,000 for the 2012 Six Months compared to the 2011 Six Months. The increase in interest expense during the 2012 Six Months was primarily due to an increase in interest rates for our New Zealand debt in 2012 compared the same period in 2011 offset in part by a decrease in interest rates specifically from our Trust Preferred Securities. Effective May 1, 2012, the interest rate changed from a fixed rate of 9.22%, which was in effect for the past five years, to a variable rate of 3 month LIBOR plus 4.00%, which will reset each quarter through the end of the loan.

The 2012 Six Months income tax expense was \$1.9 million compare to an income tax benefit of \$13.1 million for the 2011 Six Months. The year over year change primarily related to a one-time tax provision adjustment of \$14.4 million discussed for the 2012 Quarter.

For the 2012 Six Months, we recorded an increase in our equity earnings of unconsolidated joint ventures and entities of \$179,000 primarily due to improved earnings from our Mt. Gravatt and Rialto Cinemas investments.

For the 2011 Six Months, we recorded an gain on the sale for our Elsternwick Cinema of \$1.7 million that is included in our income from discontinued operations.

#### Net Income (Loss) Attributable to Reading International, Inc. Common Shareholders

We recorded a net income attributable to Reading International, Inc. common shareholders of \$239,000 for the 2012 Quarter compared to a net income of \$17.4 million for the 2011 Quarter and a net loss of \$3,000 for the 2012 Six Months compared to a net income of \$15.0 million for the 2011 Six Months. As described above, the change from a net income to a net loss from 2012 to 2011 was primarily due to a one-time tax provision adjustment of \$14.4 million recorded in 2011.

#### Acquisition

##### *Coachella, California Land Acquisition*

On January 10, 2012, Shadow View Land and Farming, LLC, a limited liability company owned by our Company, acquired a 202-acre property, zoned for the development of up to 843 single-family residential units, located in the City of Coachella, California. The property was acquired at a foreclosure auction for \$5.5 million. The property was acquired as a long-term investment in developable land. Half of the funds used to acquire the land were provided by Mr. James J. Cotter, our Chairman, Chief Executive Officer and controlling shareholder. Upon the approval of our Conflicts Committee, these funds were converted on January 18, 2012 into a 50% interest. The limited liability company is administratively managed by our Company.

#### **Business Plan, Capital Resources, and Liquidity**

##### 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. Our real estate business plan is to continue development of our existing land assets to be sensitive to opportunities to convert our entertainment assets to higher and better uses, or, when appropriate, dispose of such assets. Because we believe that current economic conditions are not conducive to obtaining the pre-construction leasing commitments necessary to justify commencement of construction, we currently focus our development efforts on improving and enhancing land entitlements and negotiating with end users for build to suit projects. In addition, we review opportunities to monetize our assets where such action leads to a financially acceptable outcome. We will also continue to investigate potential synergistic acquisitions that may not readily fall into either of our two currently identified segments. For our U.S. cinema circuit, we anticipate completing negotiations for a leasing arrangement to fund our \$15.0 million digital projection conversion by the end of August 2012 and to begin the six to twelve month implementation process at that time. Similarly, for our Australia and New Zealand circuits, we anticipate that we will either negotiate a similar leasing arrangement to that of the U.S. or purchase the equipment for approximately \$8.0 million and \$2.0 million, respectively, with our cash on hand and begin the implementation process during the fourth quarter of 2012.

Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt and lease obligations at June 30, 2012 (in thousands):

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Thereafter</u>	<u>Total</u>
Debt	\$ 7,242	\$ 22,200	\$ 93,949	\$ 43,318	\$ --	\$ --	\$ 166,709
Notes payable to related parties	--	9,000	--	--	--	--	9,000
Subordinated notes (trust preferred securities)	--	--	--	--	--	27,913	27,913
Pension liability	7	20	30	40	50	4,319	4,466
Lease obligations	14,611	29,308	25,955	21,938	20,468	87,270	199,550
Estimated interest on debt	6,388	10,547	6,607	2,293	1,261	13,244	40,340
<b>Total</b>	<b>\$ 28,248</b>	<b>\$ 71,075</b>	<b>\$ 126,541</b>	<b>\$ 67,589</b>	<b>\$ 21,779</b>	<b>\$ 132,746</b>	<b>\$ 447,978</b>

We base estimated interest on long-term debt on the anticipated loan balances for future periods calculated against current fixed and variable interest rates.

We adopted FASB ASC 740-10-25, *Income Taxes – Uncertain Tax Positions* on January 1, 2007. As of adoption, the total amount of gross unrecognized tax benefits for uncertain tax positions was \$12.5 million decreasing to \$2.1 million as of June 30, 2012 mainly as a result of the settlement on January 6, 2011 of the Tax Audit/Litigation matter.

Unconsolidated Debt

Total debt of unconsolidated joint ventures and entities was \$1.1 million and \$663,000 as of June 30, 2012 and December 31, 2011. Our share of unconsolidated debt, based on our ownership percentage, was \$356,000 and \$221,000 as of June 30, 2012 and December 31, 2011. This debt is guaranteed by one of our subsidiaries to the extent of our ownership percentage.

Off-Balance Sheet Arrangements

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

Currency Risk

We are subject to currency risk because we conduct a significant portion of our business in Australia and New Zealand. Set forth below is a chart indicating the various exchange rates at certain points in time for the Australian and New Zealand Dollar vis-à-vis the US Dollar over the past 20 years.





We do not engage in currency hedging activities. Rather, to the extent possible, we operate our Australian and New Zealand operations on a self-funding basis. Our policy in Australia and New Zealand is to match revenues and expenses, whenever possible, in local currencies. As a result, we have procured in local currencies the majority of our expenses in Australia and New Zealand. Due to the developing nature of our operations in Australia and New Zealand and our historic practice of funding our asset growth through local borrowings, our revenues are not yet significantly greater than our operating expenses and interest charges in these countries. As we continue to progress with our acquisition and development activities in Australia and New Zealand, the effect of variations in currency values will likely increase.

#### Liquidity and Capital Resources

Our ability to generate sufficient cash flows from operating activities in order to meet our obligations and commitments drives our liquidity position. This is further affected by our ability to obtain adequate, reasonable financing and/or to convert non-performing or non-strategic assets into cash.

Currently, our liquidity needs arise primarily from:

- capital expenditure needs for our expanding digital and 3D implementations (see below);
- working capital requirements; and
- debt servicing requirements.

For our U.S. cinema circuit, we anticipate completing negotiations for a leasing arrangement to fund our \$15.0 million digital projection conversion by the end of August 2012 and to begin the six to twelve month implementation process at that time. Similarly, for our Australia and New Zealand circuits, we anticipate that we will either negotiate a similar leasing arrangement to that of the U.S. or purchase the equipment for approximately \$8.0 million and \$2.0 million, respectively, with our cash on hand and begin the implementation process during the fourth quarter of 2012.

### Short-Term and Long-Term Debt

#### *Cinemas 1, 2, 3 Term Loan*

On June 28, 2012, Sutton Hill Properties LLC (“SHP”), one of our consolidated subsidiaries, paid off its Eurohypo AG, New York Branch loan with a new \$15.0 million term loan (the “Sovereign Bank Loan”) from Sovereign Bank, N.A. The terms of the Sovereign Bank Loan require interest only payments at LIBOR plus a 5.00% margin to be calculated and paid monthly. The Sovereign Bank Loan has a one-year term ending on June 27, 2013, with a one year extension option to June 26, 2014 subject to an extension fee equal to 1% of the ending principal balance and a compliance requirement with certain special covenants. See Note 11 – *Notes Payable*.

#### *Renewed New Zealand Credit Facility*

On February 8, 2012, we received an approved amendment from Westpac renewing our existing \$36.9 million (NZ\$45.0 million) New Zealand credit facility with a 3-year credit facility. The renewed facility calls for a decrease in the overall facility by \$4.1 million (NZ\$5.0 million) to \$32.8 million (NZ\$40.0 million) and an increase in the facility margin of 0.55% to 2.0%. No other significant changes to the facility were made.

### Liquidity Requirements

#### *Liberty Theatre Term Loans*

As our Liberty Theater Term Loans are due to mature on April 1, 2013, the June 30, 2012 outstanding balance of this debt of \$6.5 million is classified as current on our balance sheet. We intend to refinance the property’s debt with similar financing.

#### *Tax Settlement Liability*

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

For the abovementioned liabilities, we believe that we have sufficient borrowing capacity under our various credit facilities, together with our \$30.7 million of cash and time deposits, to meet our anticipated short-term working capital requirements for the next twelve months.

### Operating Activities

Cash provided by operations was \$8.2 million in the 2012 Six Months compared to \$10.1 million in the 2011 Six Months. The year-to-year decrease in cash provided by operations of \$1.9 million was due primarily to a \$1.0 million increase in operational cash flows offset by a \$2.9 million change in operating assets and liabilities.

### Investing Activities

Cash used in investing activities for the 2012 Six Months was \$13.5 million compared to \$387,000 of cash provided by investing activities for the 2011 Six Months, a change of \$13.9 million. The \$13.5 million of cash used in investing activities for the 2012 Six Months was primarily related to:

- \$3.2 million in property enhancements to our existing properties;
- \$8.0 million to purchase time deposits;
- \$1.8 million to purchase a note receivable; and
- \$5.5 million for the purchase of the Coachella land acquisition;

offset by

- \$33,000 of a change in restricted cash;
- \$1.9 million of proceeds from the sale of our Taringa properties; and
- \$3.0 million of proceeds from the sale of marketable securities.

The \$387,000 of cash provided by investing activities for the 2011 Six Months was primarily related to:

- \$3.2 million in property enhancements to our existing properties;
- \$5.0 million for the purchase of notes receivable including \$2.8 million for the purchase of mortgage notes receivable and \$2.3 million for the note receivable securitized by certain cinema leases; and
- \$136,000 of a change in restricted cash;

offset by

- \$123,000 of proceeds from the sale of marketable securities;
- \$6.8 million of proceeds from the pay off of a long-term other receivable; and
- \$1.9 million of net proceeds from the sale of our 66.7% share of the 5-screen Elsternwick Classic cinema located in Melbourne, Australia.

### Financing Activities

Cash used in financing activities for the 2012 Six Months was \$3.4 million compared to \$8.5 million for the same period in 2011 resulting in a change of \$5.0 million. The \$3.4 million in cash used in financing activities during the 2012 Six Months was primarily related to:

- \$15.9 million of new borrowing including \$14.6 million of loan proceeds from our new Cinemas 1, 2, 3 loan net of \$445,000 of capitalized borrowing costs and \$945,000 of borrowing from our Bank of America line of credit;
- \$3.3 million in noncontrolling interests' contributions; and
- \$308,000 of proceeds from the exercise of employee stock options;

offset by

- \$22.5 million of loan repayments including \$15.0 million to pay off our Eurohypo Cinemas 1, 2, 3 loan, \$3.3 million in payments on our GE Capital Loan and \$3.6 million in payments on our NAB term debt.

The \$8.5 million in cash used in financing activities during the 2011 Six Months was primarily related to:

- \$104.6 million of new borrowing including \$104.2 million of loan proceeds from our new NAB loan net of \$684,000 of capitalized borrowing costs and \$1.1 million of borrowing from our New Zealand credit facility;

offset by

- \$112.4 million of loan repayments including the \$105.8 million payoff of our Australian BOSI loan, \$4.3 million in loan repayment on our GE Capital Loan, and \$2.0 million pay down of our Nationwide Notes;
- \$111,000 of repurchase of Class A Nonvoting Common Stock; and
- \$554,000 in noncontrolling interests' distributions.

### 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. Although accounting for our core business of cinema and live theater exhibition with a real estate focus is relatively straightforward, we believe our most critical accounting policies relate to:

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

We discuss these critical accounting policies in our 2011 Annual Report and advise you to refer to that discussion.

### Financial Risk Management

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

As our operational focus continues to shift to Australia and New Zealand, unrealized foreign currency translation gains and losses could materially affect our financial position. We currently manage our currency exposure by creating, 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.

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

In accordance with FASB ASC 815-10-35, *Subsequent Valuation of Derivative Instruments and Hedging Instruments* ("FASB ASC 815-10-35"), we marked our interest rate swap instruments to market on the consolidated balance sheet resulting in an increase in interest expense of \$1.8 million and \$1.5 million during the three and six months ended June 30, 2012, respectively, and an increase of \$1.5 million and \$1.7 million in interest expense during the three and six months ended June 30, 2011, respectively. At June 30, 2012 and December 31, 2011, we recorded the fair market value of our interest rate swaps of \$6.2 million and \$4.7 million, respectively, as other long-term liabilities. In accordance with FASB ASC 815-10-35, we have not designated any of our current interest rate swap positions as financial reporting hedges.

### Inflation

We continually monitor inflation and the effects of changing prices. Inflation increases the cost of goods and services used. Competitive conditions in many of our markets restrict our ability to recover fully the higher costs of acquired goods and services through price increases. We attempt to mitigate the impact of inflation by implementing continuous process improvement solutions to enhance productivity and efficiency and, as a result, lower costs and operating expenses. In our opinion, 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.

### Litigation

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

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

Where we are the plaintiffs, we expense all legal fees on an on-going basis and make no provision for any potential settlement amounts until received. In Australia, the prevailing party is entitled to recover its attorneys' fees, which typically 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, which 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. However, we do not give any assurance as to the ultimate outcome of such claims and litigation. The resolution of such claims and litigation could be material to our operating results for any particular period, depending on the level of income for such period. There have been no material changes to our litigation exposure since our 2011 Annual Report.

## Forward-Looking Statements

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

These forward-looking statements reflect our expectation after having considered a variety of risks and uncertainties. However, they are necessarily the product of internal discussion and do not necessarily completely reflect the views of individual members of our Board of Directors or of our management team. Individual Board members and individual members of our management team may have different views 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:
  - o The number and attractiveness to movie goers of the films released in future periods;
  - o The amount of money spent by film distributors to promote their motion pictures;
  - o The licensing fees and terms required by film distributors from motion picture exhibitors in order to exhibit their films;
  - o The continued willingness of moviegoers to spend money on our concession items;
  - o 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;
  - o The extent to which we encounter competition from other cinema exhibitors, from other sources of outside of the home entertainment, and from inside the home entertainment options, such as “home theaters” and competitive film product distribution technology such as, by way of example, cable, satellite broadcast, DVD and VHS rentals and sales, and so called “movies on demand”;
  - o the extent to which we can digitalize our cinema circuit compared to our competitors; and
  - o 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:
  - o The rental rates and capitalization rates applicable to the markets in which we operate and the quality of properties that we own;
  - o The extent to which we can obtain on a timely basis the various land use approvals and entitlements needed to develop our properties;
  - o The risks and uncertainties associated with real estate development;
  - o The availability and cost of labor and materials;
  - o Competition for development sites and tenants;
  - o Environmental remediation issues; and
  - o The extent to which our cinemas can continue to serve as an anchor tenant who will, in turn, be influenced by the same factors as will influence generally the results of our cinema operations.

- 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:
  - o 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;
  - o The relative values of the currency used in the countries in which we operate;
  - o Changes in government regulation;
  - o 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);
  - o 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;
  - o 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
  - o 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, which models the effects of fluctuations in currency exchange rates and interest rates. This analysis is constrained by several factors, including the following:

- It is based on a single point in time; 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 June 30, 2012, approximately 55% and 17% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), respectively, including approximately \$14.2 million in cash and cash equivalents. At December 31, 2011, approximately 57% and 16% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand) including approximately \$19.8 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 in local currencies a majority of our expenses in Australia and New Zealand. Due to the developing nature of our operations in Australia and New Zealand, our revenue is not yet significantly greater than our operating and interest expenses. Despite this natural hedge, recent movements in foreign currencies have had an effect on our current earnings. Although foreign currency has had a nominal 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 \$3.2 million and \$789,000 for the three and six months ended June 30, 2012, respectively. As we continue to progress our acquisition and development activities in Australia and New Zealand, we cannot assure you that the foreign currency effect on our earnings will be negligible in the future.

Historically, our policy has been to borrow in local currencies to finance the development and construction of our ETRCs 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 notes (TPS) in 2007, and their subsequent partial repayment, approximately 57% and 46% 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 \$13.3 million and \$3.3 million, respectively, and the change in our quarterly net income (loss) would be \$81,000 and \$104,000, 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 June 30, 2012 and December 31, 2011, we have recorded a cumulative unrealized foreign currency translation gain of approximately \$60.9 million and \$60.1 million, 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.

While we have typically used fixed rate financing (secured by first mortgages) in the U.S., fixed rate financing is typically not available to corporate borrowers in Australia and New Zealand. The majority of our Australian and New Zealand bank loans have variable rates. The Australian facility provides for floating interest rates, but requires that not less than a certain percentage of the loan be swapped into fixed rate obligations (see *Financial Risk Management* above). If we consider the interest rate swaps, a 1% increase or decrease in short-term interest rates would have resulted in approximately \$56,000 increase or decrease in our 2012 Quarter's Australian and New Zealand interest expense.

#### **Item 4 – Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports, as amended, is recorded, processed, summarized and reported within the time periods specified in the 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 Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

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

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 June 30, 2012 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**

For a description of legal proceedings, please refer to Item 3 entitled Legal Proceedings contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

### **Item 1A – Risk Factors**

There have been no material changes in risk factors as previously disclosed in our annual report on Form 10-K filed on March 15, 2012 with the SEC for the fiscal year ended December 31, 2011.

### **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 2 – *Equity and Stock-Based Compensation*, above.

### **Item 3 – Defaults upon Senior Securities**

None.

### **Item 5 – Other Information**

None.

### **Item 6 – Exhibits**

- |      |   |
|------|---|
| 10.1 | Amended and Restated Note dated June 28, 2012 among Sutton Hill Properties, LLC in favor of Sovereign Bank, N.A., amending Promissory Note dated June 27, 2007, by Sutton Hill Properties, LLC in favor of Eurohypo AG, New York Branch (filed herewith).   |
| 10.2 | Amended and Restated Mortgage, Assignment of Leases and Rents, Security Agreement, and Fixture Filing (“Agreement”) dated June 28, 2012 among Sutton Hill Properties, LLC in favor of Sovereign Bank, N.A., amending Agreement dated June 27, 2007, by Sutton Hill Properties, LLC in favor of Eurohypo AG, New York Branch (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.   |

**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: August 9, 2012

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

Date: August 9, 2012

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



## AMENDED AND RESTATED NOTE

**\$15,000,000.00** June 28, 2012

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 ("**Borrower**"), promises to pay to the order of **SOVEREIGN BANK, N.A.** a national association, having its principal place of business at 824 North Market Street, Wilmington, Delaware 19801, its successors and assigns (hereinafter referred to as "**Lender**"), the principal sum of Fifteen Million and 00/100 Dollars (\$15,000,000.00), in lawful money of the United States of America, with interest thereon to be computed on the unpaid principal balance outstanding on the first day of the applicable Interest Accrual Period (hereinafter defined) at the Interest Rate (hereinafter defined) in effect for such Interest Accrual Period.

This Note amends and restates in its entirety that certain Promissory Note dated as of June 28, 2007 in the original principal amount of \$15,000,000.00, made by Borrower in favor of Eurohypo AG, New York Branch (the "**Original Note**"), which Original Note is now held by Lender. Borrower confirms that the full principal amount has been advanced under the Original Note, that the full principal indebtedness outstanding under the Original Note is \$15,000,000.00, and that there are no offsets, setoffs or counterclaims against payment of said amounts. This Note does not constitute a satisfaction, termination, novation or discharge of the Original Note.

### 1. DEFINITIONS

As used herein, the following terms shall have the meanings herein specified unless the context otherwise requires. Defined terms in this Note shall include in the singular number the plural and in the plural number the singular. All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Security Instrument.

"**Additional Taxes**" shall have the meaning set forth in Section 2.1(d) hereof.

"**Adjusted LIBOR Rate**" shall mean, with respect to each Interest Accrual Period, the rate per annum equal to the quotient of (a) the LIBOR Rate divided by (b) a number equal to 1.00 minus the aggregate (without duplication) of the rates (expressed as a decimal) of reserve requirements applicable to Lender on the related Interest Determination Date (including, without limitation, basic, supplemental, marginal and emergency reserves) under any regulations of any Governmental Authority as now and from time to time hereafter in effect, dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board of Governors of the Federal Reserve System) maintained by a member bank of such system. Adjusted LIBOR Rate may or may not be the lowest rate based upon the market for U.S. Dollar deposits in the London Interbank Eurodollar Market at which the Lender prices loans on the date which LIBOR Rate is determined by Lender as set forth above.

"**Affiliate**" of any specified Person means any other Person Controlling, Controlled by or under common Control with such specified Person.

“Bankruptcy Event” shall mean the occurrence of any one or more the of the following: (i) Borrower files a voluntary petition under Title 11 of the United States Code entitled “Bankruptcy”, as amended from time to time, and any successor statute or statutes and all rules and regulations from time to time promulgated thereunder, and any comparable foreign laws relating to bankruptcy, insolvency or creditors’ rights (the “Bankruptcy Code”) or any other Creditors Rights Laws (defined below); (ii) any Borrower Party files, or joins in the filing of, an involuntary petition against Borrower under the Bankruptcy Code or any other Creditors Rights Laws, or solicits or causes to be solicited petitioning creditors for any involuntary petition against Borrower from any Person; (iii) Borrower files an answer consenting to or otherwise acquiescing in or joining in any involuntary petition filed against it, by any other Person under the Bankruptcy Code or any other existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, conservatorship, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to its debts or debtors (“Creditors Rights Laws”), or solicits or causes to be solicited petitioning creditors for any involuntary petition from any Person; (iv) any Borrower Party consents to or acquiesces in or joins in an application for the appointment of a custodian, receiver, trustee, or examiner for Borrower or any portion of the Property; (v) any Borrower Party makes an assignment for the benefit of creditors, or admits, in writing or in any legal proceeding, its insolvency or inability to pay its debts as they become due; (vi) the substantive consolidation of any Restricted Party with any other entity in connection with any proceeding under the Bankruptcy Code or any other Creditors Rights Laws involving such Restricted Party or its subsidiaries; (vii) any Restricted Party contesting or opposing any motion made by Lender to obtain relief from the automatic stay or seeking to reinstate the automatic stay in the event of any proceeding under the Bankruptcy Code or any other Creditors Rights Laws involving such Restricted Party or its subsidiaries; and (viii) in the event Lender receives less than the full value of its claim in any proceeding under the Bankruptcy Code or any other Creditors Rights Laws, Restricted Party or any of its Affiliates receiving an equity interest or other financial benefit of any kind as a result of a “new value” plan or equity contribution.

“Base Rate” shall mean, for any day, the sum of (x) one percent (1%) plus (y) the greater of (a) the Prime Rate for such day, and (b) the Federal Funds Rate for such day plus .50%.

“Board” shall mean the Board of Governors of the Federal Reserve System, and any successor thereof.

“Borrower Party” and “Borrower Parties” shall mean each of Borrower, Guarantor and Borrower’s managing member.

“Business Day” shall mean any day other than (a) a Saturday or Sunday, or (b) a day on which banking and savings and loan institutions in the State of New York are authorized or obligated by law or executive order to be closed, and when used in the context of a Loan bearing interest at the LIBOR Rate, is also a day of trading by and between banks in the London interbank market.

“Capital Adequacy Rule” shall mean any law, rule or regulation regarding capital adequacy, or any interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency.

“Cash Available for Debt Service” shall mean:

(i) all gross receipts received from the Property, including, without limitation, from tenants in the Property and paying rent under leases in effect during the applicable twelve-month period, calculated on a cash basis which reflects only the income actually received during the previous twelve-month period as of the date of such calculation, including without limitation all amounts to be received from tenants as payment of operating expenses but not including refundable deposits, late fees or charges, interest income or other non-operating income, lease termination payments, excess tenant improvement and leasing commission payments included as additional rent, principal or interest payments received by Borrower on loans to tenants and fees and reimbursements for work performed for tenants by Borrower, less:

(ii) all expenses actually incurred by Borrower (without duplication), for the operation or maintenance of the Property for the applicable twelve-month period, including the cost of property management (which shall be the greater of the actual management fee payable under a management contract in effect for the applicable twelve-month period, market or the minimum fee applied by the Rating Agencies), marketing, franchise fees (which shall be the greater of the actual fees payable under franchise or license agreements, market, or the minimum fee applied by nationally recognized rating agencies), maintenance, cleaning, security, legal, administrative, landscaping, parking maintenance, utilities, real estate taxes and assessments and other taxes related to the operation of the Property, insurance premiums, necessary repairs and future replacements of equipment and other capital expenditures, tenant improvements, leasing commissions and other costs and expenses incurred by Borrower during the applicable period. Payments under this Note and non-cash deductions for income tax purposes shall not be deducted in determining Cash Available for Debt Service.

Cash Available for Debt Service shall be determined by Lender in a manner substantially the same as that utilized by Lender in underwriting loans secured by similar property types at the time of determination of the Debt Yield.

“Closing Date” means the date of this Note.

“Control” (and terms correlative thereto) when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities or other beneficial interests, by contract or otherwise.



“Debt Yield” means, as of any date of calculation a ratio conveyed as a percentage in which: (i) the numerator is Cash Available for Debt Service; and (ii) the denominator is the then outstanding principal balance of the Loan.

“Dollar” and the sign “\$” shall mean lawful money of the United States of America.

“Extended Maturity Date” shall mean June 26, 2014.

“Federal Funds Rate” shall mean, for any date, the rate set forth in the weekly statistical release designated as H.15(519) or any successor publication, published by the Board for such day opposite the caption “Federal Funds Effective Rate.” If on the relevant day such rate is not yet so published, the rate for such date will be the rate set forth in the daily statistical release designated as the Composite 3:30 p.m. Quotations for U.S. Government Securities, or any successor publication, published by the Federal Reserve Bank of New York for such date under the caption “Federal Funds Effective Rate.” If on any relevant date the appropriate rate for such date is not yet published in either of the foregoing publications, the rate for such day will be the arithmetic mean (rounded upwards if necessary, to the nearest 1/100th of one percent) of the rates for the last transaction in overnight Federal Funds arranged prior to 9:00 a.m. (New York City time) on that day by three leading brokers or dealers of Federal Funds transactions in New York City, selected by Lender.

“First Interest Accrual Period” shall mean the period from and including the Closing Date through but excluding the Initial Accrual Period Day first occurring after the Closing Date.

“Governmental Authority” shall mean, with respect to any person, any federal or state government or other political subdivision thereof and any entity, including any regulatory or administrative authority or court, exercising executive, legislative, judicial, regulatory or administrative or quasi-administrative functions of or pertaining to government, and any arbitration board or tribunal in each case, having jurisdiction over such applicable person or such person's property and any stock exchange on which shares of capital stock of such person are listed or admitted for trading.

“Guarantor” shall mean Reading International, Inc., a Nevada corporation.

“Initial Accrual Period Day” shall mean the first (1<sup>st</sup>) day of each calendar month. Lender shall have the one (1) time right to change the Initial Accrual Period Day by giving notice of such change to Borrower.

“Initial Maturity Date” shall mean June 27, 2013.

“Initial Monthly Payment Date” shall have the meaning set forth in Section 2.1(a)(ii) hereof.

“Interest Accrual Period” shall mean (a) the First Interest Accrual Period and, (b) with respect to the Initial Monthly Payment Date and every Payment Date thereafter, the period from and including the Initial Accrual Period Day immediately preceding the applicable Payment Date through but excluding the Initial Accrual Period Day next occurring. Lender shall have the one (1) time right to change the Interest Accrual Period by giving notice of such change to Borrower.

“Interest Determination Date” shall mean two (2) LIBOR Business Days prior to the first (1st) day of the calendar month in which the applicable Interest Accrual Period commences; provided that, notwithstanding the foregoing, Lender shall have the right to change the Interest Determination Date by giving notice of such change to Borrower.

“Interest Rate” shall mean the rate per annum (expressed as a percentage) equal to the Adjusted LIBOR Rate plus the LIBOR Margin; or if Lender shall exercise its rights under Section 2.5, the Base Rate. The Interest Rate is subject to increase in accordance with the terms of Section 3.8(e) of the Security Instrument.

“LIBOR Lending Office” shall mean the office of Lender located at 195 Montague Street, Brooklyn, New York 11201 or such other branch (or affiliate) of Lender as Lender may designate as its LIBOR Lending Office.

“LIBOR Business Day” shall mean any day on which banks are open for dealing in foreign currency and exchange in London, England.

“LIBOR Margin” shall mean five hundred basis points (5.00%) per annum.

“LIBOR Rate” shall mean the rate per annum calculated as set forth below:

With respect to each Interest Accrual Period, the rate (rounded upwards, if necessary, to the nearest 1/16 of 1%) for deposits in U.S. Dollars, for a period equal to one month, which appears on the Reuters Screen LIBOR01 Page as of 11:00 a.m., London time, on the related Interest Determination Date. If such rate does not appear on Reuters Screen LIBOR01 Page, the rate for that Interest Accrual Period shall be determined on the basis of the rates (rounded upwards, if necessary, to the nearest 1/16 of 1%) at which deposits in Dollars are offered by any four major reference banks in the London interbank market selected by Lender to provide such bank’s offered quotation of such rates at approximately 11:00 a.m., London time, on the related Interest Determination Date to prime banks in the London interbank market for a period of one month, commencing on the first day of such Interest Accrual Period and in an amount that is representative for a single such transaction in the relevant market at the relevant time. Lender shall request the principal London office of any four major reference banks in the London interbank market selected by Lender to provide a quotation of such rates, as offered by each such bank. If at least two such quotations are provided, the rate for that Interest Accrual Period shall be the arithmetic mean (rounded upwards, if necessary, to the nearest 1/16 of 1%) of the quotations. If fewer than two quotations are provided as requested, the rate for that Interest Accrual Period shall be the arithmetic mean (rounded upwards, if necessary, to the nearest 1/16 of 1%) of the rates quoted by major banks in New York City selected by Lender, at approximately 11:00 a.m., New York City time, on the Interest Determination Date with respect to such Interest Accrual Period for loans in Dollars to leading European banks for a period equal to one month, commencing on the first day of such Interest Accrual Period and in an amount that is representative for a single transaction in the relevant market at the relevant time. Lender shall determine LIBOR Rate for each Interest Accrual Period and the determination of LIBOR Rate by Lender shall be binding upon Borrower absent manifest error.

“Loan to Value Ratio” shall mean the ratio, expressed as a percentage, obtained by dividing the unpaid principal balance of this Note by the value of the Property as determined pursuant to a then current MAI appraisal of the Property.

“Maturity Date” shall mean the earlier of (a) the Initial Maturity Date, if the Initial Maturity Date is not extended in accordance with Section 2.1(e) of this Note, (b) the Extended Maturity Date, if the Initial Maturity Date is extended in accordance with Section 2.1(e) of this Note, or (c) the date on which the Loan becomes due and payable under this Note or the other documents executed in connection with this Note, whether by acceleration or otherwise.

“Parent” shall mean, with respect to Lender, any person controlling Lender.

“Payment” shall have the meaning set forth in Section 2.2(a) hereof.

“Payment Date” shall mean, with respect to each month, the first (1st) calendar day in such month, or if such day is not a Business Day, the next following Business Day. Notwithstanding the foregoing, Lender shall have the one (1) time right to change the Payment Date by giving notice of such change to Borrower.

“Person” means any individual, corporation, limited liability company, partnership, joint venture, estate, trust, unincorporated association, or any other entity, any Governmental Authority, and any fiduciary acting in such capacity on behalf of any of the foregoing.

“Prime Rate” shall mean a fluctuating interest rate per annum equal to the rate of interest reported in the Money Rates section of the Wall Street Journal. In the event the Wall Street Journal should cease or temporarily interrupt publication, the “Prime Rate” shall mean a fluctuating interest rate per annum equal to the rate of interest announced publicly in New York, New York, from time to time, as Lender's prime rate. The Prime Rate does not necessarily represent the lowest or best rate actually charged to any customer. Lender may make commercial loans or other loans at rates of interest, at, above or below the Prime Rate.

“Recourse Obligations of Borrower” shall have the meaning set forth in Section 10 hereof.

“Reuters Screen LIBOR01 Page” shall mean the display designated as “Reuters Screen LIBOR01 Page” on the Reuters service (or such other page as may replace LIBOR01 Page on that service or such other service as may be nominated by the British Banker’s Association as the information vendor for the purpose of displaying British Bankers’ Association Interest Settlement Rates for U.S. Dollar deposits).

“Restricted Party” shall mean Borrower, Guarantor, any property manager of the Property that is an Affiliate of Borrower (“Affiliated Manager”), or any shareholder, partner, member or non-member manager, or any direct or indirect legal or beneficial owner of Borrower, Guarantor, any Affiliated Manager.

“Unscheduled Payments” shall mean (a) all condemnation and insurance proceeds that Borrower is required to apply to the repayment of the Debt pursuant to this Note, the Security Instrument or any other Loan Documents, (b) any funds representing a voluntary or involuntary principal prepayment, and (c) any net proceeds obtained by Lender from the exercise of remedies under this Note, the Security Instrument or the other Loan Documents after the occurrence of an Event of Default.

## 2. PAYMENT TERMS

### Section 2.1 Principal and Interest Payments.

- follows:
- (a) Payments of principal and interest under this Note, calculated in accordance with the terms hereof, shall be due and payable as follows:
    - (i) interest only at the Interest Rate in effect for the First Interest Accrual Period shall be due and payable on the date hereof;
    - (ii) interest at the Interest Rate in effect for each Interest Accrual Period shall be due and payable on the Payment Date in August, 2012 (the "Initial Monthly Payment Date") and on each subsequent Payment Date through and including the Maturity Date; and
    - (iii) the entire outstanding principal amount of this Note, together with all accrued and unpaid interest (including, without limitation, all interest that would accrue on the outstanding principal balance of this Note through the end of the Interest Accrual Period during which the Maturity Date (as hereinafter defined) occurs) and any other charges due hereon, shall be due and payable on the Maturity Date.
  - (b) Borrower hereby authorizes Lender to charge checking account number 7673960133 at Sovereign Bank, N.A. (or such other account maintained by Borrower at Sovereign Bank, N.A. as Borrower shall designate by written notice to Lender) (the "Deposit Account") to satisfy the monthly payments of principal and/or interest due and payable to Lender hereunder on each Payment Date and Lender is hereby authorized to charge the Deposit Account on each Payment Date. If any payment hereunder or under any of the Loan Documents becomes due and payable on a day other than a Business Day, such payment shall not be payable until the next succeeding Business Day, provided, however, if such next succeeding Business Day falls within the next calendar month, such payment shall be due and payable on the immediately preceding Business Day. Interest on the principal sum of this Note shall be calculated on the basis of the actual number of days elapsed in a three hundred sixty (360) day year.
  - (c) Lender shall determine the LIBOR Rate, Base Rate, Prime Rate and Federal Funds Rate as in effect from time to time, and each such determination of the LIBOR Rate, Base Rate, Prime Rate and Federal Funds Rate shall be conclusive and binding absent manifest error.
  - (d) Payments made by Borrower under this Note shall be made free and clear of, and without reduction for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding income and franchise taxes of the United States of America or any political subdivision or taxing authority thereof or therein (such non-excluded taxes being called "Additional Taxes"). If any Additional Taxes are required to be withheld from any amounts payable to Lender hereunder or under any of the other Loan Documents, the amounts so payable to Lender shall be increased to the extent necessary to yield to Lender (after payment of all Additional Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Note.

(e) Borrower shall have the option to extend the Initial Maturity Date for an additional one (1) year period (such period, the “Extension Period”) from the Initial Maturity Date to the Extended Maturity Date, provided that, as conditions precedent to the exercise of such option, (1) Borrower shall provide written notice to Lender of its election to request an extension of the Initial Maturity Date to the Extended Maturity Date no later than ninety (90) days prior to the Initial Maturity Date, (2) there is no Event of Default under any of the Loan Documents, (3) there shall be no material adverse change in the financial condition of the Borrower or Guarantor, (4) at the time of extension, Borrower must be maintaining an eleven percent (11%) Debt Yield, (5) Borrower shall have paid to Lender an extension fee equal to one percent (1.00%) of the principal amount of this Note, (6) Lender shall have received, reviewed and be satisfied with the current financial statements and other financial information requested by Lender and delivered by Borrower with respect to Borrower and Guarantor, (7) the Borrower must be in compliance with the Loan to Value Ratio covenant set forth in Section 4.6 of the Security Instrument as determined pursuant to a then current MAI appraisal of the Property, (8) Borrower shall pay all reasonable internal and external costs and expenses of Lender (including reasonable attorneys' fees and expenses) in connection with such extension, and (9) Borrower shall provide all other documentation that Lender may reasonably request.

Section 2.2 Application of Payments.

(a) Each and every payment (a “Payment”) made by Borrower to Lender in accordance with the terms of this Note and/or the terms of any one or more of the other Loan Documents and all other proceeds received by Lender with respect to the Debt, shall be applied as follows:

(i) Payments other than Unscheduled Payments shall be applied (1) first, to all interest (other than Default Rate interest) which shall be due and payable with respect to the Loan pursuant to the terms hereof as of the date the Payment is received (including any unpaid interest and interest thereon to the extent permitted by applicable law), (2) second, to all charges, Default Rate interest or other premiums and other sums payable hereunder or under the other Loan Documents (other than those sums included in clause (1) of this Section 2.2(a)(i)) in such order and priority as determined by Lender in its sole discretion, and (3) on the Maturity Date, to the Loan until the Loan has been paid in full.

(ii) Unscheduled Payments shall be applied at the end of the Interest Accrual Period in which such Unscheduled Payments are received as a principal prepayment of the Loan amount to amortize the Loan.

(b) To the extent that Borrower makes a Payment or Lender receives any Payment or proceeds for Borrower's benefit, which are subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver, custodian or any other party under any bankruptcy law, common law or equitable cause, then, to such extent, the obligations of Borrower hereunder intended to be satisfied shall be revived and continue as if such Payment or proceeds had not been received by Lender.

Section 2.3 Indemnity. Borrower agrees to indemnify Lender and to hold it harmless from any cost, loss or expenses which Lender may sustain or incur as a consequence of (a) Borrower making a payment or prepayment of principal on the Loan on a day which is not a Payment Date with respect thereto, (b) default by Borrower in making any prepayment after Borrower has given a notice of prepayment, and (c) any acceleration of the maturity of the Loan by Lender in accordance with the terms of this Note, including, but not limited to, any such reasonable costs, loss or expense arising in liquidating the Loan and from interest or fees payable by Lender to lenders of funds obtained by it in order to maintain the Loan hereunder.

Section 2.4 Increased Cost and Reduced Return.

(a) If, on or after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Lender (or its LIBOR Lending Office) with any request or directive (whether or not having the force of law) of any such Governmental Authority, central bank or comparable agency shall impose, modify or deem applicable any reserve (including, without limitation, any such requirement imposed by the Board (but excluding with respect to any such requirement reflected in the then effective LIBOR Rate)), special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, Lender (or its LIBOR Lending Office) or shall impose on Lender (or its LIBOR Lending Office) or on the London interbank market any other condition affecting any loan bearing interest at the LIBOR Rate, and the result of any of the foregoing is to increase the cost to Lender (or its LIBOR Lending Office) of maintaining the Loan at the LIBOR Rate, or to reduce the amount of any sum received or receivable by Lender (or its LIBOR Lending Office) under this Note with respect thereto, by an amount deemed by Lender in its reasonable judgment to be material, then, within thirty (30) days after demand by Lender, Borrower shall pay to Lender such additional amount or amounts as will compensate Lender for such increased cost or reduction.

(b) If Lender shall have determined that, after the date hereof, the adoption of any Capital Adequacy Rule has or would have the effect of reducing the rate of return on capital of Lender (or its Parent) as a consequence of Lender's obligations hereunder to a level below that which Lender (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by Lender to be material, then from time to time, within fifteen (15) days after demand by Lender, Borrower shall pay to Lender such additional amount or amounts as will compensate Lender (or its Parent) for such reduction.

(c) Lender will promptly notify Borrower of any event of which it has knowledge, occurring after the date hereof, which will entitle the Lender to compensation pursuant to this Section 2.4 and will designate a different LIBOR Lending Office if such designation will avoid the need for, or reduce the amount of such compensation and will not, in the judgment of Lender, be otherwise disadvantageous to Lender. A certificate of Lender claiming compensation under either Section 2.4(a) or 2.4(b) and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error; provided that any certificate delivered by Lender pursuant to this Section 2.4(c) shall (i) in the case of a certificate in respect of amounts payable pursuant to Section 2.4(a), set forth in reasonable detail the basis for and the calculation of such amounts, and (ii) in the case of a certificate in respect of amounts payable pursuant to Section 2.4(b), (A) set forth at least the same amount of detail in respect of the calculation of such amount as Lender provides in similar circumstances to other similarly situated borrowers from Lender, and (B) include a statement by Lender that it has allocated to the Loan a proportionately equal amount of any reduction of the rate of return on Lender's capital due to a Capital Adequacy Rule as it has allocated to each of its other outstanding loans that are effected similarly by such Capital Adequacy Rule.

Section 2.5 Deposits Unavailable. In the event, and on each occasion, that (a) Lender shall have determined that dollar deposits in the principal amounts of the Loan are not generally available to Lender in the London interbank market, for such periods and amounts then outstanding hereunder or that reasonable means do not exist for ascertaining the LIBOR Rate, or (b) Lender determines that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to Lender of maintaining the Loan at the LIBOR Rate during such Interest Accrual Period, Lender shall, as soon as practicable thereafter, give written notice of such determination to Borrower. In the event of such determination, until the circumstances giving rise to such notice no longer exist, the Loan shall bear interest at the Base Rate. After an Event of Default, interest shall accrue on the outstanding principal balance of this Note at a rate per annum equal to the Default Rate.

Section 2.6 Illegality. If on or after the date of this Note, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any Governmental Authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by Lender (or its LIBOR Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for Lender (or its LIBOR Lending Office) to maintain the Loan to Borrower pursuant to this Section 2.6, Lender shall designate a different LIBOR Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of Lender, be otherwise disadvantageous to Lender. If Lender shall determine that it may not lawfully continue to maintain the Loan at the LIBOR Rate to maturity and shall so specify in such notice, the Loan shall bear interest at the Base Rate.

### 3. SECURITY

This Note is secured by, and Lender is entitled to the benefits of, the Security Instrument, the Assignment, the Environmental Agreement and the other Loan Documents (hereinafter defined). The term “**Security Instrument**” means the Amended and Restated Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing dated the date hereof by and between Borrower and Lender covering the estate of Borrower in certain premises as more particularly described therein (which premises, together with all properties, rights, titles, estates and interests now or hereafter securing the Debt and/or other obligations of Borrower under the Loan Documents, are collectively referred to herein as the “**Property**”), together with all extensions, renewals, modifications, substitutions and amendments thereof. The term “**Assignment**” means the Assignment of Leases and Rents of even date herewith executed by Borrower in favor of Lender, together with all extensions, renewals, modifications, substitutions and amendments thereof. The term “**Environmental Agreement**” means the Environmental Indemnity Agreement of even date herewith executed by Borrower and Guarantor in favor of Lender, together with all extensions, renewals, modifications, substitutions and amendments thereof. The term “**Loan Documents**” refers collectively to this Note, the Security Instrument, the Assignment, the Environmental Agreement, and any and all other documents executed in connection with this Note or now or hereafter executed by Borrower and/or others and by or in favor of Lender, which wholly or partially secure or guarantee payment of this Note or pertains to indebtedness evidenced by this Note, together with all extensions, renewals, modifications, substitutions and amendments thereof.

### 4. LATE FEE

If any installment payable under this Note (including the final installment due on the Maturity Date) is not received by Lender on or before the tenth (10<sup>th</sup>) calendar day after the day on which the same is due, Borrower shall pay to Lender upon demand an amount equal to the lesser of (a) five percent (5%) of such unpaid sum or (b) the maximum amount permitted by applicable law to defray the expenses incurred by Lender in handling and processing such delinquent payment and to compensate Lender for the loss of the use of such delinquent payment, and such amount shall be secured by the Loan Documents.

### 5. DEFAULT AND ACCELERATION

So long as an Event of Default exists, Lender may, at its option, without notice or demand to Borrower, declare the Debt immediately due and payable. All remedies hereunder, under the Loan Documents and at law or in equity shall be cumulative. In the event that it should become necessary to employ counsel to collect the Debt or to protect or foreclose the security for the Debt or to defend against any claims asserted by Borrower arising from or related to the Loan Documents, Borrower also agrees to pay to Lender on demand all costs of collection or defense incurred by Lender, including reasonable attorneys' fees for the services of counsel whether or not suit be brought.

### 6. DEFAULT INTEREST

Upon the occurrence of an Event of Default Borrower shall pay interest on the entire unpaid principal sum and any other amounts due under the Loan Documents at the rate equal to the Default Rate. The Default Rate shall be computed from the occurrence of the Event of Default until the actual receipt and collection of a sum of money determined by Lender to be sufficient to cure the Event of Default. Amounts of interest accrued at the Default Rate shall constitute a portion of the Debt, and shall be deemed secured by the Loan Documents. This clause, however, shall not be construed as an agreement or privilege to extend the date of the payment of the Debt, nor as a waiver of any other right or remedy accruing to Lender by reason of the occurrence of any Event of Default.



## 7. PREPAYMENT

(a) This Note may from time to time be prepaid, (i) in whole but not in part on or before the sixth (6) month anniversary of the date of this Note, and (ii) in whole or in part after the sixth (6) month anniversary of the date of this Note. With respect to any such prepayments, the principal balance of this Note may be prepaid in the manner provided in this Section 7 on any Business Day upon not less than thirty (30) days nor more than ninety (90) days prior written notice to Lender specifying the Business Day on which prepayment is to be made (the “**Prepayment Date**”), provided that such prepayment shall be accompanied by payment of interest accrued through the Prepayment Date on which such prepayment is made, together with all other sums then due under this Note and the other Loan Documents including, but not limited to, under Section 2.3 or this Section 7. If any such notice of prepayment is given, the principal balance of this Note stated therein or required herein to be prepaid and the other sums required to be paid under this paragraph shall be due and payable on the Prepayment Date specified therein. Prepayments of principal may only be made on a Business Day. Any prepayment made at any time on or before the sixth (6) month anniversary of this Note shall be accompanied by a payment of interest at the Interest Rate through the last calendar day of the month in which the six (6) month anniversary of this Note occurs.

(b) Partial prepayments of principal, whether as a result of prepayment as set forth in this Section 7 or resulting from the application of casualty or condemnation proceeds to the Debt, shall not change the amounts of subsequent monthly installments of principal (if any are required hereunder) nor change the dates on which such installments are due, unless Lender shall otherwise agree in writing, which consent shall not be unreasonably withheld.

## 8. SAVINGS CLAUSE

This Note is subject to the express condition that at no time shall Borrower be obligated or required to pay interest on the principal balance due hereunder at a rate which could subject Lender to either civil or criminal liability as a result of being in excess of the maximum interest rate which Borrower is permitted by applicable law to contract or agree to pay. If by the terms of this Note, Borrower is at any time required or obligated to pay interest on the principal balance due hereunder at a rate in excess of such maximum rate, the Interest Rate or the Default Rate, as the case may be, shall be deemed to be immediately reduced to such maximum rate and all previous payments in excess of the maximum rate shall be deemed to have been payments in reduction of principal and not on account of the interest due hereunder. All sums paid or agreed to be paid to Lender for the use, forbearance, or detention of the Debt, shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of this Note (i.e. the Maturity Date) until payment in full so that the rate or amount of interest on account of the Debt does not exceed the maximum lawful rate of interest from time to time in effect and applicable to the Debt for so long as the Debt is outstanding. Notwithstanding anything to the contrary contained herein or in any of the other Loan Documents, it is not the intention of Lender to accelerate the maturity of any interest that has not accrued at the time of such acceleration or to collect unearned interest at the time of such acceleration.

## 9. WAIVERS

(a) Except as specifically provided in the Loan Documents and to the extent permitted by law, Borrower and any endorsers, sureties or guarantors hereof jointly and severally waive presentment and demand for payment, notice of intent to accelerate maturity, notice of acceleration of maturity, protest and notice of protest and non-payment, all applicable exemption rights, valuation and appraisal, notice of demand, and all other notices in connection with the delivery, acceptance, performance, default or enforcement of the payment of this Note and the bringing of suit and diligence in taking any action to collect any sums owing hereunder or in proceeding against any of the rights and collateral securing payment hereof. Borrower and any surety, endorser or guarantor hereof agree (i) that the time for any payments hereunder may be extended from time to time without notice and consent, (ii) to the acceptance by Lender of further collateral, (iii) the release by Lender of any existing collateral for the payment of this Note, (iv) to any and all renewals, waivers or modifications that may be granted by Lender with respect to the payment or other provisions of this Note, and/or (v) that additional Borrowers, endorsers, guarantors or sureties may become parties hereto all without notice to them and without in any manner affecting their liability under or with respect to this Note. No extension of time for the payment of this Note or any installment hereof shall affect the liability of Borrower under this Note or any endorser or guarantor hereof even though the Borrower or such endorser or guarantor is not a party to such agreement.

(b) Failure of Lender to exercise any of the options granted herein to Lender upon the happening of one or more of the events giving rise to such options shall not constitute a waiver of the right to exercise the same or any other option at any subsequent time in respect to the same or any other event. The acceptance by Lender of any payment hereunder that is less than payment in full of all amounts due and payable at the time of such payment shall not constitute a waiver of the right to exercise any of the options granted herein to Lender at that time or at any subsequent time or nullify any prior exercise of any such option without the express written acknowledgment of the Lender.

## 10. EXCULPATION

(a) Subject to the qualifications below, Lender shall not enforce the liability and obligation of Borrower to perform and observe the obligations contained in this Note, the Security Instrument or the other Loan Documents by any action or proceeding wherein a money judgment or any deficiency judgment or other judgment establishing personal liability shall be sought against Borrower or any principal, director, officer, employee, beneficiary, shareholder, partner, member, trustee, agent, or Affiliate of Borrower or any legal representatives, successors or assigns of any of the foregoing (collectively, the “**Exculpated Parties**”), except that Lender may bring a foreclosure action, an action for specific performance or any other appropriate action or proceeding to enable Lender to enforce and realize upon its interest under this Note, the Security Instrument and the other Loan Documents, or in the Property, the Rents, or any other collateral given to Lender pursuant to the Loan Documents; provided, however, that, except as specifically provided herein, any judgment in any such action or proceeding shall be enforceable against Borrower only to the extent of Borrower’s interest in the Property, in the Rents and in any other collateral given to Lender, and Lender, by accepting this Note, the Security Instrument and the other Loan Documents, shall not sue for, seek or demand any deficiency judgment against Borrower or any of the Exculpated Parties in any such action or proceeding under or by reason of or under or in connection with this Note, the Security Instrument or the other Loan Documents. The provisions of this Section shall not, however, (1) constitute a waiver, release or impairment of any obligation evidenced or secured by any of the Loan Documents; (2) impair the right of Lender to name Borrower as a party defendant in any action or suit for foreclosure and sale under the Security Instrument; (3) affect the validity or enforceability of any indemnity, guaranty or similar instrument (including, without limitation, indemnities set forth in Article 11 of the Security Instrument, in the Guaranty and the Environmental Agreement) made in connection with the Loan or any of the rights and remedies of Lender thereunder (including, without limitation, Lender’s right to enforce said rights and remedies against Borrower and/or Guarantor (as applicable) personally and without the effect of the exculpatory provisions of this Section 10); (4) impair the rights of Lender to obtain the appointment of a receiver; (5) impair the enforcement of the assignment of leases and rents contained in the Security Instrument and in any other Loan Documents; (6) impair the right of Lender to enforce Section 3.8(e) of the Security Instrument; (7) constitute a prohibition against Lender to seek a deficiency judgment against Borrower in order to fully realize the security granted by the Security Instrument or to commence any other appropriate action or proceeding in order for Lender to exercise its remedies against the Property; or (8) constitute a waiver of the right of Lender to enforce the liability and obligation of Borrower, by money judgment or otherwise, to the extent of any loss incurred by Lender (including attorneys’ fees and costs reasonably incurred) arising out of or in connection with the following:

(i) fraud or intentional misrepresentation by any Borrower Party in connection with the Loan;

(ii) the gross negligence or willful misconduct of any Borrower Party;

(iii) any litigation or other legal proceeding related to the Debt filed by any Borrower Party that delays, opposes, impedes, obstructs, hinders, enjoins or otherwise interferes with or frustrates the efforts of Lender to exercise any rights and remedies available to Lender as provided herein and in the other Loan Documents;

(iv) waste to the Property caused by the intentional acts or intentional omissions of any Borrower Party and/or the removal or disposal of any portion of the Property after an Event of Default;

(v) the misapplication, misappropriation or conversion by any Borrower Party of (A) any insurance proceeds paid by reason of any loss, damage or destruction to the Property, (B) any awards or other amounts received in connection with the condemnation of all or a portion of the Property, (C) any Rents following an Event of Default or (D) any tenant security deposits or Rents collected in advance;

(vi) failure to pay or otherwise discharge Taxes or charges for labor or materials or other charges that can create liens on any portion of the Property in accordance with the terms and provisions hereof;

(vii) failure to pay Insurance Premiums, to maintain the Policies in full force and effect and/or to provide Lender evidence of the same, in each case, as expressly provided herein;

(viii) any security deposits, advance deposits or any other deposits collected with respect to the Property which are not delivered to Lender upon a foreclosure of the Property or action in lieu thereof, except to the extent any such security deposits were applied in accordance with the terms and conditions of any of the Leases prior to the occurrence of the Event of Default that gave rise to such foreclosure or action in lieu thereof;

(ix) any tax on the making and/or recording of the Security Instrument, this Note or any of the other Loan Documents or any transfer or similar taxes (whether due upon the making of the same or upon Lender's exercise of its remedies under the Loan Documents), but excluding any income, franchise or other similar taxes;

(x) the seizure or forfeiture of the Property, or any portion thereof, or Borrower's interest therein, resulting from criminal wrongdoing by any Borrower Party; and/or

(xi) the failure to permit on-site inspections of the Property and/or to provide any documents required pursuant to Section 3.8 of the Security Instrument, in each case, as and when required by the Security Instrument.

(b) Notwithstanding anything to the contrary in this Note or any of the Loan Documents, (A) Lender shall not be deemed to have waived any right which Lender may have under Section 506(a), 506(b), 1111(b) or any other provisions of the Bankruptcy Code to file a claim for the full amount of the Debt or to require that all collateral shall continue to secure all of the Debt owing to Lender in accordance with the Loan Documents, and (B) the Debt shall be fully recourse to Borrower in the event that: (i) any representation, warranty or covenant contained in Section 4.3 or Article 8 of the Security Instrument is violated or breached or (ii) a Bankruptcy Event occurs.

The obligations of Borrower to Lender for which Lender has recourse against Borrower, or with respect to which Borrower is personally liable to Lender pursuant to this Section 10, entitled "Exculpation," shall be referred to as the "**Recourse Obligations of Borrower**".

## 11. AUTHORITY

Borrower (and the undersigned representative of Borrower, if any) represents that Borrower has full power, authority and legal right to execute, deliver and perform its obligations pursuant to this Note and the other Loan Documents and that this Note and the other Loan Documents constitute legal, valid and binding obligations of Borrower. Borrower further represents that the loan evidenced by the Loan Documents was made for business or commercial purposes and not for personal, family or household use.

## 12. NOTICES

All notices or other communications required or permitted to be given pursuant hereto shall be given in the manner and be effective as specified in the Security Instrument, directed to the parties at their respective addresses as provided therein.

## 13. TRANSFER

Lender shall have the unrestricted right at any time or from time to time to sell this Note and the loan evidenced by this Note and the Loan Documents or participation interests therein. Borrower shall execute, acknowledge and deliver any and all instruments requested by Lender to satisfy such purchasers or participants that the unpaid indebtedness evidenced by this Note is outstanding upon the terms and provisions set out in this Note and the other Loan Documents. To the extent, if any, specified in such assignment or participation, such assignee(s) or participant(s) shall have the rights and benefits with respect to this Note and the other Loan Documents as such assignee(s) or participant(s) would have if they were the Lender hereunder.

## 14. WAIVER OF TRIAL BY JURY

**BORROWER HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS NOTE OR THE OTHER LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH INCLUDING, BUT NOT LIMITED TO, THOSE RELATING TO (A) ALLEGATIONS THAT A PARTNERSHIP EXISTS BETWEEN LENDER AND BORROWER; (B) USURY OR PENALTIES OR DAMAGES THEREFOR; (C) ALLEGATIONS OF UNCONSCIONABLE ACTS, DECEPTIVE TRADE PRACTICE, LACK OF GOOD FAITH OR FAIR DEALING, LACK OF COMMERCIAL REASONABLENESS, OR SPECIAL RELATIONSHIPS (SUCH AS FIDUCIARY, TRUST OR CONFIDENTIAL RELATIONSHIP); (D) ALLEGATIONS OF DOMINION, CONTROL, ALTER EGO, INSTRUMENTALITY, FRAUD, REAL ESTATE FRAUD, MISREPRESENTATION, DURESS, COERCION, UNDUE INFLUENCE, INTERFERENCE OR NEGLIGENCE; (E) ALLEGATIONS OF TORTIOUS INTERFERENCE WITH PRESENT OR PROSPECTIVE BUSINESS RELATIONSHIPS OR OF ANTITRUST; OR (F) SLANDER, LIBEL OR DAMAGE TO REPUTATION. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY BORROWER, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY BORROWER.**

**15. APPLICABLE LAW**

This Note shall be governed by and construed in accordance with the laws of the state in which the real property encumbered by the Security Instrument is located (without regard to any conflict of laws or principles) and the applicable laws of the United States of America.

**16. JURISDICTION**

BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY COURT OF COMPETENT JURISDICTION LOCATED IN THE STATE IN WHICH THE PROPERTY IS LOCATED IN CONNECTION WITH ANY PROCEEDING ARISING OUT OF OR RELATING TO THIS NOTE.

**17. NO ORAL CHANGE**

The provisions of this Note and the Loan Documents may be amended or revised only by an instrument in writing signed by the Borrower and Lender. This Note and all the other Loan Documents embody the final, entire agreement of Borrower and Lender and supersede any and all prior commitments, agreements, representations and understandings, whether written or oral, relating to the subject matter hereof and thereof and may not be contradicted or varied by evidence of prior, contemporaneous or subsequent oral agreements or discussions of Borrower and Lender. There are no oral agreements between Borrower and Lender.

**18. JOINT AND SEVERAL LIABILITY**

In the event that more than one Person is a Borrower under this Note, the liability of all such Persons hereunder shall be joint and several.

**19. FINANCIAL COVENANTS**

Section 19.1 Operating Accounts. Borrower shall maintain its operating account for the Property with Lender at all times until the Loan is fully repaid.

**[SIGNATURES ON FOLLOWING PAGE]**

Executed as of the day and year first above written.

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

By: Citadel Cinemas, Inc.,  
a Nevada corporation,  
its managing member

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski  
Title: Chief Financial Officer

**SOVEREIGN BANK, N.A.,** a national association

By: /s/ Ryan S. Ledwith

Name: Ryan S. Ledwith  
Title: Senior Vice President

**ACKNOWLEDGMENT**

STATE OF CALIFORNIA )  
 ) ss:  
COUNTY OF LOS ANGELES )

On June 24, 2012 before me, A.B. Valencia (insert name of the officer), Notary Public, personally appeared **Andrzej Matczynski**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person 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.

/s/ Notary Public  
NOTARY PUBLIC

[Seal]

STATE OF NEW YORK  
COUNTY OF NEW YORK

On the 28th day of June in the year 2012 before me, the undersigned, personally appeared **Ryan S. Ledwith**, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his their signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

/s/ Notary Public  
NOTARY PUBLIC

Signature and Office of Individual  
taking acknowledgment





**SUTTON HILL PROPERTIES, LLC**, as mortgagor

(Borrower)

to

**SOVEREIGN BANK. N.A.**, as mortgagee

(Lender)

**AMENDED AND RESTATED MORTGAGE, ASSIGNMENT OF LEASES AND RENTS,  
SECURITY AGREEMENT, AND FIXTURE FILING**

Dated: June 28, 2012

---

Address	1001-1007 Third Avenue
Block	1414
Lot	48
County	New York

---

PREPARED BY AND UPON  
RECORDATION RETURN TO:

Windels Marx Lane & Mittendorf, LLP  
156 West 56<sup>th</sup> Street  
New York, New York 10019  
Attention: Michele Arbeeney, Esq.

INSTRUCTIONS TO REGISTER'S OFFICE: INDEX THIS DOCUMENT AS A MORTGAGE, A SECURITY AGREEMENT, A FIXTURE FILING AND AN ASSIGNMENT OF LEASES AND RENTS.

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EXHIBIT A	(Description of Land)
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THIS AMENDED AND RESTATED MORTGAGE, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT, AND FIXTURE FILING (this "**Security Instrument**") is made as of the 28th day of June, 2012, 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 ("**Borrower**"), and **SOVEREIGN BANK, N.A.** a national association, having its principal place of business at 824 North Market Street, Suite 100, Wilmington, Delaware 19801, as mortgagee ("**Lender**").

RECITALS:

**WHEREAS**, Borrower is the owner of that certain parcel of improved real property known as 1001-1007 Third Avenue, New York County, State of New York, as more particularly described in Exhibit A attached hereto and made a part hereof; and

**WHEREAS**, Lender is the holder of that certain Mortgage and Security Agreement dated as of June 28, 2007, made by the Borrower, as borrower, in favor of Eurohypo AG, New York Branch, as original lender, in the principal amount of \$15,000,000.00, and recorded on July 10, 2007 in the Register's Office of the City and State of New York as CRFN 2007000350847 (the "**Original Mortgage**") which Original Mortgage has been assigned to Lender on the date hereof; and

**WHEREAS**, the indebtedness secured by the Original Mortgage is being amended and restated by this Security Instrument, and is evidenced by that certain Amended and Restated Note dated the date hereof in the principal amount of Fifteen Million and no/100 dollars (\$15,000,000.00) (together with all extensions, renewals, modifications, substitutions and amendments thereof, the "**Note**") evidencing the indebtedness of Borrower to Lender; and

**WHEREAS**, to secure the payment of the indebtedness under the Note in the Mortgage Amount, together with interest thereon at the interest rate or rates set forth in the Note, and together with any other sums that may become due and payable hereunder or under the Note or the other Loan Documents (as hereinafter defined), and to secure the performance by Borrower of its obligations hereunder, under the Note and the other Loan Documents, Borrower has agreed to execute and deliver to Lender this Security Instrument.

**MORTGAGE, ASSIGNMENT OF LEASES AND RENTS,  
SECURITY AGREEMENT, AND FIXTURE FILING**

BORROWER hereby agrees, covenants, represents and warrants with and to Lender as follows:

ARTICLE 1 - GRANTS OF SECURITY

Section 1.1. **PROPERTY MORTGAGED.** Borrower does hereby irrevocably, unconditionally and absolutely mortgage, grant, bargain, sell, pledge, enfeoff, assign, warrant, transfer and convey to Lender (with power of sale), and does hereby grant a first priority security interest to Lender in, the following property, rights, interests and estates now owned, or hereafter acquired, by Borrower (collectively, the "**Property**"):

(a) Land. The real property described in Exhibit A attached hereto and made a part hereof (collectively, the “**Land**”), together with additional lands, estates and development rights hereafter acquired by Borrower for use in connection with the development, ownership or occupancy of such real property, and all additional lands and estates therein which may, from time to time, by supplemental mortgage or otherwise be expressly made subject to the lien of this Security Instrument;

(b) Improvements. The buildings, structures, fixtures, additions, accessions, enlargements, extensions, modifications, repairs, replacements and improvements now or hereafter erected or located on the Land (the “**Improvements**”);

(c) Easements. All easements, rights-of-way or use, rights, strips and gores of land, streets, ways, alleys, passages, sewer rights, water, water courses, water rights and powers, air rights and development rights, and all estates, rights, titles, interests, privileges, liberties, servitudes, tenements, hereditaments and appurtenances of any nature whatsoever, in any way now or hereafter belonging, relating or pertaining to the Land and the Improvements and the reversion and reversions, remainder and remainders, and all land lying in the bed of any street, road or avenue, opened or proposed, in front of or adjoining the Land, to the center line thereof and all the estates, rights, titles, interests, dower and rights of dower, curtesy and rights of curtesy, property, possession, claim and demand whatsoever, both at law and in equity, of Borrower of, in and to the Land and the Improvements and every part and parcel thereof, with the appurtenances thereto;

(d) Fixtures and Personal Property. All machinery, equipment, goods, inventory, fixtures (including, but not limited to, all heating, air conditioning, plumbing, lighting, communications and elevator fixtures) and other property of every kind and nature whatsoever owned by Borrower, or in which Borrower has or shall have an interest, now or hereafter located upon the Land and the Improvements, or appurtenant thereto, and usable in connection with the present or future use, maintenance, enjoyment, operation and occupancy of the Land and the Improvements and all building equipment, materials and supplies of any nature whatsoever owned by Borrower, or in which Borrower has or shall have an interest, now or hereafter located upon the Land and the Improvements, or appurtenant thereto, or usable in connection with the present or future operation and occupancy of the Land and the Improvements, and the right, title and interest of Borrower in and to any of the Personal Property (as hereinafter defined) which may be subject to any security interests, as defined in the Uniform Commercial Code, as adopted and enacted by the state or states where any of the Property is located (the “**Uniform Commercial Code**”), superior in lien to the lien of this Security Instrument and all proceeds and products of the above;

(e) Leases and Rents. All leases, including without limitation, Borrower’s interest as both landlord and tenant under the Master Lease (as defined herein), and other agreements affecting the use, enjoyment or occupancy of the Land and the Improvements heretofore or hereafter entered into, whether before or after the filing by or against Borrower of any petition for relief under 11 U.S.C. §101 et seq., as the same may be amended from time to time (the “**Bankruptcy Code**”) (individually, a “**Lease**”; collectively, the “**Leases**”) and all right, title and interest of Borrower, its successors and assigns therein and thereunder, including, without limitation, cash or securities deposited thereunder to secure the performance by the lessees of their obligations thereunder and all rents (including all tenant security and other deposits), additional rents, revenues, issues and profits (including all oil and gas or other mineral royalties and bonuses) from the Land and the Improvements whether paid or accruing before or after the filing by or against Borrower of any petition for relief under the Bankruptcy Code (collectively the “**Rents**”) and all proceeds from the sale or other disposition of the Leases and the right to receive and apply the Rents to the payment of the Debt;



(f) Condemnation Awards. Subject to the rights of tenants (other than Borrower as tenant under the Master Lease), if any, all awards or payments, including interest thereon, which may heretofore and hereafter be made with respect to the Property, whether from the exercise of the right of eminent domain (including but not limited to any transfer made in lieu of or in anticipation of the exercise of the right), or for a change of grade, or for any other injury to or decrease in the value of the Property ("**Awards**");

(g) Insurance Proceeds. All proceeds of and any unearned premiums on any insurance policies covering the Property, including, without limitation, the right to receive and apply the proceeds of any insurance, judgments, or settlements made in lieu thereof, for damage to the Property;

(h) Tax Certiorari. All refunds, rebates or credits in connection with a reduction in real estate taxes and assessments charged against the Property as a result of tax certiorari or any applications or proceedings for reduction;

(i) Conversion. All proceeds of the conversion, voluntary or involuntary, of any of the foregoing including, without limitation, proceeds of insurance and condemnation awards, into cash or liquidation claims;

(j) Rights. The right, in the name and on behalf of Borrower, to appear in and defend any action or proceeding brought with respect to Lender's interest in the Property and to commence any action or proceeding to protect the interest of Lender in the Property;

(k) Agreements. All agreements, contracts (including purchase, sale, option, right of first refusal and other contracts pertaining to the Property), certificates, instruments, franchises, permits, licenses, approvals, consents, plans, specifications and other documents, now or hereafter entered into, and all rights therein and thereto, respecting or pertaining to the use, occupation, construction, management or operation of the Property (including any Improvements or respecting any business or activity conducted on the Land and any part thereof) and all right, title and interest of Borrower therein and thereunder, including, without limitation, the right, upon the happening of any default hereunder, to receive and collect any sums payable to Borrower thereunder;

(l) Trademarks. All tradenames, trademarks, servicemarks, logos, copyrights, goodwill, books and records and all other general intangibles relating to or used in connection with the operation of the Property;

(m) Accounts. All accounts, accounts receivable, escrows (including, without limitation, all escrows, deposits, reserves and impounds established with Lender from time to time, documents, instruments, chattel paper, deposit accounts, investment property, claims, reserves (including deposits) representations, warranties and general intangibles, as one or more of the foregoing terms may be defined in the Uniform Commercial Code, and all contract rights, franchises, books, records, plans, specifications, permits, licenses (to the extent assignable), approvals, actions, choses, commercial tort claims, suits, proofs of claim in bankruptcy and causes of action which now or hereafter relate to, are derived from or are used in connection with the Property, or the use, operation, maintenance, occupancy or enjoyment thereof or the conduct of any business or activities thereon (hereinafter collectively called the “**Intangibles**”); and

(n) Other Rights. Any and all other rights of Borrower in and to the Property and any accessions, renewals, replacements and substitutions of all or any portion of the Property and all proceeds derived from the sale, transfer, assignment or financing of the Property or any portion thereof.

Section 1.2. ASSIGNMENT OF RENTS. Borrower hereby absolutely and unconditionally assigns to Lender all of Borrower’s right, title and interest in and to all current and future Leases and Rents; it being intended by Borrower that this assignment constitutes a present, absolute and unconditional assignment and not an assignment for additional security only. Nevertheless, subject to the terms of this Section 1.2, the terms and conditions of that certain Assignment of Rents and Leases, of even date herewith from Borrower to Lender and any cash management agreement to which Borrower and Lender are parties, Lender grants to Borrower a revocable license to collect and receive the Rents, which may only be revoked upon the occurrence of an Event of Default, which is continuing. Borrower shall hold the Rents, or a portion thereof sufficient to discharge all current sums due on the Debt, for use in the payment of such sums.

Section 1.3. DEFINITION OF PERSONAL PROPERTY. For purposes of this Security Instrument, the Property identified in Subsections 1.1(d) through 1.1(n), inclusive, shall be collectively referred to herein as the “**Personal Property**”

Section 1.4. PLEDGE OF MONIES HELD. Borrower hereby pledges to Lender any and all monies now or hereafter held by Lender, including, without limitation, any sums deposited with Lender from time to time, all insurance proceeds described in Section 3.2 and condemnation awards or payments described in Section 3.4, subject to the rights of tenants (other than Borrower as tenant under the Master Lease), if any, as additional security for the Obligations until expended or applied as provided in this Security Instrument.

## CONDITIONS TO GRANT

TO HAVE AND TO HOLD the above granted and described Property unto and to the use and benefit of Lender, and the successors and assigns of Lender, forever;

PROVIDED, HOWEVER, these presents are upon the express condition that, if Borrower shall fully pay to Lender the Debt at the time and in the manner provided in the Note and this Security Instrument, shall fully perform the Other Obligations as set forth in this Security Instrument and shall fully abide by and comply with each and every covenant and condition set forth herein and in the Note, these presents and the estate hereby granted shall cease, terminate and be void; provided however, that Borrower's obligation to indemnify and hold harmless Lender pursuant to the provisions hereof with respect to matters relating to any period of time during which this Security Instrument was in effect shall survive any such payment or release.

### ARTICLE 2

### - DEBT AND OBLIGATIONS SECURED

Section 2.1. DEBT. This Security Instrument and the grants, assignments and transfers made in Article 1 are given for the purpose of securing the following, in such order of priority as Lender may determine in its sole discretion (the "**Debt**"):

- (a) the payment of the indebtedness evidenced by the Note in lawful money of the United States of America;
- (b) the payment of interest, default interest, late charges, prepayment fees and all other sums applicable to the indebtedness, as provided in the Note, this Security Instrument or the Other Loan Documents (as hereinafter defined);
- (c) the payment of all other moneys agreed or provided to be paid by Borrower in the Note, this Security Instrument or the Other Loan Documents;
- (d) the payment of all sums advanced pursuant to this Security Instrument to protect and preserve the Property and the lien and the security interest created hereby; and
- (e) the payment of all sums advanced, costs and expenses incurred, and processing fees charged by Lender in connection with the Debt or any part thereof, any renewal, extension, or change of or substitution for the Debt or any part thereof, or the acquisition or perfection of the security therefor, whether made or incurred at the request of Borrower or Lender.

Section 2.2. OTHER OBLIGATIONS. This Security Instrument and the grants, assignments and transfers made in Article 1 are also given for the purpose of securing the following (the "**Other Obligations**"):

- (a) the performance of all other obligations of Borrower contained herein;
- (b) the performance of each obligation of Borrower contained in any other agreement given by Borrower to Lender which is for the purpose of further securing the obligations secured hereby, and any amendments, modifications and changes thereto; and

(c) the performance of each obligation of Borrower contained in any renewal, extension, amendment, modification, consolidation, change of, or substitution or replacement for, all or any part of the Note, this Security Instrument or the Other Loan Documents.

Section 2.3. **DEBT AND OTHER OBLIGATIONS.** Borrower's obligations for the payment of the Debt and the performance of the Other Obligations shall be referred to collectively herein as the "**Obligations.**"

Section 2.4. **PAYMENTS.** Unless payments are made in the required amount in immediately available funds at the place where the Note is payable, remittances in payment of all or any part of the Debt shall not, regardless of any receipt or credit issued therefor, constitute payment until the required amount is actually received by Lender in funds immediately available at the place where the Note is payable (or any other place as Lender, in Lender's sole discretion, may have established by delivery of written notice thereof to Borrower) and shall be made and accepted subject to the condition that any check or draft may be handled for collection in accordance with the practice of the collecting bank or banks. Acceptance by Lender of any payment in an amount less than the amount then due shall be deemed an acceptance on account only, and the failure to pay the entire amount then due shall be and continue to be an Event of Default (as hereinafter defined).

### ARTICLE 3

### - BORROWER COVENANTS

Borrower covenants and agrees that:

**INCORPORATION BY REFERENCE.** All the covenants, conditions and agreements contained in (a) the Note, and (b) all and any of the documents other than the Note or this Security Instrument now or hereafter executed by Borrower and/or others and by or in favor of Lender in connection with the creation of the Obligations, the payment of any other sums owed by Borrower to Lender in connection with the Obligations or the performance of any Obligations (collectively, together with all extensions, renewals, amendments, restatements and modifications thereof, the "**Other Loan Documents**"), are hereby made a part of this Security Instrument to the same extent and with the same force as if fully set forth herein. The term "**Loan**" as used herein shall refer to the loan made by the Lender to the Borrower on the date hereof which is evidenced by the Note and secured by this Security Agreement and the Other Loan Documents. The term "**Loan Documents**" as used herein shall individually and collectively refer to the Note, this Security Instrument and the Other Loan Documents, together with all extensions, renewals, amendments, restatements and modifications thereof; provided, however, that notwithstanding any provision of this Security Instrument to the contrary, the Obligations of the Borrower under that certain Environmental Indemnity Agreement of even date herewith executed by Borrower in favor of Lender (together with all extensions, renewals, amendments, restatements and modifications thereof, the "**Environmental Indemnity**") shall not be deemed or construed to be secured by this Security Instrument or otherwise restricted or affected by the foreclosure of the lien hereof or any other exercise by Lender of its remedies hereunder or under any other Loan Document, such Environmental Indemnity being intended by the signatories thereto to be its (or their) unsecured obligation. The term "**Master Lease**" as used herein shall mean that certain Lease Agreement dated February 9, 1960, by and between Andrew C. Mayer, Berna L. Osnos, Frances M. Perlman, Richard Heller, Frances H. Cahen, and Phillis R. Rosenthal as Trustees under the Last Will and testament of Isaac S. Heller, collectively as original landlord, and Turtle Bay Theatre Corporation, as original tenant, which was extended and modified by that certain Extension and Modification of Lease Agreement dated as of June 1, 2005, by and between Richard Heller and Phillis H. Rosenthal, as Trustees under the Last Will and testament of Isaac S. Heller, Joe L. Oppenheimer and Marc W. Boland, as Trustees of the Trust created under Agreement dated June 8, 2001, Simon M. Osnos and Noah M. Osnos, individually and as Trustees of the Berna Osnos Revocable Trust, Frances Perlman Family Limited Partnership (Turtle Bay), and Wallace Perlman, as Trustee of the Frances Perlman 1986 Trust, collectively, as successor landlord, and Sutton Hill Capital, L.L.C., as successor tenant, which was further amended pursuant to that certain Amendment to Lease dated May 28, 2007, by and between Borrower, as successor (and current) Landlord, and Borrower, as successor (and current) Tenant, as the same may be hereafter further amended, restated, supplemented or otherwise modified from time to time with Lender's consent in its sole and absolute discretion.

Section 3.1. INSURANCE.

(a) Borrower shall obtain and maintain, and shall pay all premiums in accordance with Subsection 3.2(b) below for, insurance for Borrower and the Property providing at least the following coverages:

(i) comprehensive all risk insurance providing “special” form coverage (including, without limitation, riot and civil commotion, vandalism, malicious mischief, water, fire, burglary and theft, sinkhole collapse, windstorm, hail, smoke, aircraft or vehicles, sprinkler leakage, and damage from weight of ice or snow) on the Improvements and the Personal Property and in each case (A) in an amount equal to 100% of the “Full Replacement Cost,” which for purposes of this Security Instrument shall mean actual replacement value (exclusive of costs of excavations, foundations, underground utilities and footings) with a waiver of depreciation; (B) containing an agreed amount endorsement and replacement cost endorsement with respect to the Improvements and Personal Property waiving all co-insurance provisions; (C) providing that the deductible shall not exceed \$50,000.00; and (D) containing Demolition Costs, Increased Cost of Construction and “Ordinance or Law Coverage” or “Enforcement” endorsements in amounts satisfactory to Lender if any of the Improvements or the use of the Property shall at any time constitute legal non-conforming structures or uses or the ability to rebuild the Improvements is restricted or prohibited. The Full Replacement Cost may be redetermined from time to time by an appraiser or contractor designated and paid by Lender or by an engineer or appraiser in the regular employ of the insurer. No omission on the part of Lender to request any such appraisals shall relieve Borrower of any of its obligations under this Subsection;

(ii) comprehensive commercial general liability insurance against claims for personal injury, bodily injury, death or property damage occurring upon, in or about the Property, such insurance (A) to be on the so-called "occurrence" form with a combined single limit of not less than \$1,000,000.00 per occurrence and not less than \$2,000,000.00 in the aggregate; (B) to continue at not less than the aforesaid limit until required to be changed by Lender in writing by reason of changed economic conditions making such protection inadequate; (C) to cover at least the following hazards: (1) premises and operations; (2) products and completed operations on an "if any" basis; (3) independent contractors; (4) blanket contractual liability for all written and oral contracts; (5) contractual liability covering the indemnities contained in Article 11 hereof to the extent the same is available; and (D) to be without deductible;

(iii) business income insurance (A) with loss payable to Lender; (B) covering losses of income and Rents derived from the Property and any non-insured property on or adjacent to the Property resulting from any risk or casualty whatsoever; (C) containing an extended period of indemnity endorsement which provides that after the physical loss to the Improvements and Personal Property has been repaired, the continued loss of income will be insured until such income either returns to the same level it was at prior to the loss, or the expiration of twelve (12) months from the date that the Property is repaired or replaced and operations are resumed, whichever first occurs, and notwithstanding that the policy may expire prior to the end of such period; and (D) in an amount equal to 100% of the projected gross income from the Property for a period of twelve (12) months. The amount of such business income insurance shall be determined by Lender prior to the date hereof and at least once each year thereafter based on Borrower's reasonable estimate of the gross income from the Property for the succeeding twelve (12) month period. All insurance proceeds payable to Lender pursuant to this Subsection 3.2(a) shall be held by Lender and shall be applied to the obligations secured hereunder from time to time due and payable hereunder and under the Note; provided, however, that nothing herein contained shall be deemed to relieve Borrower of its obligations to pay the obligations secured hereunder on the respective dates of payment provided for in the Note except to the extent such amounts are actually paid out of the proceeds of such business income insurance;

(iv) at all times during which structural construction, repairs or alterations are being made with respect to the Improvements: (A) owner's contingent or protective liability insurance covering claims not covered by or under the terms or provisions of the above mentioned commercial general liability insurance policy; and (B) the insurance provided for in Subsection 3.2(a)(i) written in a so-called builder's risk completed value form (1) on a non-reporting basis, (2) against all risks insured against pursuant to Subsection 3.2(a)(i), (3) including permission to occupy the Property, and (4) with an agreed amount endorsement waiving co-insurance provisions;

(v) workers' compensation, subject to the statutory limits of the state in which the Property is located, and employer's liability insurance with a limit of at least \$1,000,000.00 per accident and per disease per employee, and \$1,000,000.00 for disease aggregate in respect of any work or operations on or about the Property, or in connection with the Property or its operation (if applicable);

(vi) comprehensive boiler and machinery insurance (without exclusion for explosion), if applicable, covering all boilers or other pressure vessels, turbines, engines, machinery and equipment located at or about the Property (including, without limitation, electrical equipment, sprinkler systems, heating and air conditioning equipment, refrigeration equipment and piping) for 100% of the full replacement cost of such equipment and the building or buildings housing same;

(vii) if any portion of the Improvements is currently or at any time in the future located in a "special flood hazard area" as designated by the Federal Emergency Management Agency or such other applicable federal agency, flood hazard insurance in an amount equal to the greater of (A) Full Replacement Cost, or (B) the maximum amount available under the National Flood Insurance Program;

(viii) umbrella liability insurance in an amount not less than Ten Million and No/100 Dollars (\$10,000,000.00) per occurrence and in the aggregate on terms consistent with the commercial general liability insurance policy required under Section 3.2(a)(ii) hereof;

(ix) intentionally omitted; and

(x) such other insurance and in such amounts as Lender from time to time may reasonably request against such other insurable hazards which at the time are commonly insured against for property similar to the Property located in or around the region in which the Property is located, including, without limitation, mine subsidence insurance and environmental insurance, but excluding terrorism and earthquake insurance.

(b) All insurance provided for in Subsection 3.2(a) hereof shall be obtained under valid and enforceable policies (the "**Policies**" or in the singular, the "**Policy**"), in such forms and, from time to time after the date hereof, in such amounts as may from time to time be reasonably satisfactory to Lender, for a minimum policy term not less than one year, issued by financially sound and responsible insurance companies authorized to do business in the state in which the Property is located as admitted or unadmitted carriers which, in either case, have been approved by Lender and which have a claims paying ability rating of at least A or better issued by Standard & Poor's Ratings Services, a division of the McGraw Hill Companies, Inc., or A:X by A.M. Best or with a claims paying ability rating otherwise acceptable to Lender (each such insurer shall be referred to below as a "**Qualified Insurer**"). Such Policies shall not be subject to invalidation due to the use or occupancy of the Property for purposes more hazardous than the use of the Property at the time such Policies were issued. No Policy required under Sections 3.2(a)(i) and (iii) hereof shall contain an exclusion from coverage under such Policy for loss or damage incurred as a result of an act of terrorism or similar acts of sabotage. Not less than thirty (30) days prior to the expiration dates of the Policies theretofore furnished to Lender pursuant to Subsection 3.2(a), certified copies of the Policies marked "premium paid" or accompanied by evidence reasonably satisfactory to Lender of payment of the premiums due thereunder (the "**Insurance Premiums**"), shall be delivered by Borrower to Lender; provided, however, that in the case of renewal Policies, Borrower may furnish Lender with binders therefor to be followed by the original Policies when issued.

(c) Borrower shall not obtain (i) separate insurance concurrent in form or contributing in the event of loss with that required in Subsection 3.2(a) to be furnished by, or which may be reasonably required to be furnished by, Borrower, or (ii) any umbrella or blanket liability or casualty Policy unless, in each case, Lender's interest is included therein as provided in this Security Instrument and such Policy is issued by a Qualified Insurer. If Borrower obtains separate insurance or an umbrella or a blanket Policy, Borrower shall notify Lender of the same and shall cause certified copies of each Policy to be delivered as required in Subsection 3.2(a). Any blanket insurance Policy shall specifically allocate to the Property the amount of coverage from time to time required hereunder and shall otherwise provide the same protection as would a separate Policy insuring only the Property in compliance with the provisions of Subsection 3.2(a).

(d) All Policies of insurance provided for or contemplated by Subsection 3.2(a) shall name Lender, its successors and assigns, including any servicers, trustees or other designees of Lender, and Borrower as the insured or additional insured, as their respective interests may appear, and in the case of property damage, boiler and machinery, and flood insurance, shall contain a so-called New York standard non-contributing Lender clause in favor of Lender providing that the loss thereunder shall be payable to Lender.

(e) All Policies of insurance provided for in Subsection 3.2(a) shall contain clauses or endorsements to the effect that:

(i) no act or negligence of Borrower, or anyone acting for Borrower, or of any tenant under any Lease or other occupant, or failure to comply with the provisions of any Policy which might otherwise result in a forfeiture of the insurance or any part thereof, shall in any way affect the validity or enforceability of the insurance insofar as Lender is concerned;

(ii) the Policy shall not be materially changed (other than to increase the coverage provided on the Property thereby) or canceled without at least thirty (30) days' prior written notice to Lender and any other party named therein as an insured;



(iii) each Policy shall provide that the issuers thereof shall give written notice to Lender if the Policy has not been renewed thirty (30) days prior to its expiration; and

(iv) Lender shall not be liable for any Insurance Premiums thereon or subject to any assessments thereunder.

(f) Borrower shall furnish to Lender within ten (10) calendar days after Lender's request therefor, a statement certified by Borrower or a duly authorized officer of Borrower of the amounts of insurance maintained in compliance herewith, of the risks covered by such insurance and of the insurance company or companies which carry such insurance and, if requested by Lender, verification of the adequacy of such insurance by an independent insurance broker or appraiser reasonably acceptable to Lender.

(g) If at any time Lender is not in receipt of written evidence that all insurance required hereunder is in full force and effect, Lender shall have the right but not the obligation, on notice to Borrower, to take such action as Lender deems necessary to protect its interest in the Property, including, without limitation, the obtaining of such insurance coverage as Lender in its reasonable discretion deems appropriate, and all expenses incurred by Lender in connection with such action or in obtaining such insurance and keeping it in effect shall be paid by Borrower to Lender within five (5) business days of demand and from such date until paid shall be secured by this Security Instrument and shall bear interest at the Default Rate (as hereinafter defined).

(h) If the Property shall be damaged or destroyed, in whole or in part, by fire or other casualty, Borrower shall give prompt notice thereof to Lender.

(i) In case of loss covered by Policies, Lender may either (1) settle and adjust any claim without the consent of Borrower, or (2) allow Borrower to agree with the insurance company or companies on the amount to be paid upon the loss; provided, that Borrower may adjust losses aggregating not in excess of \$500,000.00 if such adjustment is carried out in a competent and timely manner, and provided that in any case Lender shall and is hereby authorized to collect and receive any such insurance proceeds; and the expenses incurred by Lender in the adjustment and collection of insurance proceeds shall become part of the Debt and be secured hereby and shall be reimbursed by Borrower to Lender upon demand (unless deducted by and reimbursed to Lender from such proceeds).

(ii) In the event of any insured damage to or destruction of the Property or any part thereof (herein called an "**Insured Casualty**"), if (A) less than 65% of the total floor area of the Improvements has been damaged, destroyed or rendered unusable as a result of such Insured Casualty and in the reasonable judgment of Lender, the Property can be restored within six (6) months after insurance proceeds are made available and at least three (3) months prior to the Maturity Date (as defined in the Note) to an economic unit not less valuable (including an assessment by Lender of the impact of the termination of any Leases due to such Insured Casualty) and not less useful than the same was prior to the Insured Casualty, and after such restoration will adequately secure the outstanding balance of the Debt, and (B) no Event of Default (hereinafter defined) shall have occurred and be then continuing, then the proceeds of insurance shall be applied to reimburse Borrower for the cost of restoring, repairing, replacing or rebuilding the Property or part thereof subject to Insured Casualty, as provided below; and Borrower hereby covenants and agrees forthwith to commence and diligently to prosecute such restoring, repairing, replacing or rebuilding; provided, however, in any event Borrower shall pay all costs (and if required by Lender, Borrower shall deposit the total thereof with Lender in advance) of such restoring, repairing, replacing or rebuilding in excess of the net proceeds of insurance made available pursuant to the terms hereof.

(iii) Except as provided above, the proceeds of insurance collected upon any Insured Casualty shall, at the option of Lender in its sole discretion, be applied to the payment of the Debt or applied to reimburse Borrower for the cost of restoring, repairing, replacing or rebuilding the Property or part thereof subject to the Insured Casualty, in the manner set forth below. Any such application to the Debt shall not be considered a voluntary prepayment requiring payment of the prepayment consideration provided in the Note, and, except as provided in the Note, shall not reduce or postpone any payments otherwise required pursuant to the Note, other than the final payment on the Note.

(iv) If proceeds of insurance, if any, are made available to Borrower for the restoring, repairing, replacing or rebuilding of the Property, Borrower hereby covenants to restore, repair, replace or rebuild the same to be of at least equal value and of substantially the same character as prior to such damage or destruction (unless otherwise consented to by Lender in writing, such consent not to be unreasonably withheld), all to be effected in accordance with applicable law and plans and specifications approved in advance by Lender in writing, such consent not to be unreasonably withheld.

(v) If Borrower is entitled to reimbursement out of insurance proceeds held by Lender, such proceeds shall be disbursed from time to time upon Lender being furnished with (1) evidence reasonably satisfactory to it (which evidence may include inspections of the work performed) that the restoration, repair, replacement and rebuilding covered by the disbursement has been completed in accordance with plans and specifications approved by Lender, (2) evidence reasonably satisfactory to it of the estimated cost of completion of the restoration, repair, replacement and rebuilding, (3) funds, or, at Lender's option, assurances reasonably satisfactory to Lender that such funds are available, sufficient in addition to the proceeds of insurance to complete the proposed restoration, repair, replacement and rebuilding, and (4) such architect's certificates, waivers of lien, contractor's sworn statements, title insurance endorsements, bonds, plats of survey and such other evidences of cost, payment and performance as Lender may reasonably require and approve; and Lender may, in any event, require that all plans and specifications for such restoration, repair, replacement and rebuilding be submitted to and approved by Lender prior to commencement of work. With respect to disbursements to be made by Lender: (A) no payment made prior to the final completion of the restoration, repair, replacement and rebuilding shall exceed ninety percent (90%) of the value of the work performed from time to time; (B) funds other than proceeds of insurance which are required to complete such restoration shall be disbursed prior to disbursement of such proceeds; and (C) at all times, the undisbursed balance of such proceeds remaining in the hands of Lender, together with funds deposited for that purpose or irrevocably committed to the reasonable satisfaction of Lender by or on behalf of Borrower for that purpose, shall be at least sufficient in the reasonable judgment of Lender to pay for the cost of completion of the restoration, repair, replacement or rebuilding, free and clear of all liens or claims for lien and the costs described in Subsection 3.2(h)(vi) below. Any surplus which may remain out of insurance proceeds held by Lender after payment of such costs of restoration, repair, replacement or rebuilding shall, if no Event of Default shall then exist and be continuing, be paid to Borrower or any other party entitled thereto. In no event shall Lender assume any duty or obligation for the adequacy, form or content of any such plans and specifications, nor for the performance, quality or workmanship of any restoration, repair, replacement and rebuilding.

(vi) Notwithstanding anything to the contrary contained herein, the proceeds of insurance reimbursed to Borrower in accordance with the terms and provisions of this Security Instrument shall be reduced by the costs (if any) incurred by Lender in the adjustment and collection thereof and in the costs incurred by Lender of paying out such proceeds (including, without limitation, reasonable attorneys' fees and costs paid to third parties for inspecting the restoration, repair, replacement and rebuilding and reviewing the plans and specifications therefor).

Section 3.2. PAYMENT OF TAXES, ETC.

(a) Borrower shall pay all taxes, assessments, water rates, sewer rents, governmental impositions, and other charges, including without limitation, vault charges and license fees for the use of vaults, chutes and similar areas adjoining the Land, now or hereafter levied or assessed or imposed against the Property or any part thereof (the "**Taxes**"), all ground rents, maintenance charges and similar charges, now or hereafter levied or assessed or imposed against the Property or any part thereof (the "**Other Charges**"), and all charges for utility services provided to the Property as same become due and payable. Borrower will deliver to Lender, promptly upon Lender's request, evidence reasonably satisfactory to Lender that the Taxes, Other Charges and utility service charges have been so paid or are not then delinquent. Borrower shall not allow and shall promptly cause to be paid, discharged or bonded any lien or charge whatsoever which may be or become a lien or charge against the Property. Except to the extent sums sufficient to pay all Taxes and Other Charges have been deposited with Lender in accordance with the terms of this Security Instrument, Borrower shall furnish to Lender paid receipts, if available, for the payment of the Taxes and Other Charges prior to the date the same shall become delinquent.

(b) After prior written notice to Lender, Borrower, at its own expense, may contest by appropriate legal proceeding, promptly initiated and conducted in good faith and with due diligence, the amount or validity or application in whole or in part of any of the Taxes, provided that (i) no Event of Default has occurred and is continuing under the Note, this Security Instrument or any of the Other Loan Documents, (ii) Borrower is permitted to do so under the provisions of any other mortgage, deed of trust or deed to secure debt affecting the Property, (iii) such proceeding shall suspend the collection of the Taxes from Borrower and from the Property or Borrower shall have paid all of the Taxes under protest, (iv) such proceeding shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Borrower is subject and shall not constitute a default thereunder, (v) neither the Property nor any part thereof or interest therein will be in danger of being sold, forfeited, terminated, canceled or lost, (vi) Borrower shall have set aside and deposited with Lender adequate reserves for the payment of the Taxes, together with all interest and penalties thereon, unless Borrower has paid all of the Taxes under protest, and (vii) Borrower shall have furnished the security as may be required in the proceeding to insure the payment of any contested Taxes, together with all interest and penalties thereon.

(c) Borrower shall pay or cause to be paid to Lender on the days that monthly installments of interest are payable under the Note, until the Note is paid in full, a sum (hereinafter referred to as the "**Funds**") equal to one-twelfth (1/12) of the following items (hereinafter collectively referred to as the "**Impositions**"): the yearly real estate taxes. The Impositions shall be reasonably estimated initially and from time to time by Lender on the basis of assessments and bills and estimates thereof. The Funds shall be held by Lender, free of interest and free of any liens or claims on the part of creditors of Borrower and as part of the security for the Obligations. The Funds may be commingled with the general funds of Lender. Lender shall apply the Funds to pay the Impositions with respect to which the Funds were paid to the extent of the Funds then held by Lender and provided Borrower has delivered to Lender the assessments or bills therefor. The Funds are pledged as additional security for the Obligations, and may be applied, at Mortgagee's option and without notice to Borrower, to the payment of the Obligations upon the occurrence of any Event of Default hereunder. If at any time the amount of the Funds held by Lender shall be less than the amount deemed necessary by Lender to pay Impositions as such become due, Borrower shall pay to Lender any amount necessary to make up the deficiency within five (5) days after notice from Mortgagee to Borrower requesting payment thereof. Upon payment in full of the Obligations, Lender shall promptly refund to Borrower any Funds held by Lender. Borrower shall pay all Impositions in accordance with this Security Instrument, and all other charges, if any, attributable to the Property. Borrower shall furnish to Lender all bills and notices of amounts due as soon as received, and in the event Borrower shall make payment directly, Borrower shall furnish to Lender receipts evidencing such payments have been made when due within ten (10) days after the dates on which such payments are due, unless applied by Lender to the extent of Funds then held by Mortgagee as more particularly provided in this Section. Borrower shall within thirty (30) days after Borrower becomes aware of any discharge (by bonding, payment or otherwise) any lien filed against the Property and will keep and maintain the Property free from the claims of all persons supplying labor or materials to the Property.

Section 3.3. CONDEMNATION. Borrower shall promptly give Lender notice of the actual commencement, or written threat of commencement, of any condemnation or eminent domain proceeding and shall deliver to Lender copies of any and all papers served in connection with such proceedings. Lender is hereby irrevocably appointed as Borrower's attorney-in-fact, coupled with an interest, with exclusive power to collect, receive and retain any award or payment for said condemnation or eminent domain and to make any compromise or settlement in connection with such proceeding, subject to the provisions of this Security Instrument. Notwithstanding any taking by any public or quasi-public authority through eminent domain or otherwise (including but not limited to any transfer made in lieu of or in anticipation of the exercise of such taking), Borrower shall continue to pay the Debt at the time and in the manner provided for its payment in the Note and in this Security Instrument and the Debt shall not be reduced until any award or payment therefor shall have been actually received and applied by Lender, after the deduction of expenses of collection, to the reduction or discharge of the Debt. Lender shall not be limited to the interest paid on the award by the condemning authority but shall be entitled to receive out of the award interest at the rate or rates provided herein or in the Note. Borrower shall cause the award or payment made in any condemnation or eminent domain proceeding, which is payable to Borrower, to be paid directly to Lender, subject to the rights of tenants (other than Borrower as tenant under the Master Lease). Lender may apply any award or payment to the reduction or discharge of the Debt whether or not then due and payable (such application to be free from any prepayment consideration provided in the Note, except that if an Event of Default, or an event which with notice and/or the passage of time, or both, would constitute an Event of Default, has occurred, then such application shall be subject to the full prepayment consideration computed in accordance with the Note). If the Property is sold, through foreclosure or otherwise, prior to the receipt by Lender of the award or payment, Lender shall have the right, whether or not a deficiency judgment on the Note shall have been sought, recovered or denied, to receive the award or payment, or a portion thereof sufficient to pay the Debt.

Section 3.4. USE AND MAINTENANCE OF PROPERTY. Borrower shall cause the Property to be maintained and operated in a good and safe condition and repair and in keeping with the condition and repair of properties of a similar use, value, age, nature and construction. Borrower shall not use, maintain or operate the Property in any manner which constitutes a public or private nuisance or which makes void, voidable, or cancelable, or increases the premium of, any insurance then in force with respect thereto. The Improvements and the Personal Property shall not be removed, demolished or materially altered (except for normal replacement of the Personal Property with items of the same utility and of equal or greater value and except as permitted under Leases (other than the Master Lease) for approved construction and landlord or tenant fit outs) without the prior written consent of Lender. Borrower shall promptly repair, replace or rebuild any part of the Property which may be destroyed by any casualty, or become damaged, worn or dilapidated or which may be affected by any proceeding of the character referred to in Section 3.4 hereof and shall complete and pay for any structure at any time in the process of construction or repair on the Land, subject to the obligations of tenants under any Leases (other than the Master Lease). Borrower shall not initiate, join in, acquiesce in, or consent to any change in any private restrictive covenant, zoning law or other public or private restriction, limiting or defining the uses which may be made of the Property or any part thereof without the prior written consent of Lender which shall not be unreasonably withheld. If under applicable zoning provisions the use of all or any portion of the Property is or shall become a nonconforming use, Borrower will not cause or permit the nonconforming use to be discontinued or abandoned without the express written consent of Lender which shall not be unreasonably withheld. Borrower shall not take any steps whatsoever to convert the Property, or any portion thereof, to a condominium or cooperative form of management.

Section 3.5. WASTE. Borrower shall not commit or suffer any waste of the Property or, without first obtaining such additional insurance as may be necessary to cover a proposed change in use of the Property, make any change in the use of the Property which will in any way materially increase the risk of fire or other hazard arising out of the operation of the Property, or take any action that might invalidate or give cause for cancellation of any Policy, or do or permit to be done thereon anything that may in any way impair the value of the Property or the security of this Security Instrument. Borrower will not, without the prior written consent of Lender, permit any drilling or exploration for or extraction, removal, or production of any minerals from the surface or the subsurface of the Land, regardless of the depth thereof or the method of mining or extraction thereof.

Section 3.6. COMPLIANCE WITH LAWS; ALTERATIONS.

(a) Borrower shall promptly comply with all existing and future federal, state and local laws, orders, ordinances, governmental rules and regulations or court orders affecting or which may be interpreted to affect the Property, or the use thereof, including, but not limited to, the Americans with Disabilities Act (the “**ADA**”) (collectively “**Applicable Laws**”), unless Borrower’s compliance is being contested in accordance with Applicable Laws and Lender has been notified in writing of the same.

(b) Notwithstanding any provisions set forth herein or in any document regarding Lender’s approval of alterations of the Property, Borrower shall not alter the Property in any manner which would increase Borrower’s responsibilities for compliance with Applicable Laws without the prior written approval of Lender. Lender’s approval of the plans, specifications, or working drawings for alterations of the Property shall create no responsibility or liability on behalf of Lender for their completeness, design, sufficiency or their compliance with Applicable Laws. The foregoing shall apply to tenant improvements constructed by Borrower or by any of its tenants. Lender may condition any such approval upon receipt of a certificate of compliance with Applicable Laws from an independent architect, engineer, or other person acceptable to Lender.

(c) Borrower shall give prompt notice to Lender of the receipt by Borrower of any notice related to a violation of any Applicable Laws and of the commencement of any proceedings or investigations which relate to compliance with Applicable Laws.

(d) Borrower shall take appropriate measures to prevent and will not engage in or knowingly permit any illegal activities at the Property.

Section 3.7. BOOKS AND RECORDS.

(a) Borrower shall keep accurate books and records of account in accordance with generally accepted accounting principles in which full, true and correct entries shall be promptly made with respect to Borrower, the Property and the operation thereof, and will permit all such books and records (including without limitation all contracts, statements, invoices, bills and claims for labor, materials and services supplied for the construction, repair or operation to Borrower of the Improvements) to be inspected or audited and copies made by Lender and its representatives during normal business hours and at any other reasonable times on at least forty-eight (48) hours advance notice. Borrower represents that its chief executive office is as set forth in the introductory paragraph of this Security Instrument and that all books and records pertaining to the Property are maintained at the Property or at its chief executive office. Borrower will furnish, or cause to be furnished, to Lender on or before ninety (90) calendar days following the end of each calendar year the following items, each certified by Borrower as being true and correct, in such format and in such detail as Lender or its servicer may reasonably request:

(i) a written statement (rent roll) dated as of the last day of each such calendar year identifying each of the Leases by the term, space occupied, rental required to be paid (including percentage rents and tenant sales), security deposit paid, any rental concessions, all rent escalations, any rents paid more than one (1) month in advance, any special provisions or inducements granted to tenants, any taxes, maintenance and other common charges paid by tenants, all vacancies and identifying any defaults or payment delinquencies thereunder;

(ii) year-to-date operating statements prepared for each calendar quarter during each such reporting period detailing the total revenues received, total expenses incurred, total cost of all capital improvements, total debt service and total cash flow; and

(iii) a current personal financial statement of each Guarantor, if applicable, in a form satisfactory to Lender.

(b) Within ninety (90) calendar days following the end of each calendar year, Borrower shall furnish a statement of the financial affairs and condition of the Borrower and the Property including a statement of profit and loss for the Property in such format and in such detail as Lender or its servicer may reasonably request, and setting forth the financial condition and the income and expenses for the Property for the immediately preceding calendar year prepared and audited by an independent certified public accountant. Borrower shall deliver to Lender copies of all income tax returns, requests for extension and other similar items contemporaneously with its delivery of same to the Internal Revenue Service.

(c) Borrower will permit representatives appointed by Lender, including independent accountants, agents, attorneys, appraisers and any other persons, to visit and inspect on at least twenty-four hours advance notice during its normal business hours and at any other reasonable times any of the Property or Borrower's chief executive office and to make photographs thereof, and to write down and record any information such representatives obtain, and shall permit Lender or its representatives to investigate and verify the accuracy of the information furnished to Lender under or in connection with this Security Instrument or any of the Other Loan Documents and to discuss all such matters with its officers, employees and representatives. Borrower will furnish to Lender at Borrower's expense all evidence which Lender may from time to time reasonably request as to the accuracy and validity of or compliance with all representations and warranties made by Borrower in the Loan Documents and satisfaction of all conditions contained therein. Any inspection or audit of the Property or the books and records of Borrower, or the procuring of documents and financial and other information, by or on behalf of Lender, shall be at Borrower's expense and shall be for Lender's protection only, and shall not constitute any assumption of responsibility or liability by Lender to Borrower or anyone else with regard to the condition, construction, maintenance or operation of the Property, nor Lender's approval of any certification given to Lender nor relieve Borrower of any of Borrower's obligations. Lender may divulge to any Investor (as hereinafter defined) all such information, and furnish to such Investor copies of any such reports, financial statements, certificates, and documents obtained under any provision of this Agreement, or related agreements and documents, provided that such information shall be provided on a confidential basis.

(d) [Reserved].

(e) Without limiting Lender's other rights and remedies under this Security Instrument and the other Loan Documents, in the event that any statement or document required to be delivered to Lender pursuant to this Section 3.8 is not delivered within thirty (30) days of the date when the same is due "**Delinquent Reports**") upon fifteen (15) days notice to Borrower, the Interest Rate (as defined in the Note) shall be increased by adding one quarter percent (0.25%) per annum (i.e., 25 basis points) to the Interest Rate until such time as all Delinquent Reports, in form and substance reasonably satisfactory to Lender, have been delivered to Lender.

Section 3.8. PAYMENT FOR LABOR AND MATERIALS. Borrower will promptly pay when due all bills and costs for labor, materials, and specifically fabricated materials incurred in connection with the Property (or, if required to be paid by tenant, will cause such tenant to so pay), and never permit to exist beyond the due date thereof in respect of the Property or any part thereof any lien or security interest, even though inferior to the liens and the security interests hereof, and in any event never permit to be created or exist in respect of the Property or any part thereof any other or additional lien or security interest other than the liens or security interests hereof, except for the Permitted Exceptions (as hereinafter defined).

Section 3.9. PERFORMANCE OF OTHER AGREEMENTS. Borrower shall observe and perform each and every term to be observed or performed by Borrower pursuant to the terms of the Loan Documents, or any other agreement or recorded instrument affecting or pertaining to the Property, or given by Borrower to Lender for the purpose of further securing an obligation secured hereby and any amendments, modifications or changes thereto.



Borrower covenants and agrees that:

Section 4.1. PROPERTY USE. The Property shall be used primarily for the operation of a cinema, and for no other use without the prior written consent of Lender, which consent may be withheld in Lender's sole but reasonable discretion.

Section 4.2. ERISA.

(a) It shall not engage in any transaction which would cause any obligation, or action taken or to be taken, hereunder (or the exercise by Lender of any of its rights under the Note, this Security Instrument and the Other Loan Documents) to be a non-exempt (under a statutory or administrative class exemption) prohibited transaction under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(b) During the term of the Loan or any obligation or right hereunder, Borrower shall not be a Plan (defined below) and none of the assets of Borrower shall constitute assets of a Plan within the meaning of Section 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA. It shall deliver to Lender such certifications or other evidence from time to time throughout the term of the Security Instrument, as requested by Lender in its sole discretion, that (i) Borrower is not a Plan, or a "governmental plan" within the meaning of Section 3(32) of ERISA; (ii) Borrower is not subject to state statutes regulating investments and fiduciary obligations with respect to governmental plans; and (iii) one or more of the following circumstances is true:

(i) Equity interests in Borrower are publicly offered securities, within the meaning of 29 C.F.R. § 2510.3-101(b)(2);

(ii) None of the assets of the Borrower are, with the application of 29 C.F.R. §2510.3-101, as modified by Section 3(42) of ERISA, regarded as assets of any Plan; or

(iii) Borrower qualifies as an "operating company" or a "real estate operating company" within the meaning of 29 C.F.R. § 2510.3-101(c) or (e) or an investment company registered under The Investment Company Act of 1940.

"Plan" shall mean an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA or a plan or other arrangement within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended, and the related Treasury Department regulations, including temporary regulations.

Section 4.3. SINGLE PURPOSE ENTITY. Borrower covenants and agrees that it has not and shall not:

(a) engage in any business or activity other than the acquisition, ownership, operation and maintenance of the Property, and activities incidental thereto;

(b) acquire or own any material asset other than (i) the Property, and (ii) such incidental Personal Property as may be necessary for the operation of the Property;

(c) merge into or consolidate with any person or entity or dissolve, terminate or liquidate in whole or in part, transfer or otherwise dispose of all or substantially all of its assets or change its legal structure, without in each case Lender's consent;

(d) fail to preserve its existence as an entity duly organized, validly existing and in good standing (if applicable) under the laws of the jurisdiction of its organization or formation, or without the prior written consent of Lender which shall not be unreasonably withheld, amend, modify, terminate or fail to comply with the provisions of Borrower's Partnership Agreement, Articles or Certificate of Incorporation, Articles of Organization, Operating Agreement or similar organizational documents, as the case may be;

(e) own any subsidiary or make any investment in or acquire the obligations or securities of any other person or entity without the consent of Lender;

(f) commingle its assets with the assets of any of its partner(s), members, shareholders, affiliates, or of any other person or entity or transfer any assets to any such person or entity other than distributions on account of equity interests in the Borrower permitted hereunder and properly accounted for;

(g) incur any debt, secured or unsecured, direct or contingent (including guaranteeing any obligation), other than the Debt, except unsecured trade and operational debt incurred with trade creditors in the ordinary course of its business of owning and operating the Property in such amounts as are normal and reasonable under the circumstances, provided that such debt is not evidenced by a note and is paid when due and provided in any event the outstanding principal balance of such debt shall not exceed at any one time one percent (1%) of the original outstanding Debt;

(h) allow any person or entity to pay its debts and liabilities (except a Guarantor or other affiliate) or fail to pay its debts and liabilities solely from its own assets;

(i) fail to maintain its records, books of account and bank accounts separate and apart from those of the shareholders, partners, members, principals and affiliates of Borrower, the affiliates of a shareholder, partner or member of Borrower, and any other person or entity or fail to prepare and maintain its own financial statements in accordance with generally accepted accounting principles and susceptible to audit, or if such financial statements are consolidated fail to cause such financial statements to contain footnotes disclosing that the Property is actually owned by the Borrower; provided, however, that Borrower's assets may be included in a consolidated financial statement of its affiliates provided that (1) appropriate notation shall be made on such consolidated financial statements to indicate the separateness of the Borrower and such affiliates, and (2) such assets shall be listed on the Borrower's own separate balance sheet;

(j) enter into any contract or agreement with any shareholder, partner, member, principal or affiliate of Borrower, any guarantor of all or a portion of the Debt (a "**Guarantor**") or any shareholder, partner, member, principal or affiliate thereof, except upon terms and conditions that are intrinsically fair and substantially similar to those that would be available on an arms-length basis with third parties other than any shareholder, partner, member, principal or affiliate of Borrower or Guarantor, or any shareholder, partner, member, principal or affiliate thereof;

(k) seek dissolution or winding up, in whole or in part;

(l) fail to correct any known misunderstandings regarding the separate identity of Borrower; provided, however, that Reading International, Inc. (“RDI”), in any of its Securities and Exchange Commission or other public filings or statements distributed to shareholders, may refer to the Borrower and its various subsidiaries (including, without limitation, the Borrower), generally as RDI, the “Company” or words of similar import and without differentiation as to the Borrower or any other subsidiary;

(m) hold itself out to be responsible or pledge its assets or credit worthiness for the debts of another person or entity or allow any person or entity to hold itself out to be responsible or pledge its assets or credit worthiness for the debts of the Borrower (except for a Guarantor);

(n) make any loans or advances to any third party, including any shareholder, partner, member, principal or affiliate of Borrower, or any shareholder, partner, member, principal or affiliate thereof;

(o) fail to file its own tax returns (to the extent the Borrower is required to file any such tax returns) or to use separate contracts, purchase orders, stationery, invoices and checks; provided, however, that RDI or its successor may file a consolidated federal income tax return that includes the Borrower if permitted by law;

(p) fail either to hold itself out to the public as a legal entity separate and distinct from any other entity or person or to conduct its business solely in its own name in order not (i) to mislead others as to the entity with which such other party is transacting business, or (ii) to suggest that Borrower is responsible for the debts of any third party (including any shareholder, partner, member, principal or affiliate of Borrower, or any shareholder, partner, member, principal or affiliate thereof);

(q) fail to allocate fairly and reasonably among Borrower and any third party (including, without limitation, any Guarantor) any overhead for common employees, shared office space or other overhead and administrative expenses;

(r) allow any person or entity to pay the salaries of its own employees or fail to maintain a sufficient number of employees for its contemplated business operations;

(s) fail to maintain adequate capital for the normal obligations reasonably foreseeable in a business of its size and character and in light of its contemplated business operations;

(t) file a voluntary petition or otherwise initiate proceedings to have the Borrower or any general partner, member or manager of Borrower adjudicated bankrupt or insolvent, or consent to the institution of bankruptcy or insolvency proceedings against the Borrower or any general partner, member or manager of Borrower, or file a petition seeking or consenting to reorganization or relief of the Borrower or any general partner, member or manager of Borrower as debtor under any applicable federal or state law relating to bankruptcy, insolvency, or other relief for debtors with respect to the Borrower or any general partner, member or manager of Borrower; or seek or consent to the appointment of any trustee, receiver, conservator, assignee, sequestrator, custodian, liquidator (or other similar official) of the Borrower or any general partner, member or manager of Borrower or of all or any substantial part of the properties and assets of the Borrower or any general partner, member or manager of Borrower, or make any general assignment for the benefit of creditors of the Borrower or any general partner, member or manager of Borrower, or admit in writing the inability of the Borrower or any general partner, member or manager of Borrower to pay its debts generally as they become due or declare or effect a moratorium on the Borrower or any general partner, member or manager of Borrower debt or take any action in furtherance of any such action;

(u) share any common logo (other than the movie theatre logo) with or hold itself out as or be considered as a department or division of (i) any shareholder, partner, principal, member or affiliate of Borrower, (ii) any affiliate of a shareholder, partner, principal, member or affiliate of Borrower, or (iii) any other person or entity or allow any person or entity to identify the Borrower as a department or division of that person or entity; or

(v) conceal assets from any creditor, or enter into any transaction with the intent to hinder, delay or defraud creditors of the Borrower or the creditors of any other person or entity.

Section 4.4. EMBARGOED PERSON. As of the date hereof and at all times throughout the term of the Loan, including after giving effect to any Transfers permitted pursuant to the Loan Documents, (a) none of the funds or other assets of Borrower and, to its actual knowledge, Guarantor, constitute property of, or are beneficially owned, directly or indirectly, by any person, entity or government subject to trade restrictions under U.S. law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Orders or regulations promulgated thereunder with the result that the investment in Borrower, or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan made by the Lender is in violation of law (“**Embargoed Person**”); (b) no Embargoed Person has any interest of any nature whatsoever in Borrower, or Guarantor, as applicable, with the result that the investment in Borrower or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law; and (c) none of the funds of Borrower, or Guarantor, as applicable, have been derived from any unlawful activity with the result that the investment in Borrower or Guarantor, as applicable (whether directly or indirectly), is prohibited by law or the Loan is in violation of law.

Section 4.5. OFAC. Borrower hereby represents and warrants that Borrower, and, to its actual knowledge, Guarantor, and each and every Person affiliated with Borrower and/or Guarantor or that to Borrower's knowledge has an economic interest in Borrower, or, to Borrower's knowledge, that has or will have an interest in the transaction contemplated by this Security Instrument or in the Property or will participate, in any manner whatsoever, in the Loan are (i) in full compliance with all applicable orders, rules, regulations and recommendations of The Office of Foreign Assets Control of the U.S. Department of the Treasury; (ii) is not a Prohibited Person (as defined below); (iii) in full compliance with the requirements of the Patriot Act and all other requirements contained in the rules and regulations of the Office of Foreign Assets Control, Department of the Treasury (as used in this Section only, "**OFAC**"); (iv) operated under policies, procedures and practices, if any, that are in compliance with the Patriot Act and available to Lender for Lender's review and inspection during normal business hours and upon reasonable prior notice; (v) not in receipt of any notice from the Secretary of State or the Attorney General of the United States or any other department, agency or office of the United States claiming a violation or possible violation of the Patriot Act; (vi) not a person who has been determined by competent authority to be subject to any of the prohibitions contained in the Patriot Act; and (vii) not owned or controlled by or now acting and or will in the future act for or on behalf of any person who has been determined to be subject to the prohibitions contained in the Patriot Act. Borrower covenants and agrees that in the event Borrower receives any notice that Borrower or Guarantor (or any of their respective beneficial owners, affiliates or participants) become listed on the Annex or any other list promulgated under the Patriot Act or is indicted, arraigned, or custodially detained on charges involving money laundering or predicate crimes to money laundering, Borrower shall immediately notify Lender. It shall be an Event of Default hereunder if Borrower, Guarantor or any other party to any Loan Document becomes listed on any list promulgated under the Patriot Act or is indicted, arraigned or custodially detained on charges involving money laundering or predicate crimes to money laundering.

"**Prohibited Person**" shall mean any person or entity:

(a) a "blocked" person listed in the Annex, or otherwise subject to the provisions of, the Executive Order Nos. 12947, 13099 and 13224 on Terrorist Financing, effective September 24, 2001, and all modifications thereto or thereof, and relating to Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (as used in this Section only, the "**Annex**");

(b) that is owned or controlled by, or acting for or on behalf of, any person or entity that is listed to the Annex, or is otherwise subject to the provisions of, the Annex;

(c) with whom Lender is prohibited from dealing or otherwise engaging in any transaction by any terrorism or money laundering law, including the Annex;

(d) who commits, threatens or conspires to commit or supports "terrorism" as defined in the Annex;

(e) that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, <http://www.treas.gov/ofac/t11sdn.pdf> or at any replacement website or other replacement official publication of such list or any other list of terrorists or terrorist organizations maintained pursuant to any of the rules and regulations of the OFAC issued pursuant to the Patriot Act or on any other list of terrorists or terrorist organizations maintained pursuant to the Patriot Act; or

(f) who is an Affiliate of or affiliated with a person or entity listed above.

“**Patriot Act**” shall mean the USA PATRIOT Act of 2001, 107 Public Law 56 (October 26, 2001) and in other statutes and all orders, rules and regulations of the United States government and its various executive departments, agencies and offices related to the subject matter of the Patriot Act, including Executive Order 13224 effective September 24, 2001.

Section 4.6. LOAN TO VALUE. Borrower shall maintain a Loan to Value Ratio (as defined in the Note) of at least 50%. Fair market value shall be determined by Lender from time to time by reference to acceptable guides and indices and/or appraisals or such other means as Lender, in its discretion, deems appropriate. In the event that Lender shall at any time determine that the Loan to value ratio is greater than 50%, Borrower shall within thirty (30) days of notice and demand by Lender, either reduce the Loan amount or pledge such additional collateral as may be acceptable to Lender in order to maintain the required Loan to value ratio. Borrower’s failure to either reduce the Loan balance as necessary or satisfy Lender’s demand for additional collateral acceptable to it within thirty (30) days of notice having been given by Lender, shall be considered an Event of Default hereunder.

## ARTICLE 5

## - REPRESENTATIONS AND WARRANTIES

Section 5.1. BORROWER’S REPRESENTATIONS. Borrower represents and warrants to Lender that each of the representations and warranties set forth in that certain Closing Certificate of even date herewith executed by Borrower in favor of Lender are true and correct as of the date hereof and are hereby incorporated and restated in this Security Instrument by this reference.

Section 5.2. WARRANTY OF TITLE. Borrower represents and warrants that it has good and marketable title to the Property and has the right to mortgage, grant, bargain, sell, pledge, assign, warrant, transfer and convey the same and that Borrower possesses an unencumbered fee simple absolute estate in the Land and the Improvements and that it owns the Property free and clear of all liens, encumbrances and charges whatsoever except for those exceptions shown in the title insurance policy insuring the lien of this Security Instrument (the “**Permitted Exceptions**”). Borrower shall, at its sole cost and expense, forever warrant, defend and preserve the title and the validity and priority of the lien of this Security Instrument and shall, at its sole cost and expense, forever warrant and defend the same to Lender against the claims of all persons whomsoever.

Section 5.3. STATUS OF PROPERTY.

(a) No portion of the Improvements is located in an area identified by the Secretary of Housing and Urban Development or any successor thereto as an area having special flood hazards pursuant to the National Flood Insurance Act of 1968 or the Flood Disaster Protection Act of 1973, as amended, or any successor law, or, if located within any such area, Borrower has obtained and will maintain the insurance prescribed in Section 3.2 hereof.

(b) Borrower has obtained all necessary certificates, permits, licenses and other approvals, governmental and otherwise, necessary for the use, occupancy and operation of the Property and the conduct of its business (including, without limitation, certificates of completion and certificates of occupancy) and all required zoning, building code, land use, environmental and other similar permits or approvals, all of which are in full force and effect as of the date hereof and to its knowledge not subject to revocation, suspension, forfeiture or modification.

(c) The Property and the present and contemplated use and occupancy thereof are to the best knowledge of Borrower in full compliance with all Applicable Laws, including, without limitation, zoning ordinances, building codes, land use and environmental laws, laws relating to the disabled (including, but not limited to, the ADA) and other similar laws, except as disclosed in the title report (including municipal searches therein) prepared by Chicago Title Insurance Company for the benefit of Lender in connection with the Loan.

(d) The Property is served by all utilities required for the current or contemplated use thereof. All utility service is provided by public utilities and the Property has accepted or is equipped to accept such utility service.

(e) All public roads and streets necessary for service of and access to the Property for the current or contemplated use thereof have been completed, are serviceable and are physically and legally open for use by the public.

(f) The Property is served by public water and sewer systems.

(g) The Property is free from damage caused by fire or other casualty. There is no pending or, to the best knowledge of Borrower, threatened condemnation proceedings affecting the Property or any portion thereof.

(h) All costs and expenses of any and all labor, materials, supplies and equipment used in the construction of the Improvements have been paid in full and no notice of any mechanics' or materialmen's liens or of any claims of right to any such liens have been received.

(i) Borrower has paid in full for, and is the owner of, all furnishings, fixtures and equipment (other than tenants' property) used in connection with the operation of the Property, free and clear of any and all security interests, liens or encumbrances, except the lien and security interest created hereby.

(j) All liquid and solid waste disposal, septic and sewer systems located on the Property are to the best knowledge of Borrower in a good and safe condition and repair and in compliance with all Applicable Laws.

(k) All Improvements lie within the boundary of the Land or Borrower's title company provides affirmative insurance of same in favor of the Lender.

Section 5.4. NO FOREIGN PERSON. Borrower is not a "foreign person" within the meaning of Section 1445(f)(3) of the Internal Revenue Code of 1986, as amended, and the related Treasury Department regulations, including temporary regulations.

Section 5.5. SEPARATE TAX LOT. The Property is assessed for real estate tax purposes as one or more wholly independent tax lot or lots, separate from any adjoining land or improvements not constituting a part of such lot or lots, and no other land or improvements is assessed and taxed together with the Property or any portion thereof.

## ARTICLE 6

## - OBLIGATIONS AND RELIANCES

Section 6.1. RELATIONSHIP OF BORROWER AND LENDER. The relationship between Borrower and Lender is solely that of debtor and creditor, and Lender has no fiduciary or other special relationship with Borrower, and no term or condition of any of the Note, this Security Instrument and the other Loan Documents shall be construed so as to deem the relationship between Borrower and Lender to be other than that of debtor and creditor.

Section 6.2. NO RELIANCE ON LENDER. The partners, members, principals and (if Borrower is a trust) beneficial owners of Borrower are experienced in the ownership and operation of properties similar to the Property, and Borrower and Lender are relying solely upon such expertise and business plan in connection with the ownership and operation of the Property. Borrower is not relying on Lender's expertise, business acumen or advice in connection with the Property.

Section 6.3. NO LENDER OBLIGATIONS.

(a) Notwithstanding the provisions of Subsections 1.1(e) and 1.1(k) or Section 1.2, Lender is not undertaking (i) any obligations under the Leases; or (ii) any obligations with respect to such agreements, contracts, certificates, instruments, franchises, permits, trademarks, licenses and other documents.

(b) By accepting or approving anything required to be observed, performed or fulfilled or to be given to Lender pursuant to this Security Instrument, the Note or the Other Loan Documents, including without limitation, any officer's certificate, balance sheet, statement of profit and loss or other financial statement, survey, appraisal, or insurance policy, Lender shall not be deemed to have warranted, consented to, or affirmed the sufficiency, legality or effectiveness of same, and such acceptance or approval thereof shall not constitute any warranty or affirmation with respect thereto by Lender.

Section 6.4. RELIANCE. Borrower recognizes and acknowledges that in accepting the Note, this Security Instrument and the Other Loan Documents, Lender is expressly and primarily relying on the truth and accuracy of the warranties and representations set forth in Article 5 and that certain Closing Certificate of even date herewith executed by Borrower, without any obligation to investigate the Property and notwithstanding any investigation of the Property by Lender; that such reliance existed on the part of Lender prior to the date hereof; that such warranties and representations are a material inducement to Lender in accepting the Note, this Security Instrument and the Other Loan Documents; and that Lender would not be willing to make the Loan and accept this Security Instrument in the absence of the warranties and representations as set forth in Article 5 and such Closing Certificate.



Section 7.1. RECORDING FEES. Borrower will pay all taxes, filing, registration or recording fees, and all expenses incident to the preparation, execution, acknowledgment and/or recording of the Note, this Security Instrument, the Other Loan Documents, any note or mortgage supplemental hereto, any security instrument with respect to the Property and any instrument of further assurance, and any modification or amendment of the foregoing documents, and all federal, state, county and municipal taxes, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of this Security Instrument, any mortgage supplemental hereto, any security instrument with respect to the Property or any instrument of further assurance, and any modification or amendment of the foregoing documents, except where prohibited by law so to do.

Section 7.2. FURTHER ACTS. Borrower will, at the cost of Borrower, and without expense to Lender, do, execute, acknowledge and deliver all and every such further acts, deeds, conveyances, mortgages, assignments, notices of assignments, transfers and assurances as Lender shall, from time to time, reasonably require, for the better assuring, conveying, assigning, transferring, and confirming unto Lender the property and rights hereby mortgaged, granted, bargained, sold, conveyed, confirmed, pledged, assigned, warranted and transferred or intended now or hereafter so to be, or which Borrower may be or may hereafter become bound to convey or assign to Lender, or for carrying out the intention or facilitating the performance of the terms of this Security Instrument or for filing, registering or recording this Security Instrument, or for complying with all Applicable Laws. Borrower, on demand, will execute and deliver and hereby authorizes Lender on notice to Borrower to execute in the name of Borrower or without the signature of Borrower to the extent Lender may lawfully do so, one or more financing statements, chattel mortgages or other instruments, to evidence more effectively the security interest of Lender in the Property. Borrower grants to Lender an irrevocable power of attorney coupled with an interest for the purpose of exercising and perfecting any and all rights and remedies available to Lender at law and in equity, including without limitation such rights and remedies available to Lender pursuant to this Section 7.2.

Section 7.3. CHANGES IN TAX, DEBT CREDIT AND DOCUMENTARY STAMP LAWS.

(a) If any law is enacted or adopted or amended after the date of this Security Instrument which imposes a tax, either directly or indirectly, on the Debt or Lender's interest in the Property, requires revenue or other stamps to be affixed to the Note, this Security Instrument, or the Other Loan Documents, or imposes any other tax or charge on the same, Borrower will pay the same, with interest and penalties thereon, if any. If Lender is advised by counsel chosen by it that the payment of tax by Borrower would be unlawful or taxable to Lender or unenforceable or provide the basis for a defense of usury, then Lender shall have the option, by written notice of not less than ninety (90) calendar days, to declare the Debt immediately due and payable.

(b) Borrower will not claim or demand or be entitled to any credit or credits on account of the Debt for any part of the Taxes or Other Charges assessed against the Property, or any part thereof, and no deduction shall otherwise be made or claimed from the assessed value of the Property, or any part thereof, for real estate tax purposes by reason of this Security Instrument or the Debt. If such claim, credit or deduction shall be required by law, Lender shall have the option, by written notice of not less than ninety (90) calendar days, to declare the Debt immediately due and payable.

Section 7.4. CONFIRMATION STATEMENT.

(a) After request by Lender, Borrower, within fifteen (15) days, shall furnish Lender or any proposed assignee with a statement, duly acknowledged and certified, confirming to Lender (or its designee) (i) the amount of the original principal amount of the Note, (ii) the unpaid principal amount of the Note, (iii) the rate of interest of the Note, (iv) the terms of payment and maturity date of the Note, (v) the date installments of interest and/or principal were last paid, and (vi) that, except as provided in such statement, there are no defaults or events which with the passage of time or the giving of notice or both, would constitute an event of default under the Note or this Security Instrument; provided, however, Lender shall not be entitled hereunder to receive more than one (1) such statement in each calendar year.

(b) Subject to the provisions of the Leases, Borrower shall deliver to Lender, promptly upon request (but not more frequently than once annually so long as Borrower is not in default hereunder), duly executed estoppel certificates from any one or more lessees as required by Lender attesting to such facts regarding the Lease as Lender may require, including but not limited to attestations that each Lease covered thereby is in full force and effect, whether there are any defaults thereunder on the part of any party, whether any Rents have been paid more than one month in advance, and whether the lessee claims any defense or offset against the full and timely performance of its obligations under the Lease, and if offset is claimed, the basis of such claim and the amount so claimed.

(c) Upon any transfer or proposed transfer contemplated by Section 16.1 hereof, at Lender's request, Borrower, and any Guarantors shall provide an estoppel certificate to the Investor (defined in Section 16.1) or any prospective Investor in such form, substance and detail as Lender, such Investor or prospective Investor may require.

Section 7.5. SPLITTING OF SECURITY INSTRUMENT. This Security Instrument and the Note shall, at any time until the same shall be fully paid and satisfied, at the sole election of Lender, be split or divided into two or more notes and two or more security instruments, each of which shall cover all or a portion of the Property to be more particularly described therein. To that end, Borrower, upon written request of Lender, shall, at no cost to Borrower, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered by Borrower to Lender and/or its designee or designees substitute notes (and upon such execution and delivery the note which is being replaced will be cancelled and the original returned to Borrower) and security instruments in such principal amounts, aggregating not more than the then unpaid principal amount of Debt, and containing terms, provisions and clauses materially the same to those contained herein and in the Note, and such other documents and instruments as may be required by Lender.

Section 7.6. REPLACEMENT DOCUMENTS. Upon receipt of an affidavit of an officer of Lender as to the loss, theft, destruction or mutilation of the Note or any Other Loan Document which is not of public record, and, in the case of any such mutilation, upon surrender and cancellation of such Note or Other Loan Document, Borrower, at its expense, will issue, in lieu thereof, a replacement Note or Other Loan Document, dated the date of such lost, stolen, destroyed or mutilated Note or Other Loan Document in the same principal amount thereof and otherwise of like tenor.

## ARTICLE 8

## - DUE ON SALE/ENCUMBRANCE

Section 8.1. LENDER RELIANCE. Borrower acknowledges that Lender has examined and relied on the creditworthiness of Borrower and experience of Borrower and its partners, members, principals and (if Borrower is a trust) beneficial owners in owning and operating properties such as the Property in agreeing to make the Loan, and will continue to rely on Borrower's ownership of the Property as a means of maintaining the value of the Property as security for repayment of the Debt and the performance of the Other Obligations. Borrower acknowledges that Lender has a valid interest in maintaining the value of the Property so as to ensure that, should Borrower default in the repayment of the Debt or the performance of the Other Obligations, Lender can recover the Debt by a sale of the Property.

### Section 8.2. NO SALE/ENCUMBRANCE.

(a) Borrower agrees that Borrower shall not, without the prior written consent of Lender, Transfer the Property or any part thereof or permit the Property or any part thereof to be Transferred. Lender shall not be required to demonstrate any actual impairment of its security or any increased risk of default hereunder in order to declare the Debt immediately due and payable upon Borrower's Transfer of the Property without Lender's consent.

(b) As used in Section 8.2(a), "Transfer" shall mean any voluntary or involuntary sale, conveyance, mortgage, grant, bargain, encumbrance, pledge, assignment or transfer of all or any part of the Property or any interest therein including, but not limited to: (i) an installment sales agreement wherein Borrower agrees to sell the Property or any part thereof for a price to be paid in installments; (ii) an agreement by Borrower leasing all or a substantial part of the Property for other than actual occupancy by a space tenant thereunder; (iii) a sale, assignment or other transfer of, or the grant of a security interest in, Borrower's right, title and interest in and to any Leases (including, without limitation, the Master Lease) or any Rents; (iv) if Borrower, Guarantor, or any member, manager or general partner of Borrower or Guarantor is a corporation, any Transfer of such corporation's stock (or the stock of any corporation directly or indirectly controlling such Borrower, Guarantor, member, manager or general partner by operation of law or otherwise) or the creation or issuance of new stock in one or a series of transactions by which an aggregate of forty-nine percent (49%) or more of such corporation's stock shall directly or indirectly be vested in or pledged to a party or parties who are not now stockholders (provided, however, in no event shall this subpart "iv" apply to any Guarantor whose stock or shares are traded on a nationally recognized stock exchange); (v) if Borrower, Guarantor, or any member, manager or general partner of Borrower or Guarantor is a limited liability company or partnership, the Transfer by which an aggregate of forty-nine percent (49%) or more of the ownership interest in such limited liability company or forty-nine percent (49%) or more of the partnership interests in such partnership shall directly or indirectly be vested in or pledged to parties not having an ownership interest as of the date of this Security Instrument; (vi) if Borrower, any Guarantor or any member, manager or general partner of Borrower or any Guarantor is a partnership, limited liability company or joint venture, the change, removal or resignation of a general partner, member, manager or joint venturer or the Transfer directly or indirectly of all or any portion of the partnership or ownership interest of any general partner, member, manager or joint venturer; and (vii) except as expressly permitted by Section 8.3, any Transfer by an Original Principal, directly or indirectly, of its ownership interest in the Borrower.

Section 8.3. EXCLUDED AND PERMITTED TRANSFERS.

(a) A Transfer within the meaning of this Article 8 shall not include (i) transfers of ownership interests in the Borrower, any general partner, member or manager or any Guarantor made by devise or descent or by operation of law upon the death of a joint tenant, partner, member or shareholder, subject, however, to all the following requirements: (A) written notice of any transfer under this Section 8.3, whether by will, trust or other written instrument, operation of law or otherwise, is provided to Lender or its servicer, together with copies of such documents relating to the transfer as Lender or its servicer may reasonably request, (B) control over the management and operation of the Property is retained by one or more of James J. Cotter and Michael R. Foreman (the "**Original Principals**", whether one or more) at all times prior to the death or legal incapacity of all the Original Principals and is thereafter assumed by persons who are acceptable in all respects to Lender in its sole but reasonable discretion, (C) [intentionally omitted], and (D) no such transfer, death or other event has any adverse effect either on the bankruptcy-remote status of Borrower under the requirements of any national rating agency for the Securities (hereinafter defined) or on the status of Borrower as a continuing legal entity liable for the payment of the Debt and the performance of all other obligations secured hereby, (ii) transfers otherwise by operation of law in the event of a bankruptcy, (iii) a Lease of a portion of the Property to a space tenant in accordance with the provisions of this Security Agreement and the Assignment of Leases and Rents delivered by Borrower in favor of Lender on the date hereof in connection with this Security Instrument, (iv) utility easements benefitting the Property, or (v) transfers of the ownership interests in the Borrower as long as Reading International, Inc. shall continue to and at all times hold, directly or indirectly, no less than a fifty-one percent (51%) membership interest in Borrower and shall continue to control the managing member.

(b) Notwithstanding any provision of this Security Instrument to the contrary, the prohibitions in Subsection 8.2(a) shall not apply to an inter vivos or testamentary transfer of all or any portion of ownership interests in the Borrower, any general partner, member or manager or any Guarantor to one or more family members of Original Principals or a trust in which all of the beneficial interest is held by one or more family members of Original Principals or a partnership or limited liability company in which a majority of the capital and profits interests are held by one or more family members of Original Principals, provided, that any inter vivos transfer of all or any portion of the ownership interests in the Borrower, such general partner, member or manager or such Guarantor is made in connection with Original Principals' bona fide, good faith estate planning and that the person(s) with voting control of Borrower or the management of the Property are (i) the same person(s) who had such voting control and management rights immediately prior to the transfer in question, or (ii) reasonably acceptable to Lender and provided further that no such transfer shall have any adverse effect on the bankruptcy remote status of Borrower under the requirements of any national rating agency for the Securities. Lender acknowledges that Original Principals and/or an Original Principal's spouse or adult children are acceptable to exercise voting control of Borrower and the management of the Property. As used herein, "family members" shall include the spouse, children (and children's spouses) and grandchildren and any lineal descendants.

(c) Notwithstanding the provisions of Section 8.2 above, Lender will not unreasonably withhold its consent to one sale or transfer of the Property or ownership interests in the Borrower, a general partner, member or manager of the Borrower, or any Guarantor, if (but only if) no Event of Default under the Loan Documents has occurred, and if each of the following conditions precedent have been fully satisfied (as determined in Lender's sole but reasonable discretion): (i) the grantee's or transferee's or any replacement guarantor's integrity, reputation, financial condition, character and management ability are satisfactory to Lender, and all information relating thereto requested by Lender is delivered to Lender at least 30 days prior to the proposed transfer, (ii) the grantee's or transferee's (and its sole general partner's, member's or manager's) single purpose and bankruptcy remote character are satisfactory to Lender, and all information relating thereto requested by Lender is delivered to Lender at least 30 days prior to the proposed transfer, (iii) Lender has obtained such estoppels from any proposed replacement guarantors, and such other legal opinions regarding substantive consolidation issues, enforceability of the assumption documents, no adverse impact on the Securities or any REMIC holding the Note and similar matters as Lender may require, (iv) all of Lender's costs and expenses associated with the sale or transfer (including reasonable attorneys' fees) are paid by Borrower or the grantee or transferee, (v) the payment of a transfer fee not to exceed 1% of the then unpaid principal balance of the Loan evidenced by the Note and secured hereby, (vi) the execution and delivery to Lender of a written assumption agreement and substitute guaranties of the Borrower's Recourse Obligations, environmental indemnity obligations and payments under the Master Lease (or if the Master Lease is intended to be terminated, a replacement guaranty satisfactory to Lender and providing for a corresponding monetary obligation as the guaranty of the Master Lease payments) and such modifications to the Loan Documents executed by such parties and containing such terms and conditions as Lender may require in its reasonable discretion prior to such sale or transfer, provided such modifications shall not increase the monetary or material non-monetary obligations of Borrower or Guarantor under the Loan Documents, and (vii) if applicable, the delivery to Lender of an endorsement (at Borrower's sole cost and expense) to Lender's policy of title insurance then insuring the lien created by this Security Instrument in form and substance acceptable to Lender in its sole but reasonable judgment. If Lender shall have approved a replacement Guarantor in accordance with this Section 8.3(c), Lender shall release Reading International, Inc. as the Guarantor.

(d) Without limiting the foregoing, if Lender shall consent to a transfer of the Property, the written assumption agreement described in Subsection 8.3(c)(vi) above shall provide for the release of Borrower and Guarantor of all liability under the Note and Other Loan Documents, but only as to acts or events occurring, or obligations arising, after the closing of such transfer.

Section 8.4. NO IMPLIED FUTURE CONSENT. Lender's consent to one sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Property shall not be deemed to be a waiver of Lender's right to require such consent to any future occurrence of same. Any sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer of the Property made in contravention of this Article 8 shall be null and void and of no force and effect.

Section 8.5. COSTS OF CONSENT. Borrower agrees to bear and shall pay or reimburse Lender on demand for all expenses (including, without limitation, all recording costs, reasonable in-house and outside attorneys' fees and disbursements and title search costs) incurred by Lender, and a processing fee to Lender, in connection with the review, approval and documentation of any such sale, conveyance, alienation, mortgage, encumbrance, pledge or transfer.

Section 8.6. CONTINUING SEPARATENESS REQUIREMENTS. In no event shall any of the terms and provisions of this Article 8 amend or modify the terms and provisions contained in Section 4.3 herein.

## ARTICLE 9

## - DEFAULT

Section 9.1. EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an "**Event of Default**":

(a) if any portion of the Debt is not paid on or before the tenth (10<sup>th</sup>) calendar day after the day on which the same is due (without regard to any applicable cure and/or notice period) or if the entire Debt is not paid on or before the Maturity Date, along with applicable prepayment premiums, if any;

(b) if Borrower, or its general partner, member or manager, if applicable, violates or does not comply with any of the provisions of Section 3.3, Section 4.3, or Article 8 hereof, or Article 19 of the Note, or fails to deliver any of the reports required by Section 3.8;

(c) if any representation or warranty of Borrower or of its members, general partners, principals, affiliates, agents or employees, or of any Guarantor made herein or in the Environmental Indemnity or in any other Loan Document, in any guaranty, or in any certificate, report, financial statement or other instrument or document furnished to Lender shall have been false or misleading in any material respect when made;

(d) if Borrower or any Guarantor shall make an assignment for the benefit of creditors or if Borrower or any Guarantor shall admit in writing its inability to pay, or Borrower's or any Guarantor's failure to pay its debts as they become due;

(e) if (i) Borrower or any member or manager of Borrower, or any Guarantor shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or Borrower or any member or manager of Borrower, or any Guarantor shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against Borrower or any member or manager of Borrower, or any Guarantor any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of ninety (90) calendar days; or (iii) there shall be commenced against Borrower or any member or manager of Borrower or any Guarantor any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of any order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within ninety (90) calendar days from the entry thereof; or (iv) Borrower or any member or manager of Borrower, or any Guarantor shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii) or (iii) above; or (v) Borrower or any member or manager of Borrower, or any Guarantor shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due;

(f) subject to Borrower's right to contest certain liens as provided in this Security Instrument, if the Property becomes subject to any mechanic's, materialman's or other lien other than a lien for local real estate taxes and assessments not then due and payable and the lien shall remain undischarged of record (by payment, bonding or otherwise) for a period of forty-five (45) calendar days after Borrower becomes aware of such lien;

(g) if any federal tax lien is filed against Borrower, any general partner, member or manager of Borrower, any Guarantor or the Property and same is not discharged of record within forty-five (45) calendar days after Borrower becomes aware of such filing;

(h) except as permitted in this Security Instrument, the actual alteration, improvement, demolition or removal of any of the Improvements, or any construction on the Property, without the prior consent of Lender;

(i) Borrower's failure to maintain the insurance required under this Security Instrument;

(j) without Lender's prior consent, which shall not be unreasonably withheld, (i) any managing agent for the Property resigns or is removed, (ii) the ownership, management or control of such managing agent is transferred to a person or entity other than the general partner, member or manager of the Borrower, or (iii) there is any material change in the property management agreement of the Property;

(k) this Security Instrument shall cease to constitute a first-priority lien on the Property (other than in accordance with its terms) and same is not cured within forty-five (45) days of such cessation;

(l) seizure or forfeiture of the Property, or any portion thereof, or Borrower's interest therein, resulting from criminal wrongdoing or other unlawful action of Borrower, its affiliates, or any tenant in the Property under any federal, state or local law;

(m) if Borrower consummates a transaction which would cause this Security Instrument or Lender's exercise of its rights under this Security Instrument, the Note or the Other Loan Documents to constitute a nonexempt prohibited transaction under ERISA or result in a violation of a state statute regulating governmental plans, subjecting Lender to liability for a violation of ERISA or a state statute;

(n) if any default occurs under any guaranty or indemnity including the Environmental Indemnity executed in connection herewith or any other Loan Document, and such default continues after the expiration of applicable grace periods, or such guaranty or indemnity or other Loan Document shall cease to be in full force and effect, or Borrower, any guarantor or indemnitor shall deny or disaffirm its obligations thereunder;

(o) if the Master Lease is terminated without the prior written consent of Lender; and

(p) if Borrower or any Guarantor, as the case may be, shall continue to be in default under any other term, covenant or condition of this Security Instrument or any Other Loan Documents for thirty (30) calendar days after notice from Lender; provided that if such default cannot reasonably be cured within such thirty (30) calendar day period and Borrower (or such Guarantor as the case may be) shall have commenced to cure such default within such thirty (30) calendar day period and thereafter diligently and expeditiously proceeds to cure the same, such thirty (30) calendar day period shall be extended for so long as it shall require Borrower (or such Guarantor as the case may be) 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 sixty (60) calendar days after the notice from Lender referred to above.



Section 9.2. DEFAULT INTEREST. Borrower will pay, from the date of an Event of Default through the earlier of the date upon which the Event of Default is cured or the date upon which the Debt is paid in full, interest on the unpaid principal balance of the Note at a per annum rate equal to the lesser of (a) the greater of (i) five percent (5%) plus the Prime Rate (as defined in the Note), and (ii) five percent (5%) plus the Interest Rate (as defined in the Note), and (b) the maximum interest rate which Borrower may by law pay or Lender may charge and collect (the “**Default Rate**”).

ARTICLE 10

- RIGHTS AND REMEDIES

Section 10.1. REMEDIES. Upon the occurrence of any Event of Default, Borrower agrees that Lender may take such action, without notice or demand, as it deems advisable to protect and enforce its rights against Borrower and in and to the Property, including, but not limited to, the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Lender may determine, in its sole discretion, without impairing or otherwise affecting the other rights and remedies of Lender:

(a) Right to Perform Borrower’s Covenants. If Borrower has failed to keep or perform any covenant whatsoever contained in this Security Instrument or the Other Loan Documents, Lender may, but shall not be obligated to any person to do so, perform or attempt to perform said covenant and any payment made or expense incurred in the performance or attempted performance of any such covenant, together with any sum expended by Lender that is chargeable to Borrower or subject to reimbursement by Borrower under the Loan Documents, shall be and become a part of the “Debt”, and Borrower promises, upon demand, to pay to Lender, at the place where the Note is payable, all sums so incurred, paid or expended by Lender, with interest from the date when paid, incurred or expended by Lender at the Default Rate.

(b) Right of Entry. Lender may, prior or subsequent to the institution of any foreclosure proceedings, and subject to the rights of tenants (other than Borrower as tenant under the Master Lease) enter upon the Property, or any part thereof, and take exclusive possession of the Property and of all books, records, and accounts relating thereto and to exercise without interference from Borrower any and all rights which Borrower has with respect to the management, possession, operation, protection, or preservation of the Property, including without limitation the right to rent the same for the account of Borrower and to deduct from such Rents all costs, expenses, and liabilities of every character incurred by Lender in collecting such Rents and in managing, operating, maintaining, protecting, or preserving the Property and to apply the remainder of such Rents on the Debt in such manner as Lender may elect. All such costs, expenses, and liabilities incurred by Lender in collecting such Rents and in managing, operating, maintaining, protecting, or preserving the Property, if not paid out of Rents as hereinabove provided, shall constitute a demand obligation owing by Borrower and shall bear interest from the date of expenditure until paid at the Default Rate, all of which shall constitute a portion of the Debt. If necessary to obtain the possession provided for above, Lender may invoke any and all legal remedies to dispossess Borrower, including specifically one or more actions for forcible entry and detainer, trespass to try title, and restitution. In connection with any action taken by Lender pursuant to this Subsection 10.1(b), Lender shall not be liable for any loss sustained by Borrower resulting from any failure to let the Property, or any part thereof, or from any other act or omission of Lender in managing the Property unless such loss is caused by the willful misconduct or gross negligence of Lender, nor shall Lender be obligated to perform or discharge any obligation, duty, or liability under any Lease or under or by reason hereof or the exercise of rights or remedies hereunder. Borrower shall and does hereby agree to indemnify Lender for, and to hold Lender harmless from, any and all liability, loss, or damage, which may or might be incurred by Lender under any such Lease or under or by reason hereof or the exercise of rights or remedies hereunder, and from any and all claims and demands whatsoever which may be asserted against Lender by reason of any alleged obligations or undertakings on its part to perform or discharge any of the terms, covenants, or agreements contained in any such Lease unless arising from the willful misconduct or gross negligence of Lender. Should Lender incur any such liability, the amount thereof, including without limitation costs, expenses, and reasonable attorneys’ fees, together with interest thereon from the date of expenditure until paid at the Default Rate, shall be secured hereby, and Borrower shall reimburse Lender therefor immediately upon demand. Nothing in this Subsection 10.1(b) shall impose any duty, obligation, or responsibility upon Lender for the control, care, management, leasing, or repair of the Property, nor for the carrying out of any of the terms and conditions of any such Lease; nor shall it operate to make Lender responsible or liable for any waste committed on the Property by the tenants or by any other parties, or for any hazardous substances or environmental conditions on or under the Property, or for any dangerous or defective condition of the Property or for any negligence in the management, leasing, upkeep, repair, or control of the Property resulting in loss or injury or death to any tenant, licensee, employee, or stranger. Borrower hereby assents to, ratifies, and confirms any and all actions of Lender with respect to the Property taken under this subsection.

(c) Right to Accelerate. Lender may, without notice demand, presentment, notice of nonpayment or nonperformance, protest, notice of protest, notice of intent to accelerate, notice of acceleration, or any other notice or any other action, all of which are hereby waived by Borrower and all other parties obligated in any manner whatsoever on the Debt, declare the entire unpaid balance of the Debt immediately due and payable, and upon such declaration, the entire unpaid balance of the Debt shall be immediately due and payable.

(d) Foreclosure-Power of Sale. Lender may institute a proceeding or proceedings, judicial, or nonjudicial, by advertisement or otherwise, for the complete or partial foreclosure of this Security Instrument or the complete or partial sale of the Property under power of sale or under any applicable provision of law. Lender may sell the Property, and all estate, right, title, interest, claim and demand of Borrower therein, and all rights of redemption thereof, at one or more sales, as an entirety or in parcels, with such elements of real and/or personal property, and at such time and place and upon such terms as it may deem expedient, or as may be required by applicable law, and in the event of a sale, by foreclosure or otherwise, of less than all of the Property, this Security Instrument shall continue as a lien and security interest on the remaining portion of the Property.

(e) Rights Pertaining to Sales. Subject to the requirements of applicable law and except as otherwise provided herein, the following provisions shall apply to any sale or sales of all or any portion of the Property under or by virtue of Subsection 10.1(d) above, whether made under the power of sale herein granted or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale:

(i) Lender may conduct any number of sales from time to time. The power of sale set forth above shall not be exhausted by any one or more such sales as to any part of the Property which shall not have been sold, nor by any sale which is not completed or is defective in Lender's opinion, until the Debt shall have been paid in full.

(ii) Any sale may be postponed or adjourned by public announcement at the time and place appointed for such sale or for such postponed or adjourned sale without further notice.

(iii) After each sale, Lender or an officer of any court empowered to do so shall execute and deliver to the purchaser or purchasers at such sale a good and sufficient instrument or instruments granting, conveying, assigning and transferring all right, title and interest of Borrower in and to the property and rights sold and shall receive the proceeds of said sale or sales and apply the same as specified in the Note. Lender is hereby appointed the true and lawful attorney-in-fact of Borrower, which appointment is irrevocable and shall be deemed to be coupled with an interest, in Borrower's name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the property and rights so sold, Borrower hereby ratifying and confirming all that said attorney or such substitute or substitutes shall lawfully do by virtue thereof. Nevertheless, Borrower, if requested by Lender, shall ratify and confirm any such sale or sales by executing and delivering to Lender or such purchaser or purchasers all such instruments as may be advisable, in Lender's judgment, for the purposes as may be designated in such request.

(iv) Any and all statements of fact or other recitals made in any of the instruments referred to in Subsection 10.1(e)(iii) given by Lender shall be taken as conclusive and binding against all persons as to evidence of the truth of the facts so stated and recited.

(v) Any such sale or sales shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Borrower in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Borrower and any and all persons claiming or who may claim the same, or any part thereof or any interest therein, by, through or under Borrower to the fullest extent permitted by applicable law.

(vi) Upon any such sale or sales, Lender may bid for and acquire the Property and, in lieu of paying cash therefor, may make settlement for the purchase price by crediting against the Debt the amount of the bid made therefor, after deducting therefrom the expenses of the sale, the cost of any enforcement proceeding hereunder, and any other sums which Lender is authorized to deduct under the terms hereof, to the extent necessary to satisfy such bid.

(vii) Upon any such sale, it shall not be necessary for Lender or any public officer acting under execution or order of court to have present or constructively in its possession any of the Property.

(f) Lender's Judicial Remedies. Lender may proceed by suit or suits, at law or in equity, to enforce the payment of the Debt to foreclose the liens and security interests of this Security Instrument as against all or any part of the Property, and to have all or any part of the Property sold under the judgment or decree of a court of competent jurisdiction. This remedy shall be cumulative of any other nonjudicial remedies available to Lender under this Security Instrument, the Note or the Other Loan Documents. Proceeding with a request or receiving a judgment for legal relief shall not be or be deemed to be an election of remedies or bar any available nonjudicial remedy of Lender.

(g) Lender's Right to Appointment of Receiver. Lender, as a matter of right unless otherwise required by law and (i) without regard to the sufficiency of the security for repayment of the Debt and without notice to Borrower, (ii) without any showing of insolvency, fraud, or mismanagement on the part of Borrower, (iii) without the necessity of filing any judicial or other proceeding other than the proceeding for appointment of a receiver, and (iv) without regard to the then value of the Property, shall be entitled to the appointment of a receiver or receivers for the protection, possession, control, management and operation of the Property, including (without limitation), the power to collect the Rents, enforce this Security Instrument and, in case of a sale and deficiency, during the full statutory period of redemption (if any), whether there be a redemption or not, as well as during any further times when Borrower, except for the intervention of such receiver, would be entitled to collection of such Rents. Borrower hereby irrevocably consents to the appointment of a receiver or receivers. Any receiver appointed pursuant to the provisions of this subsection shall have the usual powers and duties of receivers in such matters.

(h) Commercial Code Remedies. Lender may exercise any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code, including, without limiting the generality of the foregoing: (i) the right to take possession of the Personal Property or any part thereof, and to take such other measures as Lender may deem necessary for the care, protection and preservation of the Personal Property, and (ii) request Borrower at its expense to assemble the Personal Property and make it available to Lender at a convenient place acceptable to Lender. Any notice of sale, disposition or other intended action by Lender with respect to the Personal Property sent to Borrower in accordance with the provisions hereof at least ten (10) days prior to such action, shall constitute commercially reasonable notice to Borrower.

(i) Apply Escrow Funds. Lender may apply any sums held in escrow or otherwise by Lender in accordance with the terms of this Security Instrument or any Other Loan Document to the payment of the following items in any order in its uncontrolled discretion:

- (i) Taxes and Other Charges;
- (ii) Insurance Premiums;
- (iii) Interest on the unpaid principal balance of the Note;
- (iv) Amortization of the unpaid principal balance of the Note; and

(v) All other sums payable pursuant to the Note, this Security Instrument and the Other Loan Documents, including without limitation advances made by Lender pursuant to the terms of this Security Instrument and internal costs and expenses incurred by Lender including, without limitation, Lender's reasonable in-house legal fees and outside legal fees.

(j) Other Rights. Lender (i) may surrender the Policies maintained pursuant to this Security Instrument or any part thereof, and upon receipt shall apply the unearned premiums as a credit on the Debt, and, in connection therewith, Borrower hereby appoints Lender as agent and attorney-in-fact (which is coupled with an interest and is therefore irrevocable) for Borrower to collect such premiums; and (ii) may apply any funds held by Lender toward payment of the Debt; and (iii) shall have and may exercise any and all other rights and remedies which Lender may have at law or in equity, or by virtue of any of the Loan Documents, or otherwise.

(k) Discontinuance of Remedies. In case Lender shall have proceeded to invoke any right, remedy, or recourse permitted under the Loan Documents and shall thereafter elect to discontinue or abandon same for any reason, Lender shall have the unqualified right so to do and, in such event, Borrower and Lender shall be restored to their former positions with respect to the Debt, the Loan Documents, the Property or otherwise, and the rights, remedies, recourses and powers of Lender shall continue as if same had never been invoked.

(l) Remedies Cumulative. All rights, remedies, and recourses of Lender granted in the Note, this Security Instrument and the Other Loan Documents, any other pledge of collateral, or otherwise available at law or equity: (i) shall be cumulative and concurrent; (ii) may be pursued separately, successively, or concurrently against Borrower, the Property, or any one or more of them, at the sole discretion of Lender, to the extent permitted by applicable law; (iii) may be exercised as often as occasion therefor shall arise, it being agreed by Borrower that the exercise or failure to exercise any of same shall in no event be construed as a waiver or release thereof or of any other right, remedy, or recourse; (iv) shall be nonexclusive; (v) shall not be conditioned upon Lender exercising or pursuing any remedy in relation to the Property prior to Lender bringing suit to recover the Debt; and (vi) in the event Lender elects to bring suit on the Debt and obtains a judgment against Borrower prior to exercising any remedies in relation to the Property, all liens and security interests, including the lien of this Security Instrument, shall remain in full force and effect and may be exercised thereafter at Lender's option, to the extent permitted by applicable law.

(m) Bankruptcy Acknowledgment. In the event the Property or any portion thereof or any interest therein becomes property of any bankruptcy estate or subject to any state or federal insolvency proceeding, then Lender shall immediately become entitled, in addition to all other relief to which Lender may be entitled under this Security Instrument, to obtain (i) an order from the Bankruptcy Court or other appropriate court granting immediate relief from the automatic stay pursuant to § 362 of the Bankruptcy Code so to permit Lender to pursue its rights and remedies against Borrower as provided under this Security Instrument and all other rights and remedies of Lender at law and in equity under applicable state law, and (ii) an order from the Bankruptcy Court prohibiting Borrower's use of all "cash collateral" as defined under § 363 of the Bankruptcy Code. In connection with such Bankruptcy Court orders, Borrower shall not contend or allege in any pleading or petition filed in any court proceeding that Lender does not have sufficient grounds for relief from the automatic stay. Any bankruptcy petition or other action taken by the Borrower to stay, condition, or inhibit Lender from exercising its remedies are hereby admitted by Borrower to be in bad faith and Borrower further admits that Lender would have just cause for relief from the automatic stay in order to take such actions authorized under state law.

(n) Application of Proceeds. The proceeds from any sale, lease, or other disposition made pursuant to this Security Instrument, or the proceeds from the surrender of any insurance policies pursuant hereto, or any Rents collected by Lender from the Property or proceeds from insurance which Lender elects to apply to the Debt pursuant to Article 3 hereof, shall be applied by Lender to the Debt in the following order and priority: (1) to the payment of all expenses of advertising, selling, and conveying the Property or part thereof, and/or prosecuting or otherwise collecting Rents, proceeds, premiums or other sums including reasonable attorneys' fees; (2) to that portion, if any, of the Debt with respect to which no person or entity has personal or entity liability for payment (the "**Exculpated Portion**"), and with respect to the Exculpated Portion as follows: first, to accrued but unpaid interest, second, to matured principal, and third, to unmatured principal in inverse order of maturity; (3) to the remainder of the Debt as follows: first, to the remaining accrued but unpaid interest, second, to the matured portion of principal of the Debt, and third, to prepayment of the unmatured portion, if any, of principal of the Debt applied to installments of principal in inverse order of maturity; (4) the balance, if any or to the extent applicable, remaining after the full and final payment of the Debt to the holder or beneficiary of any inferior liens covering the Property, if any, in order of the priority of such inferior liens (Lender shall hereby be entitled to rely exclusively on a commitment for title insurance issued to determine such priority); and (5) the cash balance, if any, to the Borrower. The application of proceeds of sale or other proceeds as otherwise provided herein shall be deemed to be a payment of the Debt like any other payment. The balance of the Debt remaining unpaid, if any, shall remain fully due and owing in accordance with the terms of the Note and the other Loan Documents.

Section 10.2. RIGHT OF ENTRY. Lender and its agents shall have the right to enter and inspect the Property at all reasonable times, subject to the rights of tenants (other than Borrower as tenant under the Master Lease).

ARTICLE 11

- INDEMNIFICATION; SUBROGATION

Section 11.1. GENERAL INDEMNIFICATION.

(a) Borrower shall indemnify, defend and hold Lender harmless against: (i) any and all claims for brokerage, leasing, finder's or similar fees which may be made relating to the Property or the Debt, and (ii) any and all liability, obligations, losses, damages, penalties, claims, actions, suits, costs and expenses (including Lender's reasonable attorneys' fees, together with reasonable appellate counsel fees, if any) of whatever kind or nature which may be asserted against, imposed on or incurred by Lender in connection with the Debt, this Security Instrument, the Property, or any part thereof, or the exercise by Lender of any rights or remedies granted to it under this Security Instrument; provided, however, that nothing herein shall be construed to obligate Borrower to indemnify, defend and hold Lender from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs and expenses enacted against, imposed on or incurred by Lender by reason of Lender's willful misconduct or gross negligence. Notwithstanding the foregoing, the obligations and liabilities of Borrower under this Section 11.1 shall not extend to matters, actions, liabilities, conditions or circumstances which did not exist prior to, and arising solely out of matters, actions, liabilities, conditions or circumstances occurring after, any sale or conveyance of the Property by foreclosure of this Security Instrument or deed-in-lieu thereof.

(b) If Lender is made a party defendant to any litigation or any claim is threatened or brought against Lender concerning the secured indebtedness, this Security Instrument, the Property, or any part thereof, or any interest therein, or the construction, maintenance, operation or occupancy or use thereof, then Lender shall notify Borrower of such litigation or claim and Borrower shall indemnify, defend and hold Lender harmless from and against all liability by reason of said litigation or claims, including reasonable attorneys' fees (together with reasonable appellate counsel fees, if any). The right to such reasonable attorneys' fees (together with reasonable appellate counsel fees, if any) and expenses incurred by Lender in any such litigation or claim of the type described in this Subsection 11.1(b), whether or not any such litigation or claim is prosecuted to judgment, shall be deemed to have accrued on the commencement of such claim or action and shall be enforceable whether or not such claim or action is prosecuted to judgment. If Lender commences an action against Borrower to enforce any of the terms hereof or to prosecute any breach by Borrower of any of the terms hereof or to recover any sum secured hereby, Borrower shall pay to Lender its reasonable attorneys' fees (together with reasonable appellate counsel fees, if any) and expenses. If Borrower breaches any term of this Security Instrument, Lender may engage the services of an attorney or attorneys to protect its rights hereunder, and in the event of such engagement following any breach by Borrower, Borrower shall pay Lender reasonable attorneys' fees (together with reasonable appellate counsel fees, if any) and expenses incurred by Lender, whether or not an action is actually commenced against Borrower by reason of such breach. All references to "**attorneys**" in this Subsection 11.1(b) and elsewhere in this Security Instrument shall include without limitation any attorney or law firm engaged by Lender and Lender's in-house counsel, and all references to "**fees and expenses**" in this Subsection 11.1(b) and elsewhere in this Security Instrument shall include without limitation any fees of such attorney or law firm and any allocation charges and allocation costs of Lender's in-house counsel.

(c) A waiver of subrogation shall be obtained by Borrower from its insurance carrier and, consequently, Borrower waives any and all right to claim or recover against Lender, its officers, employees, agents and representatives, for loss of or damage to Borrower, the Property, Borrower's property or the property of others under Borrower's control from any cause insured against or required to be insured against by the provisions of this Security Instrument.

Section 11.2. ENVIRONMENTAL INDEMNIFICATION. Borrower shall, at its sole cost and expense, protect, defend, indemnify, release and hold harmless the Indemnified Parties from and against any and all Losses (as hereinafter defined) imposed upon or incurred by or asserted against any Indemnified Parties (other than those arising solely from a state of facts that first came into existence after Lender or its designee or nominee acquired title to the Property through foreclosure or a deed in lieu thereof), and directly or indirectly arising out of or in any way relating to any one or more of the following: (a) any presence of any Hazardous Substances (as hereinafter defined) in, on, above, or under the Property; (b) any past, present or future Release (as hereinafter defined) of Hazardous Substances in, on, above, under or from the Property; (c) any activity by Borrower, any person or entity affiliated with Borrower, and any tenant or other user of the Property in connection with any actual, proposed or threatened use, treatment, storage, holding, existence, disposition or other Release, generation, production, manufacturing, processing, refining, control, management, abatement, removal, handling, transfer or transportation to or from the Property of any Hazardous Substances at any time located in, under, on or above the Property; (d) any activity by Borrower, any person or entity affiliated with Borrower, and any tenant or other user of the Property in connection with any actual or proposed Remediation (as hereinafter defined) of any Hazardous Substances at any time located in, under, on or above the Property, whether or not such Remediation is voluntary or pursuant to court or administrative order, including but not limited to any removal, remedial or corrective action; (e) any past, present or threatened non-compliance or violations of any Environmental Law (as hereinafter defined) (or permits issued pursuant to any Environmental Law) in connection with the Property or operations thereon, including but not limited to any failure by Borrower, any person or entity affiliated with Borrower, and any tenant or other user of the Property to comply with any order of any governmental authority in connection with any Environmental Laws; (f) the imposition, recording or filing or the future imposition, recording or filing of any Environmental Lien (as hereinafter defined) encumbering the Property; (g) any administrative processes or proceedings or judicial proceedings in any way connected with any matter addressed in this Section 11.2; (h) any misrepresentation or inaccuracy in any representation or warranty or material breach or failure to perform any covenants or other obligations under the Environmental Indemnity of even date executed by Borrower; and (i) any diminution in value of the Property in any way connected with any occurrence or other matter referred to in this Section 11.2.



The term “**Environmental Law**” means any present and future federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law, relating to protection of human health or the environment, relating to Hazardous Substances, relating to liability for or costs of Remediation or prevention of Releases of Hazardous Substances or relating to liability for or costs of other actual or threatened danger to human health or the environment or relating to any wrongful death, personal injury or property damage that is caused by or related to the presence, growth, proliferation, reproduction, dispersal, or contact with any biological organism or portion thereof, including molds or other fungi, bacteria or other microorganisms or any etiologic agents or materials. The term “Environmental Law” includes, but is not limited to, the following statutes, as amended, any successor thereto, and any regulations promulgated pursuant thereto, and any state or local statutes, ordinances, rules, regulations and the like addressing similar issues: the Comprehensive Environmental Response, Compensation and Liability Act; the Emergency Planning and Community Right-to-Know Act; the Hazardous Substances Transportation Act; the Resource Conservation and Recovery Act (including but not limited to Subtitle I relating to underground storage tanks); the Solid Waste Disposal Act; the Clean Water Act; the Clean Air Act; the Toxic Substances Control Act; the Safe Drinking Water Act; the Occupational Safety and Health Act; the Federal Water Pollution Control Act; the Federal Insecticide, Fungicide and Rodenticide Act; the Endangered Species Act; the National Environmental Policy Act; and the River and Harbors Appropriation Act. The term “Environmental Law” also includes, but is not limited to, any present and future federal, state and local laws, statutes, ordinances, rules, regulations and the like, as well as common law: conditioning transfer of property upon a negative declaration or other approval of a governmental authority of the environmental condition of the Property; requiring notification or disclosure of Releases of Hazardous Substances or other environmental condition of the Property to any governmental authority or other person or entity, whether or not in connection with transfer of title to or interest in property; imposing conditions or requirements in connection with permits or other authorization for lawful activity; relating to nuisance, trespass or other causes of action related to the Property; and relating to wrongful death, personal injury, or property or other damage in connection with any physical condition or the presence of biological or etiologic agents or materials or use, management, or maintenance of the Property.

The term “**Environmental Lien**” includes but is not limited to any lien or other encumbrance imposed pursuant to Environmental Law, whether due to any act or omission of Borrower or any other person or entity.

The term “**Hazardous Substances**” includes but is not limited to any and all substances, biological and etiologic agents or materials (whether solid, liquid or gas) defined, listed, or otherwise classified as pollutants, hazardous wastes, hazardous substances, hazardous materials, extremely hazardous wastes, or words of similar meaning or regulatory effect under any present or future Environmental Laws or that may have a negative impact on human health or the environment, including but not limited to petroleum and petroleum products, asbestos and asbestos-containing materials (“**ACM**”), polychlorinated biphenyls (“**PCBs**”), lead, lead-based paints, radon, radioactive materials, flammables and explosives, and any biological organism or portion thereof (living or dead), including molds or other fungi, bacteria or other microorganisms, or any etiologic agents or materials, but excluding substances of kinds and in amounts ordinarily and customarily used or stored in similar properties for the purposes of cleaning or other maintenance or operations and otherwise in compliance with all Environmental Laws.

The term “**Indemnified Parties**” includes but is not limited to Lender, any person or entity who is or will have been involved in originating the Loan evidenced by the Note, any person or entity who is or will have been involved in servicing the Loan, any person or entity in whose name the encumbrance created by this Security Instrument is or will have been recorded, persons and entities who may hold or acquire or will have held a full or partial interest in the Loan (including but not limited to those who may acquire any interest in Securities, as well as custodians, trustees and other fiduciaries who hold or have held a full or partial interest in the Loan for the benefit of third parties), as well as the respective directors, officers, shareholders, partners, employees, agents, servants, representatives, contractors, subcontractors, affiliates, subsidiaries, participants, successors and assign of any and all of the foregoing (including but not limited to any other person or entity who holds or acquires or will have held a participation or other full or partial interest in the Loan or the Property, whether during the term of the Loan or as part of or following foreclosure pursuant to the Loan) and including but not limited to any successors by merger, consolidation or acquisition of all or a substantial part of Lender’s assets and business.

The term “**Losses**” includes but is not limited to any claims, suits, liabilities (including but not limited to strict liabilities), administrative or judicial actions or proceedings, obligations, debts, damages, losses, costs, expenses, diminutions in value, fines, penalties, charges, fees, expenses, costs of Remediation (whether or not performed voluntarily), judgments, award, amounts paid in settlement, foreseeable and unforeseeable consequential damages, litigation costs, reasonable attorneys’ fees, engineer’s fees, environmental consultants’ fees and investigation costs (including but not limited to costs for sampling, testing and analysis of soil, water, air, building materials, and other materials and substances whether solid, liquid or gas), of whatever kind or nature, and whether or not incurred in connection with any judicial or administrative proceedings.

The term “**Release**” with respect to any Hazardous Substance includes but is not limited to any release, deposit, discharge, emission, leaking, leaching, spilling, seeping, migrating, injecting, pumping, pouring, emptying, escaping, dumping, disposing or other movement of Hazardous Substances.

The term “**Remediation**” includes but is not limited to any response, remedial, removal, or corrective action; any activity to cleanup, detoxify, decontaminate, contain or otherwise remediate any Hazardous Substance; any actions to prevent, cure or mitigate any Release of any Hazardous Substance; any action to comply with any Environmental Laws or with any permits issued pursuant thereto; any inspection, investigation, study, monitoring, assessment, audit, sampling and testing, laboratory or other analysis, or evaluation relating to any Hazardous Substances or to anything referred to in this Article 11.

Section 11.3. DUTY TO DEFEND AND ATTORNEYS AND OTHER FEES AND EXPENSES. Upon written request by any Indemnified Party, Borrower shall defend such Indemnified Party (if requested by any Indemnified Party, in the name of the Indemnified Party) by attorneys and other professionals approved by the Indemnified Parties. Notwithstanding the foregoing, any Indemnified Parties may, in their sole and absolute discretion, engage their own attorneys and other professionals to defend or assist them, and, at the option of Indemnified Parties, their attorneys shall control the resolution of claim or proceeding. Upon demand, Borrower shall pay or, in the sole and absolute discretion of the Indemnified Parties, reimburse, the Indemnified Parties for the payment of fees and disbursements of attorneys, engineers, environmental consultants, laboratories and other professionals in connection therewith.

Section 11.4. SURVIVAL OF INDEMNITIES. Notwithstanding any provision of this Security Instrument or any other Loan Document to the contrary, the provisions of Section 11.1 and Section 11.2, and Borrower's obligations thereunder, shall survive (a) the repayment of the Note, (b) the foreclosure of this Security Instrument, and (c) the release (or reconveyance, as applicable) of the lien of this Security Instrument, provided, however, that the obligations and liabilities of Borrower under Section 11.1 and 11.2 shall not extend to matters, actions, liabilities, conditions or circumstances which did not exist prior to, and arose solely out of matters, actions, liabilities, conditions or circumstances occurring after, any sale or conveyance of the Property by foreclosure of the Security Instrument or deed-in-lieu thereof.

ARTICLE 12

- SECURITY AGREEMENT

Section 12.1. SECURITY AGREEMENT. This Security Instrument is both a real property mortgage and a "security agreement" within the meaning of the Uniform Commercial Code. The Property includes both real and personal property and all other rights and interests, whether tangible or intangible in nature, of Borrower in the Property. Borrower by executing and delivering this Security Instrument has granted and hereby grants to Lender, as security for the Obligations, a security interest in the Property to the full extent that the Property may be subject to the Uniform Commercial Code (said portion of the Property so subject to the Uniform Commercial Code being called in this paragraph the "**Collateral**"). Borrower hereby authorizes Lender to prepare and file, in form and substance satisfactory to Lender, such financing statements, continuation statements, other uniform commercial code forms and shall pay all expenses and fees in connection with the filing and recording thereof, and such further assurances as Lender may from time to time, reasonably consider necessary to create, perfect, and preserve Lender's security interest herein granted. This Security Instrument shall also be effective as a "fixture filing" as to Property which is or is to become fixtures. Information concerning the security interest herein granted may be obtained from the parties at the addresses of the parties set forth in the first paragraph of this Security Instrument. If an Event of Default shall occur, Lender, in addition to any other rights and remedies which they may have, shall have and may exercise immediately and without demand, any and all rights and remedies granted to a secured party upon default under the Uniform Commercial Code, including, without limiting the generality of the foregoing, the right to take possession of the Collateral or any part thereof, and to take such other measures as Lender may deem necessary for the care, protection and preservation of the Collateral. Upon request or demand of Lender, Borrower shall at its expense assemble the Collateral and make it available to Lender at a convenient place acceptable to Lender. Borrower shall pay to Lender on demand any and all expenses, including legal expenses and attorneys' fees, incurred or paid by Lender in protecting the interest in the Collateral and in enforcing the rights hereunder with respect to the Collateral. Any notice of sale, disposition or other intended action by Lender with respect to the Collateral sent to Borrower in accordance with the provisions hereof at least ten (10) days prior to such action, shall constitute commercially reasonable notice to Borrower. The proceeds of any disposition of the Collateral, or any part thereof, may be applied by Lender to the payment of the Obligations in such priority and proportions as Lender in its discretion shall deem proper. Borrower shall promptly advise Lender of the accrual of any commercial tort claims involving the Property. In the event of any change in name, identity, structure, or jurisdiction or form of organization of any Borrower, such Borrower shall notify Lender thereof, and Lender shall be authorized to prepare and file such Uniform Commercial Code forms as Lender may deem necessary to maintain the priority of Lender's lien upon and security interest in the Collateral, and Borrower shall pay all expenses and fees in connection with such filing. Lender shall also be authorized to prepare and file such other additional Uniform Commercial Code forms or continuation statements as Lender shall deem necessary, and Borrower shall pay all expenses and fees in connection with the filing thereof, it being understood and agreed, however, that no such additional documents shall increase Borrower's obligations under the Note, this Security Instrument and the Other Loan Documents. Borrower hereby irrevocably appoints Lender as its attorney-in-fact, coupled with an interest, to file with the appropriate public office on its behalf any financing or other statements signed only by Lender, as Borrower's attorney-in-fact, in connection with the Collateral covered by this Security Instrument, if Borrower shall fail to promptly comply with the provisions of this Section 12.1 after notice by Lender. Notwithstanding the foregoing, Borrower shall appear and defend in any action or proceeding which affects or purports to affect the Property and any interest or right therein, whether such proceeding affects title or any other rights in the Property (and in conjunction therewith, Borrower shall fully cooperate with Lender in the event Lender is a party to such action or proceeding).

Section 12.2. FIXTURE FILING INFORMATION. The information in the subsections below this paragraph is provided in connection with the filing of this Security Instrument as a financing statement as referred to above, and the Borrower hereby represents and warrants such information to be true and complete as of the date of this Security Instrument.

(a) The Borrower is the record owner of the real estate described in this Security Instrument. The name and mailing address of the record owner of the real estate described in this Security Instrument is set forth in the first paragraph of this Security Instrument.

(b) For purposes of the Uniform Commercial Code, Borrower is the Debtor. The name, mailing address, type of organization and state of formation of the Debtor (Borrower) is set forth in the first paragraph of this Security Instrument. The Organizational Identification Number of the Borrower is NV20041112149.

(c) For purposes of the Uniform Commercial Code, the Lender is the Secured Party. The name and mailing address of the Secured Party (Lender) is:

Sovereign Bank, N.A.  
195 Montague Street  
Brooklyn, New York 11201  
Attention: Commercial Mortgage Loan Servicing

(d) This document covers goods which are or are to become fixtures to the extent owned by Borrower.

Section 13.1. MARSHALLING AND OTHER MATTERS. Borrower hereby waives, to the extent permitted by law, the benefit of all appraisal, valuation, stay, extension, reinstatement and redemption laws now or hereafter in force and all rights of marshalling in the event of any sale hereunder of the Property or any part thereof or any interest therein. Further, Borrower hereby expressly waives any and all rights of redemption from sale under any order or decree of foreclosure of this Security Instrument on behalf of Borrower, and on behalf of each and every person acquiring any interest in or title to the Property subsequent to the date of this Security Instrument and on behalf of all persons to the extent permitted by applicable law.

Section 13.2. WAIVER OF NOTICE. Borrower shall not be entitled to any notices of any nature whatsoever from Lender except with respect to matters for which this Security Instrument specifically and expressly provides for the giving of notice by Lender to Borrower and except with respect to matters for which Lender is required by applicable law to give notice, and Borrower hereby expressly waives the right to receive any notice from Lender with respect to any matter for which this Security Instrument does not specifically and expressly provide for the giving of notice by Lender to Borrower.

Section 13.3. SOLE DISCRETION OF LENDER. Wherever pursuant to this Security Instrument Lender exercises any right given to it to approve or disapprove, or any arrangement or term is to be satisfactory to Lender, the decision of Lender to approve or disapprove or to decide that arrangements or terms are satisfactory or not satisfactory shall be in the sole discretion of Lender and shall be final and conclusive, except as may be otherwise expressly and specifically provided herein.

Section 13.4. SURVIVAL. The indemnifications (and the limitations thereof) made pursuant to Article 11, shall, subject to Article 11, continue indefinitely in full force and effect and shall survive and shall in no way be impaired by: any satisfaction or other termination of this Security Instrument, any assignment or other transfer of all or any portion of this Security Instrument or Lender's interest in the Property (but, in such case, shall benefit both Indemnified Parties and any assignee or transferee), any exercise of Lender's rights and remedies pursuant hereto including but not limited to foreclosure or acceptance of a deed in lieu of foreclosure, any exercise of any rights and remedies pursuant to the Note or any of the Other Loan Documents, any transfer of all or any portion of the Property (whether by Borrower or by Lender following foreclosure or acceptance of a deed in lieu of foreclosure or at any other time), any amendment to this Security Instrument, the Note or the Other Loan Documents, and any act or omission that might otherwise be construed as a release or discharge of Borrower from the obligations pursuant hereto.

Section 13.5. WAIVER OF TRIAL BY JURY. BORROWER HEREBY AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVES ANY RIGHT TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS SECURITY INSTRUMENT, THE NOTE OR THE OTHER LOAN DOCUMENTS, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION THEREWITH INCLUDING, BUT NOT LIMITED TO THOSE RELATING TO (A) ALLEGATIONS THAT A PARTNERSHIP EXISTS BETWEEN LENDER AND BORROWER; (B) USURY OR PENALTIES OR DAMAGES THEREFOR; (C) ALLEGATIONS OF UNCONSCIONABLE ACTS, DECEPTIVE TRADE PRACTICE, LACK OF GOOD FAITH OR FAIR DEALING, LACK OF COMMERCIAL REASONABLENESS, OR SPECIAL RELATIONSHIPS (SUCH AS FIDUCIARY, TRUST OR CONFIDENTIAL RELATIONSHIP); (D) ALLEGATIONS OF DOMINION, CONTROL, ALTER EGO, INSTRUMENTALITY, FRAUD, REAL ESTATE FRAUD, MISREPRESENTATION, DURESS, COERCION, UNDUE INFLUENCE, INTERFERENCE OR NEGLIGENCE; (E) ALLEGATIONS OF TORTIOUS INTERFERENCE WITH PRESENT OR PROSPECTIVE BUSINESS RELATIONSHIPS OR OF ANTITRUST; OR (F) SLANDER, LIBEL OR DAMAGE TO REPUTATION. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY BORROWER, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO A TRIAL BY JURY WOULD OTHERWISE ACCRUE. LENDER IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY BORROWER.

Section 13.6. WAIVER OF AUTOMATIC OR SUPPLEMENTAL STAY. In the event of the filing of any voluntary or involuntary petition under the Bankruptcy Code by or against Borrower (other than an involuntary petition filed by or joined in by Lender), the Borrower shall not assert, or request any other party to assert, that the automatic stay under § 362 of the Bankruptcy Code shall operate or be interpreted to stay, interdict, condition, reduce or inhibit the ability of Lender to enforce any rights it has by virtue of this Security Instrument, or any other rights that Lender has, whether now or hereafter acquired, against any guarantor of the Debt. Further, Borrower shall not seek a supplemental stay or any other relief, whether injunctive or otherwise, pursuant to § 105 of the Bankruptcy Code or any other provision therein to stay, interdict, condition, reduce or inhibit the ability of Lender to enforce any rights it has by virtue of this Security Instrument against any guarantor of the Debt. The waivers contained in this paragraph are a material inducement to Lender's willingness to enter into this Security Instrument and Borrower acknowledges and agrees that no grounds exist for equitable relief which would bar, delay or impede the exercise by Lender of Lender's rights and remedies against Borrower or any guarantor of the Debt.

Section 14.1. **NOTICES.** All notices or other written communications hereunder shall be deemed to have been properly given (i) upon delivery, if delivered in person, (ii) one (1) Business Day after having been deposited for overnight delivery with any reputable overnight courier service, or (iii) three (3) Business Days after having been deposited in any post office or mail depository regularly maintained by the U.S. Postal Service and sent by registered or certified mail, postage prepaid, addressed as follows:

If to Borrower:	Sutton Hill Properties, LLC 6100 Center Drive, Suite 900 Los Angeles, California 90045
With a copy to:	Attention: Andrzej Matyczynski  Marcus Rosenberg & Diamond LLP 488 Madison Avenue New York, New York 10022 Attn: Jeffrey M. Diamond, Esq.
If to Lender:	Sovereign Bank, N.A. 195 Montague Street Brooklyn, New York 11201 Attention: Joanne Francillon
With a copy to:	Sovereign Bank Mail Code: MA1 SST 04-01 75 State Street Boston, MA 02109 Attention: Kathleen E.Dugan
With a copy to:	Windels Marx Lane & Mittendorf, LLP 156 West 56 <sup>th</sup> Street New York, New York 10019 Attention: Michele Arbeeny, Esq.

or addressed as such party may from time to time designate by written notice to the other parties. For purposes of this subsection, the term “**Business Day**” shall mean a day on which commercial banks are not authorized or required by law to close in New York, New York.

Any party by notice to the other parties may designate additional or different addresses for subsequent notices or communications.

Section 15.1. **GOVERNING LAW; JURISDICTION.** This Security Instrument shall be governed by and construed in accordance with applicable federal law and the laws of the state where the Property is located, without reference or giving effect to any choice of law doctrine, and the provisions of this Security Instrument are subject to the limitations, if any, of applicable law. Borrower hereby irrevocably submits to the jurisdiction of any court of competent jurisdiction located in the state in which the Property is located in connection with any proceeding arising out of or relating to this Security Instrument.

Section 15.2. **USURY LAWS.** This Security Instrument and the Note are subject to the express condition that at no time shall Borrower be obligated or required to pay interest on the Debt at a rate which could subject the holder of the Note to either civil or criminal liability as a result of being in excess of the maximum interest rate which Borrower is permitted by applicable law to contract or agree to pay. If by the terms of this Security Instrument or the Note, Borrower is at any time required or obligated to pay interest on the Debt at a rate in excess of such maximum rate, the rate of interest under the Security Instrument and the Note shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the principal balance of the Note. All sums paid or agreed to be paid to Lender for the use, forbearance, or detention of the Debt shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Note until payment in full so that the rate or amount of interest on account of the Debt does not exceed the maximum lawful rate of interest from time to time in effect and applicable to the Debt for so long as the Debt is outstanding.

Section 15.3. **PROVISIONS SUBJECT TO APPLICABLE LAW.** All rights, powers and remedies provided in this Security Instrument may be exercised only to the extent that the exercise thereof does not violate any applicable provisions of law and are intended to be limited to the extent necessary so that they will not render this Security Instrument invalid, unenforceable or not entitled to be recorded, registered or filed under the provisions of any applicable law. If any term of this Security Instrument or any application thereof shall be invalid or unenforceable, the remainder of this Security Instrument and any other application of the term shall not be affected thereby.

## ARTICLE 16

## - SECONDARY MARKET

Section 16.1. **TRANSFER OF LOAN.** Lender may, at any time and at no cost to Borrower, sell, transfer or assign the Note, this Security Instrument and the Other Loan Documents, and any or all servicing rights with respect thereto, or grant participations therein or issue mortgage pass-through certificates or other securities evidencing a beneficial interest in a rated or unrated public offering or private placement (the "**Securities**"). Lender may forward to each purchaser, transferee, assignee, servicer, participant, investor in such Securities or any Rating Agency (as hereinafter defined) rating such Securities (collectively, the "**Investor**") and each prospective Investor, all documents and information which Lender now has or may hereafter acquire relating to the Debt and to Borrower, any Guarantor, and the Property, whether furnished by Borrower, any Guarantor, or otherwise, as Lender determines necessary or desirable. The term "**Rating Agency**" shall mean each statistical rating agency that has assigned a rating to the Securities. Borrower and each Guarantor agree to reasonably cooperate with Lender in connection with any transfer made or any Securities created pursuant to this Section. Borrower shall also promptly furnish and Borrower and each Guarantor consent to Lender furnishing to such Investors or such prospective Investors or Rating Agency any and all available information concerning the Property, the Leases, the financial condition of Borrower, and any Guarantor as may be reasonably requested by Lender, any Investor or any prospective Investor or Rating Agency (including, but not limited to, copies of information previously supplied to Lender) in connection with any sale, transfer or participation interest. In addition to any other obligations Borrower may have under this Section 16.1, Borrower shall execute such amendments to the Loan Documents as may be reasonably requested by the holder of the Note or any Investor to effect the assignment of the Note and the other Loan Documents and/or issuance of Securities including (i) bifurcating the Note into two or more notes and/or splitting this Security Instrument into two or more mortgages, deeds of trust or deeds to secure debt (as the case may be) of the same or different priorities or otherwise as determined by and acceptable to Lender, or (ii) dividing the Note into multiple components corresponding to tranches of certificates to be issued in a Securitization each having a notional balance and an interest rate determined by Lender; provided, however, that Borrower shall not be required to modify or amend any Loan Document if the overall effect of such modification or amendment would (y) change the initial weighted average interest rate, the maturity or the amortization of principal set forth in the Note, or (z) modify or amend any other material terms of the Note or the other Loan Documents. Borrower shall deliver such additional opinions in form and substance substantially similar to the opinions delivered on the date hereof in connection with any transfer made or any Securities created pursuant to this Section. Nothing contained herein or in any other Loan Document shall be construed to obligate Lender to sell, transfer or assign the Loan in a securitization or otherwise. Lender may divulge to any Investor (as hereinafter defined) all such information, and furnish to such Investor copies of any such reports, financial statements, certificates, and documents obtained under any provision of this Agreement, or related agreements and documents, provided that such information shall be provided on a confidential basis.



Section 17.1. **PERFORMANCE AT BORROWER'S EXPENSE.** Borrower acknowledges and confirms that Lender shall impose certain administrative processing and/or commitment fees in connection with (a) the extension, renewal, modification, amendment and termination (excluding the scheduled maturity of the Note) of its loans, (b) the release or substitution of collateral therefor, (c) obtaining certain consents, waivers and approvals with respect to the Property, (d) reviewing leases, easements, or any other document submitted by or on behalf of Borrower to Lender for review or approval, or (e) determining, at Borrower's request, Borrower's satisfaction of any condition under the Loan Documents (the occurrence of any of the above shall be called an "Event"). Except as otherwise expressly set forth herein, Borrower hereby acknowledges and agrees to pay, immediately, upon demand, all such fees (as the same may be increased or decreased from time to time), including Lender's reasonable in-house legal fees, and any additional fees of a similar type or nature which may be imposed by Lender from time to time, upon the occurrence of any Event.

Section 17.2. **ATTORNEY'S FEES FOR ENFORCEMENT.** (a) Borrower shall pay all reasonable legal fees incurred by Lender in connection with (i) the preparation of the Note, this Security Instrument and the Other Loan Documents and (ii) the items set forth in Section 17.1 above, and (b) Borrower shall pay to Lender on demand any and all expenses, including in-house and outside legal expenses and attorneys' fees, incurred or paid by Lender in protecting its interest in the Property or Personal Property and/or collecting any amount payable or in enforcing its rights hereunder with respect to the Property or Personal Property, whether or not any legal proceeding is commenced hereunder or thereunder and whether or not any default or Event of Default shall have occurred and is continuing, together with interest thereon at the Default Rate from the date of notice of payment or incurring by Lender until paid by Borrower.

Section 18.1. GENERAL DEFINITIONS. Unless the context clearly indicates a contrary intent or unless otherwise specifically provided herein, words used in this Security Instrument may be used interchangeably in singular or plural form and the word "Borrower" shall mean "each Borrower and any subsequent owner or owners of the Property or any part thereof or any interest therein," the word "Lender" shall mean "Lender and any subsequent holder of the Note," the word "Note" shall mean "the Note and any other evidence of indebtedness secured by this Security Instrument," the word "**person**" shall include an individual, corporation, partnership, trust, unincorporated association, government, governmental authority, and any other entity, the word "**Property**" shall include any portion of the Property and any interest therein, and the phrases "**attorneys' fees**," "**legal fees**" and "**counsel fees**" shall include any and all attorneys', paralegal and law clerk fees and disbursements, including, but not limited to, fees and disbursements at the pre-trial, trial and appellate levels incurred or paid by Lender in protecting its interest in the Property, the Leases and the Rents and enforcing its rights hereunder.

## ARTICLE 19

## - MISCELLANEOUS PROVISIONS

Section 19.1. NO ORAL CHANGE. This Security Instrument, the Note, and the Other Loan Documents and any provisions hereof or thereof, 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 Lender, 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.

Section 19.2. LIABILITY. If Borrower consists of more than one person, the obligations and liabilities of each such person hereunder shall be joint and several. This Security Instrument shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns forever.

Section 19.3. INAPPLICABLE PROVISIONS. If any term, covenant or condition of the Note or this Security Instrument is held to be invalid, illegal or unenforceable in any respect, the Note and this Security Instrument shall be construed without such provision.

Section 19.4. HEADINGS, ETC. The headings and captions of various Sections of this Security Instrument are for convenience of reference only and are not to be construed as defining or limiting, in any way, the scope or intent of the provisions hereof.

Section 19.5. DUPLICATE ORIGINALS; COUNTERPARTS. This Security Instrument may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. This Security Instrument may be executed in several counterparts, each of which counterparts shall be deemed an original instrument and all of which together shall constitute a single Security Instrument. The failure of any party hereto to execute this Security Instrument, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder.

Section 19.6. NUMBER AND GENDER. Whenever the context may require, any pronouns used herein shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns and pronouns shall include the plural and vice versa.

Section 19.7. SUBROGATION. If any or all of the proceeds of the Note have been used to extinguish, extend or renew any indebtedness heretofore existing against the Property, then, to the extent of the funds so used, Lender shall be subrogated to all of the rights, claims, liens, titles, and interests existing against the Property heretofore held by, or in favor of, the holder of such indebtedness and such former rights, claims, liens, titles, and interests, if any, are not waived but rather are continued in full force and effect in favor of Lender and are merged with the lien and security interest created herein as cumulative security for the repayment of the Debt, the performance and discharge of Borrower's obligations hereunder, under the Note and the Other Loan Documents and the performance and discharge of the Other Obligations.

Section 19.8. ENTIRE AGREEMENT. The Note, this Security Instrument and the Other Loan Documents constitute the entire understanding and agreement between Borrower and Lender with respect to the transactions arising in connection with the Debt and supersede all prior written or oral understandings and agreements between Borrower and Lender with respect thereto. Borrower hereby acknowledges that, except as incorporated in writing in the Note, this Security Instrument and the Other Loan Documents, there are not, and were not, and no persons are or were authorized by Lender to make, any representations, understandings, stipulations, agreements or promises, oral or written, with respect to the transaction which is the subject of the Note, this Security Instrument and the Other Loan Documents.

Section 19.9. CONDITIONS TO CLOSING. Notwithstanding any of the foregoing, Lender shall not be obligated to make the Loan to the Borrower until the following conditions have been satisfied:

(a) there shall exist no Event of Default;

(b) the representations and warranties made to Lender herein, in the Note and in the other Loan Documents and in any other document, certificate or statement executed or delivered to Lender in connection with the Loan shall be true and correct on and as of the date hereof;

(c) the Note, this Security Instrument, and the other Loan Documents shall have been duly executed by the parties thereto;

(d) the Property shall not have been materially injured or damaged by fire or other casualty;

(e) Borrower shall have irrevocably paid in full all amounts owing to Lender in connection with the Loan, including without limitation, the Lender's loan and commitment fees, the fees of any third parties engaged by Lender in and legal fees of Lender's counsel;

(f) Lender and/or Lender's counsel shall have received and approved all documentation and other information required by Lender or Lender's counsel in connection with the Loan, including, without limitation, current financial statements and such other financial data as Lender shall require, the policies of insurance required by this Security Instrument, together with evidence of the payment of the premiums therefore, a paid title insurance policy, in the amount of the Note, in form approved by Lender or Lender's counsel, issued by a title insurer acceptable to Lender and Lender's counsel, insuring this Security Instrument to be a valid first lien on the Property free and clear of all defects and encumbrances except those previously received and approved by Lender or Lender's counsel, a current survey of the Property certified to Lender and the title insurer and acceptable to Lender and Lender's counsel, copies of all leases in respect of the Property, organizational and corporate or limited liability company (as applicable) or comparable documents for the Borrower, Guarantor and any other party requested by Lender, together with a good standing certificate from the applicable jurisdictions for each of the foregoing, and such other approvals, opinions or documents as Lender may reasonably request

ARTICLE 20

- SPECIAL STATE OF NEW YORK PROVISIONS

Section 20.1. INCONSISTENCIES. In the event of any inconsistencies between the terms and conditions of this Article 20 and the other provisions of this Security Instrument the terms and conditions of this Article 20 shall control and be binding.

Section 20.2. TRUST FUND. Pursuant to Section 13 of the New York Lien Law, Borrower shall receive the advances secured hereby and shall hold the right to receive the advances as a trust fund to be applied first for the purpose of paying the cost of any improvement and shall apply the advances first to the payment of the cost of any such improvement on the Property before using any part of the total of the same for any other purpose.

Section 20.3. COMMERCIAL PROPERTY. Borrower represents that this Security Instrument does not encumber real property principally improved or to be improved by one or more structures containing in the aggregate not more than six residential dwelling units, each having its own separate cooking facilities.

Section 20.4. INSURANCE. The provisions of subsection 4 of Section 254 of the New York Real Property Law covering the insurance of buildings against loss by fire shall not apply to this Security Instrument. In the event of any conflict, inconsistency or ambiguity between the provisions hereof and the provisions of subsection 4 of Section 254 of the New York Real Property Law covering the insurance of buildings against loss by fire, the provisions of this Security Instrument shall control.

Section 20.5. LEASES. Lender shall have all of the rights against lessees of the Real Property set forth in Section 291-f of the Real Property Law of New York.

Section 20.6. MAXIMUM PRINCIPAL AMOUNT SECURED. Notwithstanding anything contained in Part A hereof herein to the contrary, the maximum amount of principal indebtedness secured by this Security Instrument at the time of execution hereof or which under any contingency may become secured by this Security Instrument at any time hereafter is \$15,000,000.00, plus: (a) taxes, charges or assessments which may be imposed by law upon the Property; (b) premiums on insurance policies covering the Property; (c) expenses incurred in upholding the lien of this Security Instrument, including, but not limited to: (1) the expenses of any litigation to prosecute or defend the rights and lien created by this Security Instrument; (2) any amount, cost or charges to which the Lender becomes subrogated, upon payment, whether under recognized principles of law or equity, or under express statutory authority, and (3) interest at the default rate (or regular interest rate).

Section 20.7. NONJUDICIAL FORECLOSURE. In addition to any other remedy available to Lender under Section 9.1 of this Security Instrument or otherwise, upon the occurrence of any Event of Default, Lender shall have the right to sell the Property pursuant to Article 14 of the New York Real Property Actions and Proceedings Law.

Section 20.8. STATUTORY CONSTRUCTION. The clauses and covenants contained in this Security Instrument that are construed by Section 254 of the New York Real Property Law shall be construed as provided in those sections (except as provided in Section 20.4). The additional clauses and covenants contained in this Security Instrument shall afford rights supplemental to and not exclusive of the rights conferred by the clauses and covenants construed by Section 254 and shall not impair, modify, alter or defeat such rights (except as provided in Section 20.4), notwithstanding that such additional clauses and covenants may relate to the same subject matter or provide for different or additional rights in the same or similar contingencies as the clauses and covenants construed by Section 254. The rights of Lender arising under the clauses and covenants contained in this Security Instrument shall be separate, distinct and cumulative and none of them shall be in exclusion of the others. No act of Lender shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision, anything herein or otherwise to the contrary notwithstanding. In the event of any inconsistencies between the provisions of Section 254 and the provisions of this Security Instrument, the provisions of this Security Instrument shall prevail.

Section 20.9. TRANSFER TAXES.

(a) In the event of any sale or transfer of the Property, or any part thereof, including any sale or transfer by reason of foreclosure of this Security Instrument or any prior or subordinate mortgage or by deed in lieu of any such foreclosure, Borrower shall timely and duly complete, execute and deliver to Lender all forms and supporting documentation required by any taxing authority to estimate and fix any tax payable by reason of such sale or transfer or recording of the deed evidencing such sale or transfer, including any New York State Real Estate Transfer Tax payable pursuant to Article 31 of the New York Tax Law and New York City Real Property Transfer Tax payable pursuant to Chapter 21, Title 11 of the New York City Administrative Code (individually, a “**Transfer Tax**” and collectively, the “**Transfer Taxes**”).

(b) Borrower shall pay the Transfer Taxes that may hereafter become due and payable with respect to any sale or transfer of the Property described in this Article, and in default of such payment, Lender may pay the same and the amount of such payment shall be added to the Debt secured hereby and, unless incurred in connection with a foreclosure of this Security Instrument or deed in lieu of such foreclosure, be secured by this Security Instrument.

(c) In the event that Borrower fails to execute the same and such failure continues for more than ten (10) business days after Lender requests Borrower to execute the same, Borrower hereby irrevocably constitutes and appoints Lender as its attorney-in-fact, coupled with an interest, to prepare and deliver any questionnaire, statement, affidavit or tax return in connection with any Transfer Tax applicable to any foreclosure or deed in lieu of foreclosure described in this Article.

(d) Borrower shall indemnify and hold harmless Lender against (i) any and all liability incurred by Lender for the payment of any Transfer Tax with respect to any transfer of the Property, and (ii) any and all expenses reasonably incurred by Lender in connection therewith including, without limitation, interest, penalties and reasonable attorneys' fees.

(e) The obligation to pay the taxes and indemnify Lender under this Article is a personal obligation of Borrower, whether or not Borrower is personally obligated to pay the Debt secured by this Security Instrument, and shall be binding upon and enforceable against the distributees, successors and assigns of Borrower with the same force and effect as though each of them had personally executed and delivered this Security Instrument, notwithstanding any exculpation provision in favor of Borrower with respect to the payment of any other monetary obligations under this Security Instrument. Notwithstanding the foregoing, the indemnity contained in this Section 20.9(e) does not apply to any direct or indirect member, manager, shareholder, partner, beneficiary or other owner of beneficial ownership interest in Borrower or any director, officer, employer or trustee of any of the foregoing.

(f) In the event that Borrower fails or refuses to pay a tax payable by Borrower with respect to a sale or transfer by reason of a foreclosure of this Security Instrument in accordance with this Article, the amount of the tax, any interest or penalty applicable thereto and any other amount payable pursuant to Borrower's obligation to indemnify Lender under this Article may, at the sole option of Lender, be paid as an expense of the sale out of the proceeds of the mortgage foreclosure sale.

(g) The provisions of this Article shall survive any transfer and the delivery of the deed affecting such transfer. Nothing in this Article shall be deemed to grant to Borrower any greater rights to sell, assign or otherwise transfer the Property than are expressly provided in Article 8 nor to deprive Lender of any right to refuse to consent to any transaction referred to in this Article.

Section 20.10. SATISFACTION OR ASSIGNMENT OF MORTGAGE. Upon payment in full of all sums secured hereby in accordance with the terms and conditions of the Note, this Security Instrument and the other Loan Documents, Lender shall, at no cost to Lender, deliver a satisfaction or release of this Security Instrument and any Uniform Commercial Code financing statements filed in connection with this Security Instrument, or, at Borrower's request to be exercised in writing, an assignment, without representation, recourse or warranty, hereof, in either case in proper form for recording. As a condition to any such satisfaction or assignment, Borrower covenants and agrees to pay Lender's reasonable fees and expenses (including reasonable attorneys' fees and expenses) in connection therewith, and all costs of recording any discharge or assignment in the proper official records. Upon any such satisfaction or assignment, Lender shall, automatically and without the need for any further documentation, be absolutely and unconditionally released from any and all claims or liabilities in connection with the Loan. In addition, Borrower hereby indemnifies and agrees to hold Lender harmless from and against any and all claims and liabilities arising out of the satisfaction or assignment hereof, such indemnification to survive any such satisfaction or assignment.

Section 20.11. AMENDMENT AND RESTATEMENT. This Security Instrument amends and restates the Original Mortgage. This Security Instrument is a modification of Borrower's obligation under the Original Mortgage and shall not constitute a satisfaction, termination, or discharge of the Original Mortgage or an extinguishment of the obligation evidenced thereby. Upon execution and delivery of this Security Instrument, all of Borrower's obligations under the Original Mortgage shall be deemed evidenced by this Security Instrument and there are no offsets, setoffs or counterclaims against payment of said amounts.

**[NO FURTHER TEXT ON THIS PAGE]**

IN WITNESS WHEREOF, THIS SECURITY INSTRUMENT has been executed by Borrower and accepted by Lender effective the day and year first above written.

**BORROWER:**

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

By: Citadel Cinemas, Inc.,  
a Nevada corporation,  
its managing member

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

**ACCEPTED BY:**

**LENDER**

**SOVEREIGN BANK, N.A.** a national association

By: /s/ Ryan S. Ledwith

Name: Ryan S. Ledwith  
Title: Senior Vice President



**ACKNOWLEDGMENTS**

STATE OF CALIFORNIA )  
 ) ss:  
COUNTY OF LOS ANGELES )

On June 26, 2012 before me, A.B. Valencia (insert name of the officer), Notary Public, personally appeared **Andrzej Matyczynski**, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person 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.

/s/ Notary Public  
NOTARY PUBLIC

[Seal]

**ACKNOWLEDGMENTS**

STATE OF NEW YORK )  
 ) ss:  
COUNTY OF NEW YORK )

On the 27th day of June in the year 2012 before me, the undersigned, personally appeared **Ryan S. Ledwith**, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

/s/ Notary Public  
NOTARY PUBLIC

Signature and Office of Individual

taking acknowledgment

**EXHIBIT A**

(DESCRIPTION OF LAND)

All of that certain lot, piece or parcel of land, with the buildings and improvements thereon, situate, lying and being described as follows:

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 on the easterly side of Third Avenue, distant northerly 100 feet 4 inches from the corner formed by the intersection of the northerly side of 59th 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 1/4 inch;

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

THENCE southerly along the easterly side of Third Avenue, 75 feet 1/4 inch to the point or place of BEGINNING.





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

I, James J. Cotter, certify that:

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

By:

/s/ James J. Cotter

James J. Cotter  
Chief Executive Officer  
August 9, 2012

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

I, Andrzej Matyczynski, certify that:

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

By:

/s/ Andrzej Matyczynski  
Andrzej Matyczynski  
Chief Financial Officer  
August 9, 2012

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

- The Quarterly Report of the Company on Form 10-Q for the period ended March 31, 2012 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: August 9, 2012

/s/ James J. Cotter

Name: James J. Cotter  
Title: Chief Executive Officer

/s/ Andrzej Matczynski

Name: Andrzej Matczynski  
Title: Chief Financial Officer

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