

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended December 31, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from to

Commission File No. 1-8625

Reading International Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

95-3885184
(I.R.S. Employer
Identification Number)

550 South Hope Street, Suite 1825
Los Angeles, CA
(Address of principal executive offices)

90071
(Zip Code)

Registrant's telephone number, including Area Code:

(213) 235-2240

Securities Registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Class A Nonvoting Common Stock, \$0.01 par value
Class B Voting Common Stock, \$0.01 par value

American Stock Exchange
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether 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 12 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K of any amendments to this Form 10-K.

Indicate by check mark whether registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). 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 March 26, 2003, there were 20,484,808 shares of Class A Nonvoting Common Stock, par value \$.01 per share and 1,336,334 shares of Class B Voting Common Stock, par value \$.01 per share, outstanding. The aggregate market value of voting stock held by non-affiliates of the Registrant was \$64,360,061 as of March 26, 2003.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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READING INTERNATIONAL, INC.

ANNUAL REPORT ON FORM 10-K

Year Ended December 31, 2002

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PART I

Item 1 — Business

General

Reading International, Inc., a Nevada corporation (“RII” and collectively with its consolidated subsidiaries and corporate predecessors, the “Company” or “Reading”), is the corporate successor to the Reading Railroad, initially organized in Pennsylvania in 1833. RII was incorporated in 1999 and, following the consummation of a consolidation transaction on December 31, 2001 (the “Consolidation”), is now the owner of the consolidated businesses and assets of Reading Entertainment, Inc., Craig Corporation, and Citadel Holding Corporation. These businesses consist primarily of:

- the development, ownership and operation of multiplex cinemas in the United States, Australia, New Zealand and Puerto Rico;
- the development, ownership and operation of cinema based entertainment-themed retail centers in Australia and New Zealand;
- the ownership and operation of “Off Broadway” style live theaters in Manhattan and Chicago; and
- as a business ancillary to its ownership and operation of cinemas, cinema based entertainment-themed retail centers and live theaters, the development, ownership and operation of commercial real estate in Australia, New Zealand and the United States.

Reading considers itself to be essentially a cinema and theater operating company with a hard asset emphasis. At December 31, 2002, Reading had assets of approximately \$182,772,000 and stockholders’ equity of approximately \$91,265,000. Approximately 71% of these assets, or \$129,664,000, consists of real estate, improvements to real estate and equipment. Approximately 59% of these assets, or \$107,458,000, is represented by assets located in Australia and New Zealand, including undeveloped land carried on the Company’s books at approximately \$19,745,000.

Reading currently operates (directly or indirectly through consolidated entities or majority owned unincorporated joint ventures) 208 screens in 30 cinema complexes. In addition, it has a 50% unincorporated joint venture interests in an additional 13 screens in three cinema complexes in New Zealand and has agreed to acquire a 33% unincorporated joint venture interest in a 16-screen cinema complex in Australia. Reading’s real estate holdings include approximately 277,020 square feet of developed retail and office space in Australia, New Zealand and the United States and approximately 2,562,197 square feet of developable land located in various urban and suburban areas of Australia and New Zealand.

A major focus of the Company’s efforts in 2003 is anticipated to be the development of an approximate 82,000 square foot shopping center on the Company’s 176,528-square foot parcel in Newmarket (a suburb of Brisbane), the development of an approximately 150,000 square foot retail and art cinema development as phase two of its entertainment-themed retail center in Wellington, New Zealand, and master planning for the development of the Company’s 50-acre site in Burwood (a suburb of Melbourne) as a mixed use residential, commercial and retail development.

Reading’s Class A common stock and Class B common stock are listed for trading on the American Stock Exchange under the symbols RDI.A and RDI.B. Reading’s principal executive offices are located at 550 South Hope Street, Suite 1825, Los Angeles, California 90071. Its general telephone number is (213) 235-2240.

Background of the Company and Recent Material Transactions

General

Reading International, Inc. is the product of the consolidation of three companies, Reading Entertainment, Craig Corporation and Citadel Holding Corporation. Prior to the Consolidation, each of these companies was a separate publicly traded company, but the three companies had substantial overlapping stock

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ownership, management and control. In 2001, it was determined that it would be in the best interests of the three companies, and their respective stockholders, if they were to consolidated into a single public company in a merger-of-equals transaction. That transaction was consummated on December 31, 2001.

While Citadel Holding Corporation is technically the surviving company, it changed its name to Reading International, Inc. incident to the Consolidation. This name change reflects the fact that the great bulk of the operating assets of the consolidated Company initially belonged to Reading Entertainment, Inc. and the fact that the Company's current operations are predominantly international. Since, from a business point of view, the surviving business is principally that of Reading Entertainment, the following description of the history and background of the business of the newly consolidated Company draws principally from the history and background of Reading Entertainment, rather than Citadel Holding Corporation.

Citadel Holding Corporation was originally incorporated in 1999 as a Nevada corporation. This Nevada corporation was itself the successor of Citadel Holding Corporation, a Delaware corporation ("CHC Delaware") which in January 2000 reincorporated under the Laws of Nevada and, incident to that reincorporation, reclassified its common stock into 5,335,939 shares of Class A Non-Voting Common Stock, par value \$0.01 per share (the "Class A Stock") and 1,333,985 shares of Class B Voting Common Stock, par value \$0.01 per share (the "Class B Stock"). On September 20, 2000, Citadel Holding Corporation issued 2,622,466 shares of its Class A Stock and 655,616 shares of its Class B Stock to acquire, through a subsidiary merger, the assets and business of Off Broadway Investments, Inc., which thereafter changed its name to Liberty Theaters, Inc. Liberty Theaters was, at that time, the operator of the three Manhattan live theaters now owned by the Company, and the owner of the fee interests in two of those theaters.

As previously mentioned, on December 31, 2001, Citadel Holding Corporation consolidated with Craig Corporation ("CRG" and collectively with its consolidated subsidiaries "Craig") and Reading Entertainment, Inc. ("REI and collectively with its consolidated subsidiaries "Old Reading"), and changed its name to Reading International, Inc. the name by which it is known today. Citadel Holding Corporation, as it existed prior to the Consolidation, is referred to herein as "Citadel." The Consolidation was structured as a taxable merger of CRG and REI with newly formed subsidiaries of RII in which the holders of CRG common stock, CRG common preference stock and REI common stock received 15,094,432 shares of RII Class A common stock, increasing the total amount of Class A common stock outstanding to 20,484,993 shares. In the Consolidation, each holder of REI common stock received 1.25 shares of RII Class A common stock, and each holder of Craig common stock and Craig common preference stock received 1.17 shares of RII Class A common stock.

Historic Citadel Activities

Citadel Holding Corporation, prior to the sale of substantially all of its interest in Fidelity Federal Bank in 1994, was originally formed as a savings and loan holding company. Following the sale of its interest in Fidelity, Citadel was principally in the real estate business, owning and operating commercial real estate, and providing real estate advisory services to its affiliate, Old Reading. During this period, Citadel also acquired in 1997 an interest in a California citrus farm known as the Big 4 Ranch, and in 1998 an interest in a Southern California based medical device manufacturer, Gish Biomedical, Inc.

In 2000, Citadel entered the cinema exhibition and live theater business, principally taking advantage of opportunities for investment in these industries in the United States that, though attractive, were not practically available to Old Reading due to capital restraints. Since the Consolidation, the Company has been principally engaged in the business of owning and operating cinemas and live theaters in the United States, Australia, New Zealand and Puerto Rico, and in ancillary real estate development and management activities. In 2002, Reading divested its interest in the Big 4 Ranch and is currently in the process of liquidating its interest in Gish. These historic Citadel operations are discussed in greater detail below under the heading **Certain Historic Investments and Businesses**.

Development of Reading's Cinema and Entertainment-Themed Retail Center Development Activities

Prior to 1976, Old Reading was principally in the transportation business, owning and operating the Reading Railroad. Following the disposition of substantially all of its rolling stock and active rail lines in 1976, Reading pursued a number of endeavors including the development of One Reading Center, a 600,000 square foot office complex located in Philadelphia, and initiated the activities which led to the development of the Pennsylvania Convention Center on land originally utilized by the Company for railroad purposes. Since 1976, the Company has steadily reduced its railroad real estate holdings.

In 1993, following the sale of its last major railroad real estate asset — the historic Reading Terminal Headhouse in downtown Philadelphia — Old Reading entered the real estate based segment of the entertainment industry. Since that date, Reading has:

(1) developed a chain of multiplex cinemas in Australia and New Zealand currently comprising 116 screens in seventeen cinemas operating under the “Reading” or “Berkeley” names and featuring principally conventional film product (“Reading International Cinemas”);

(2) developed a chain of principally art and urban cinemas including the Angelika Film Center & Café complexes in Manhattan, Dallas and Houston (the “Reading Domestic Cinemas”), currently comprised of 54 screens in nine cinemas;

(3) acquired and expanded a chain of multiplex cinemas in Puerto Rico currently comprising 52 screens in seven cinemas and featuring conventional film product (“CineVista”); and

(4) acquired seven “off Broadway” style live theaters, located in four fee owned complexes, three in Manhattan and one in Chicago.

In Australia and New Zealand, Reading is also in the business of developing entertainment-themed retail centers, typically consisting of a multiplex cinema, complementary restaurant and retail uses, and convenient parking, all located on land owned or controlled by the Company. Reading opened the cinema portion of its first entertainment-themed retail center in Perth in December 1999, and the cinema portion of a second and substantially larger entertainment-themed retail center in Auburn, a suburb of Sydney, in September 2000. A third complex was opened in Wellington, the Capital of New Zealand, in March 2002. These three entertainment-themed retail centers have, in the aggregate, approximately 121,933 square feet of restaurant and retail space (in addition to their cinema components), approximately 75% or 91,590 square feet of which is currently under lease or agreement to lease. The Wellington entertainment-themed retail center also includes a nine level, 1,086 space parking garage, which serves as an independent source of revenue providing parking to neighboring businesses and the Te Papa Museum.

Reading, where feasible, prefers to own the land underlying its cinemas and live theaters. This means that many of Reading's projects

- are more capital intensive,
- during the development phase, have longer lead times and entail greater development risks, and
- have, at least initially, lower cash returns

than those of companies focusing on the development of cinemas in leased facilities in established or newly developed malls. Reading believes that these risks are reasonably offset by the greater control and flexibility that the ownership of such sites provides to the Company and by the opportunity given to the Company to participate in the enhancement to the value of such land anticipated to result from the consumer traffic generated by a successful cinema operation and/or the passage of time.

However, as Reading's cinema exhibition operations have expanded, a larger and larger majority of its screens are being located in leased facilities. Currently 170 of the screens operated directly by the Company or through consolidated or unconsolidated joint ventures are located in twenty-five leased facilities, while 38 screens are located in five owned facilities. In addition, there are 13 screens in three cinemas owned

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through an unincorporated joint venture and 5 screens in two facilities managed by Reading in which Reading has no ownership or leasehold interest.

In addition to its entertainment-themed retail centers at Perth, Auburn and Wellington, currently in the leasing phase of their development, the Company owns a 124,754 square foot property in a Moonee Ponds, a suburb of Melbourne, which it continues to hold for potential development as an entertainment-themed retail center. The Company also owns a 176,528 square foot site in Newmarket (a suburb of Brisbane) and a 50-acre parcel in Burwood (a suburb of Melbourne), which were originally purchased as possible entertainment-themed retail center sites, but which are currently being held for non-cinema related development. The Brisbane site is currently being developed as a retail shopping center and it is currently anticipated that the Melbourne site will be development as a mixed use residential, commercial and retail project. No assurances can be given that any additional entertainment-themed retail centers will be built by the Company. The Company also owns a 95,530 square foot property adjacent to its Auburn center and a 37,674 square foot property adjacent to its Wellington center which are slated for development complimentary to those centers.

Reading's Decision to Move out of Puerto Rico

Reading has determined to focus its future cinema exhibition activities on Australia, New Zealand and the United States. This decision was made in large part due to the adverse competitive situation in Puerto Rico, where one competitor has acquired a greater than 82% market share and continues to build in an already overbuilt cinema market. While Reading has sought relief in the Puerto Rican courts, alleging violation of applicable antitrust laws, it is unlikely, given the pace of antitrust litigation in Puerto Rico, that assistance will be forthcoming within a time frame that would justify continued investment in Puerto Rico by Reading. Accordingly, Reading intends to exit the Puerto Rican market, when feasible. In 1999, Reading wrote down its investment in Puerto Rico from approximately \$34,000,000 to approximately \$3,000,000. Reading is currently in discussions with a potential buyer for these assets. However, no assurances can be given that these discussions will result in a sale of such assets. Reading intends, even if it is successful in disposing of its Puerto Rico assets, to continue its antitrust litigation in an attempt to recoup some portion of its losses in Puerto Rico. Again, no assurances can be given as to the ultimate outcome of that litigation.

Certain Historic Investments and Businesses

In addition to its principal cinema and entertainment-themed retail center development activities, Reading continues to wind up its historic railroad related activities, including the sale or other exploitation of its residual real estate interests. Reading currently owns approximately 458 acres of land previously used in connection with its railroad related activities, most of which is located in Delaware and Pennsylvania.

Reading also owns a 95,752 square foot office building with an associated 378 space parking garage and 50 space parking lot in Glendale, California, which is fully leased. The Glendale building was originally owned by Citadel and served as the executive headquarters for Fidelity Federal Bank, FSB, at the time Fidelity was owned by Citadel.

In 1997, Citadel acquired a 40% general partnership interest in three agricultural partnerships (the "Agricultural Partnerships"), and an 80% membership interest in the farming company, Big 4 Farming, LLC ("Big 4 Farming"), which managed and farmed the properties owned by the Agricultural Partnerships. The Agricultural Partnerships owned approximately 1,600 acres of property in Kern County California, approximately 1,100 acres of which were improved with citrus orchards ("Big 4 Ranch"). Following the Consolidation, Reading determined to dispose of its interest in the Big 4 Ranch and to focus on its cinema, live theater and ancillary real estate businesses and in July 2002, the Agricultural Partnerships reconveyed their interests in the Big 4 Ranch to the original owner of the ranch in consideration of the satisfaction of all liabilities under the purchase money mortgage encumbering the ranch.

In 1998, Citadel acquired 398,850 shares representing approximately 11.6% of the outstanding shares of Gish Biomedical, Inc. ("Gish"). From time to time Citadel purchased additional Gish shares, and the Company at December 31, 2002 held 583,900 shares representing approximately 16.3% of the outstanding shares of Gish. The initial purchase transaction was brought to Citadel by Value Asset Fund Limited

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Partnership (“VAF”), which currently owns approximately 587,300 shares representing approximately 16.4% of the outstanding shares of Gish. Citadels investment in Gish was acquired at a cost of approximately \$1,435,000 or \$2.46 per share. Reading currently carries this investment at \$1,016,000 or \$1.74 per share. Reading began liquidating its investment in Gish in 2003, and as of March 26, 2003 had reduced its holdings to 375,037 shares. The Gish investment has been a completely passive investment on the part of Reading. Except for James J. Cotter, Jr. (the son of James J. Cotter, the Chairman and Chief Executive Officer of Reading and a director of RII since March 2002) who served as a Gish director until immediately prior to his election to the RII Board of Directors, neither Reading nor any of its officers or directors has had any involvement or participation in the management or strategic direction of Gish.

Reading’s Focus Moving Forward

Reading sees itself principally as a cinema and live theater exhibition company, but with a focus on real estate oriented assets. Currently, Reading, either directly or through joint venture interests, owns, or has the option to acquire at a fixed price, the fee interest in eight of its cinemas. Reading holds another three cinemas under long-term leases that permit a change of use of the property. In addition, Reading owns:

- the fee interest in all of its live theater complexes (three of which are located in Manhattan and one of which is located in Chicago);
- three in-fill suburban development sites in Australia (including a 50 acre parcel in suburban Melbourne);
- additional developable land contiguous to its Auburn and Wellington entertainment-themed retail centers (95,530 and 37,674 square feet, respectively);
- a 95,752 square foot office building in Glendale, California; and
- various miscellaneous land holdings related to its historic railroad activities.

Accordingly, while it considers itself to be primarily in the cinema and live theater operating businesses, Reading also looks to build shareholder value through the appreciation of its real estate holdings and the opportunistic sale or development of these properties as dictated by their highest and best use from time to time.

A significant focus of the Company in 2003 is anticipated to be the development of an approximately 82,000 square foot shopping center on its Newmarket property, the development of an approximately 150,000 square foot shopping center and art cinema complex as phase two of its Wellington entertainment-themed retail center, and master planning the development of its Burwood property as a multi-use project featuring residential, commercial and retail uses.

Financing Structure and Sources

Reading currently uses a combination of fixed rate first mortgage finance and lines of credit to finance its assets and operations. Typically, Reading has used local currency financings with respect to its international activities. At the present time Reading’s borrowings may be summarized as follows:

1. Domestic Based Borrowings:

- \$11 million non-recourse fixed rate first mortgage loan secured by its Glendale office building.
- \$3.5 million non-recourse fixed rate first mortgage loan secured by its Union Square property, located at 100 E. 17th Street, New York, New York.
- \$2.5 million LIBOR based first mortgage loan secured by its Royal George Theater property, located at 1633 N. Halsted, Chicago, Illinois.

2. Australian Based Borrowings:

- AUS\$30 million revolving bank line of credit loan to Reading Entertainment Australia Pty., Limited (“REA”) secured by a fixed and floating lien on all of the assets of REA and of its wholly owned subsidiaries (currently comprising substantially all of Reading’s assets in Australia). REA currently holds, directly or indirectly, all of Reading’s real estate and operating interests in Australia. The loan is without recourse to Reading’s assets outside of Australia.

3. New Zealand Based Borrowings:

- NZ\$34.5 million bank credit facility to Reading New Zealand Limited (collectively with its consolidated subsidiaries “Reading New Zealand”) used to fund the construction of Reading’s Wellington entertainment-themed retail center, and secured by a fixed and floating charge against the center. The loan is without recourse to Reading’s assets outside of New Zealand.
- NZ\$7 million bank credit facility secured by the three cinemas owned and operated by Berkeley Cinemas (in which Reading New Zealand holds a 50% joint venture interest). Two of these properties are owned in fee. The loan is guaranteed by Reading New Zealand to the extent of its interest in the joint venture. The loan is without recourse to Reading’s assets other than its interest in Berkeley Cinemas.

4. Off-Balance Sheet Financing Sources:

- In September 2000, Reading acquired from Sutton Hill Capital LLC (“Sutton Hill”) the Manhattan based City Cinemas circuit in a transaction structured as a 10 year operating lease (the “City Cinemas Operating Lease”) with options both to extend the lease for an additional 10 year term or, in the alternative, to purchase the improvements and certain of the land assets underlying that lease (the “City Cinemas Purchase Option”). The aggregate exercise price of the City Cinemas Purchase Option was \$48 million. Incident to that transaction, Reading paid an option fee of \$5 million (to be applied against the option exercise price, if exercised) and agreed to lend to Sutton Hill (the “City Cinemas Standby Credit Facility”) up to \$28 million, beginning in July 2007 (the principal balance and accrued interest on any such loan also to be applied against the option exercise price, if exercised). Generally speaking, the interest rate on the City Cinemas Standby Credit Facility equates to the yield rate used to calculate the rent under the operating lease, using an underlying asset value of \$48 million for the assets subject to the operating lease adjusted for the \$5 million option fee. Included among the City Cinema assets was the Murray Hill cinema. Reading has no legal obligation to exercise either the option to extend the City Cinemas Operating lease or the City Cinemas Purchase Option. If Reading elects not to exercise the City Cinemas Purchase Option, then the City Cinemas Standby Credit Facility will be entirely due and payable on December 1, 2010. Recourse is limited to the assets of Sutton Hill which consist entirely of the assets subject to the City Cinemas Purchase Option.
- In February 2002, Sutton Hill, with Reading’s consent, sold its interest in the Murray Hill cinema for \$10 million. The City Cinemas Operating Lease has been modified to reduce the rent payable there under by approximately \$825,000 per year. The City Cinemas Purchase Option has been amended to remove the Murray Hill assets and to reduce the option exercise price to \$38 million, and the City Cinemas Credit Facility has been reduced to \$18 million.

At December 31, 2002, Reading had assets valued for balance sheet purposes at approximately \$182,772,000 and no indebtedness for borrowed money other than that discussed in the preceding paragraphs, all of which, other than the obligation to pay rent under the City Cinemas Operating Lease and to make the loan under the related City Cinema Standby Credit Facility, is tied to specific assets or to specific groups of assets. Included within this book value at December 31, 2002, were **(a)** property and equipment with an aggregate book value of approximately \$101,481,000 and **(b)** property held for development with an aggregate

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net book value of approximately \$19,745,000. Berkeley Cinemas net assets at December 31, 2002, which are not included in Reading's Consolidated Balance Sheet, were approximately \$1,755,000 (NZ\$3,350,000) including property and equipment valued for book purposes at \$6,327,000 (NZ\$12,077,000).

Description of Business

Reading is primarily engaged in

- the development, ownership and operation in Australia, New Zealand, the United States and Puerto Rico of multiplex cinemas;
- the development, ownership and operation in Australia and New Zealand of cinema based entertainment-themed retail centers;
- the ownership and operating of "Off Broadway" style live theaters; and
- as a business ancillary to its cinema and theater businesses, the development, ownership and operation of real property.

While exceptions may be made from time to time with respect to certain well-situated cinemas with proven or projected draw, it is Reading's general intention to develop or acquire principally state-of-the-art multiplex venues. With respect to new cinema construction, it is the Company's intention to concentrate primarily upon a stadium-seating format, and to feature wall-to-wall screens with state-of-the-art projection and sound. Where possible, Reading prefers to own rather than to lease properties. However, as the Company's cinema circuit has grown, leasehold interest have become predominant.

In the future, the Company intends to focus on cinema exhibition, entertainment-themed retail center development and management, and commercial real estate development and management in Australia and New Zealand and, to a lesser extent, on cinema exhibition and live theater exhibition in the United States. Reading intends to move out of the Puerto Rican cinema market, to the extent feasible.

Reading anticipates that it will also be engaged from time to time, directly or indirectly, in the development of properties initially acquired in connection with its cinema and live theater businesses, but which have greater value applied to alternative uses. To date, Reading has developed three cinema based entertainment-themed retail centers, located in Perth and Auburn (a suburb of Sydney) in Australia and in Wellington, the capital of New Zealand.

Reading currently holds three additional properties, in suburbs of Melbourne and Brisbane, each of which was initially acquired as, and one of which is still under consideration as, a possible cinema based entertainment site. It is currently anticipated that Reading's 50 acre parcel in Burwood (a suburb of Melbourne), will be joint ventured for mixed use (residential, office and retail) with one or more Australian based developers. Reading's 176,528 square foot parcel in Newmarket (a suburb of Brisbane) is currently being developed as a shopping center. Reading's 124,754 square foot property in Moonee Ponds (a suburb of Melbourne) is still under consideration for development as a cinema based entertainment site. However, it may ultimately be developed for other purposes or sold.

In connection with the release of its interest in the approximately 15,700 square foot Murray Hill cinema property on 34th Street in Manhattan, Reading has received an option to either (a) receive a payment from the purchaser of \$500,000 for its interest in the property, or (b) to acquire at developer's cost a 25% interest in the combined development of the approximately 118,000 square foot development currently being constructed on that property and the adjacent 3,703 square foot property. No determination has yet been made whether or not to exercise this option.

Reading Cinemas (Australia and New Zealand)

General

Reading currently owns or operates thirteen cinemas, consisting of 93 screens, in Australia, and one cinema with 10 screens in Wellington, New Zealand, owns a 50% unincorporated joint venture interest in

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three cinemas, consisting of 13 screens in the Auckland area of New Zealand and has agreed to acquire a 33% unincorporated joint venture interest in a 16 screen cinema in the Brisbane area of Australia. The Company has entered into a lease with respect to a new 8-screen cinema currently under development in Christchurch, New Zealand, which will be held on a 50/50 basis through its New Zealand joint venture.

Reading commenced activities in Australia in mid-1995, and conducts business in Australia through its wholly owned subsidiary, Reading Entertainment Australia Pty. Limited (“REA” and, collectively with its consolidated subsidiaries, “Reading Australia”). Reading Australia is currently engaged in the development and operation of multiplex cinemas featuring conventional film product and the development of entertainment-themed retail centers in Australia. Reading Australia’s 93 screens are located in nine leased, and four owned locations. The Brisbane joint venture interest described above will be in a leased cinema complex.

Reading commenced operations in New Zealand in 1997 and conducts operations in New Zealand through its wholly owned affiliate, Reading New Zealand Limited (“RNZ” and collectively with its consolidated subsidiaries, “Reading New Zealand”). At the present time, all of Reading’s cinema interests in the Auckland area are held through a 50/50 unincorporated joint venture with an experienced cinema operator (“Berkeley Cinemas”). The joint venture currently operates three cinemas representing 13 screens at two owned and one leased facility. The 10-screen cinema opened at Reading New Zealand’s Wellington entertainment-themed retail center is owned by Reading New Zealand and managed by Reading Australia.

Reading’s Australian and New Zealand cinemas derive approximately 70% and 54% of their revenues from box office receipts, respectively. Ticket prices vary by location, and provide for reduced rates for senior citizens and children. Box office receipts are reported net of state and local sales or service taxes. Show times and features are placed in advertisements in local newspapers with the costs of such advertisements paid by the exhibitor. Film distributors may supplementally advertise certain feature films with the costs generally paid by distributors. Film rental averages approximately 45% of box office.

Concession sales account for approximately 21% of total revenues. Concession products primarily include popcorn, candy and soda, although certain of Reading’s Australia and New Zealand cinemas have areas licensed for the sale and consumption of alcoholic beverages. During 2002, Reading realized a gross margin of approximately 74% on concession sales.

Screen advertising revenues contributed approximately 4% of total revenues in 2002. However, there is some uncertainty as to whether screen advertising revenues will continue at historical rates following the near bankruptcy in 2002 of the largest purveyor of screen advertising in Australia and the acquisition of this company, Val Morgan, by Reading Australia’s competitors. See **Competition** below. Other sources of revenue include revenues from theater rentals for meetings, conferences, special film exhibitions and vending machine receipts or rentals.

Entertainment-Themed Retail Center Development

Existing Entertainment-Themed Retail Center Projects

Reading Australia and Reading New Zealand are also engaged in the development of entertainment-themed retail centers that typically consist of a multiplex cinema, complementary restaurant and retail facilities, and convenient parking, all on land owned or controlled by Reading. In December 1999, Reading opened the cinema portion of its first entertainment-themed retail center in Australia. Located in Perth, the entertainment-themed retail center includes a 10-screen cinema and approximately 19,138 square feet of restaurant and retail space. Reading opened the multiplex cinema component of its second entertainment-themed retail center in September 2000. That entertainment-themed retail center, located in the Sydney suburb of Auburn, near the site of the Sydney Olympic Village, includes a 10-screen cinema and approximately 59,169 square feet of retail space, and approximately 287,730 square feet of subterranean parking garage. In March 2002, Reading opened its Wellington entertainment-themed retail center, comprised of a 10 screen cinema, approximately 43,626 square feet of restaurant and retail space, and 1,086 parking spaces located in an adjacent nine level parking garage.

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Reading has, to date, entered into lease agreements with respect to 43% of the restaurant and retail space in its Perth center, 78% of its restaurant and retail space in its Auburn center and 85% of its restaurant and retail space in its Wellington center. Reading also owns two parcels of developable land (95,530 square feet and 37,674 square feet, respectively) contiguous to its Auburn and Wellington entertainment-themed retail centers.

Reading is currently working on the second phase of its Wellington entertainment-themed retail center, anticipated to consist of approximately 110,000 square feet of retail space and a multi-screen art and specialty cinema.

Discontinued Entertainment-Themed Retail Center Projects

Reading initially contemplated four more entertainment-themed retail centers to be located at Whitehorse Shopping Center, Burwood and, Moonee Ponds in the Melbourne area and at Newmarket in the Brisbane area, and acquired either directly, or in the case of Whitehorse, through a joint venture, interests in each of these properties. However, as discussed in greater detail below, the Whitehorse project has been abandoned and the property sold. The cinema components of the projects at Burwood and Newmarket have been dropped, although the Company still intends to retain and develop these properties. In the case of Burwood, it is anticipated that this development activity will take place through a development joint venture with one or more experienced Australia based developers. In the case of Newmarket, the Company has retained a construction manager, and is in the process of directly developing the property as a retail center. Accordingly, only Moonee Ponds is still under active consideration as an entertainment-themed retail center site. However, no assurances can be given that the entertainment component of this location will not also be dropped in favor of a mixed-use retail and residential development or other disposition of the property.

Whitehorse Shopping Center. In November 2001, Reading sold its interest in the Whitehorse shopping center, a retail shopping center located on leased land in the Melbourne suburb of Whitehorse (the "Whitehorse Center"). The Whitehorse Center was initially owned by Reading Australia in a 50/50 joint venture with a local developer. Unfortunately, Reading's plans for the redevelopment of the Whitehorse Center encountered substantial opposition from competing cinema and real estate interests, resulting in substantial delays for the project. In addition, Reading's joint venture partner did not prove to be the source of financial strength that was anticipated by Reading at the time it entered into the joint venture, and ultimately Reading was compelled to take over the Whitehorse Center incident to the satisfaction of the first mortgage loan held on the center by an institutional lender. During the development process, significant additional cinema competition developed and anticipated returns from both the cinemas and the shopping center declined, making the project unattractive for Reading to pursue on its own. Accordingly, Reading ultimately elected to sell the Whitehorse Center to liquidate the first mortgage debt. The property was sold in November 2001.

Burwood. In 1995, Reading entered into a contract to acquire approximately 50 acres of land in the Burwood suburb of Melbourne and ultimately purchased the site in 1996. Due to a change in government land use policy, this site cannot currently be used for cinema exhibition. Reading is now in negotiations with several potential joint venture partners to develop a mixed residential, retail, and commercial development on the site. As the Company's Australian bank lender has agreed to release this property from the collateral package securing REA's line of credit, it is currently anticipated that the project will be financed in stages using the Company's equity in the land.

Newmarket. In 1997, Reading acquired an approximately 176,528 square foot parcel in Newmarket, a suburb of Brisbane, as a potential entertainment-themed retail center site. The property is currently improved with retail space, including a facility licensed for limited gambling and liquor sales. Upon review, Reading has determined to redevelop the property as a retail center and not as an entertainment-themed retail center, but in a manner that preserves the sites' licensing for gambling and liquor sales. The Company has entered into a construction management contract with respect to the project, and is in negotiations with potential anchor tenants. As the Company's Australian bank lender has agreed to release this property from the collateral package securing REA's line of credit, it is currently anticipated that the project will be financed on a stand

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alone basis using the Company's equity in the land and in-place agreements to lease with the project's anchor tenants.

Potential Entertainment-Themed Retail Center Projects Currently Under Review

Reading is currently reviewing its one remaining entertainment-themed retail center project at Moonee Ponds in Victoria, and may ultimately determine not to proceed with that project. Where a decision not to proceed is made with respect to land held by Reading for entertainment-themed retail center development purposes, Reading intends to either sell that land or apply it to other purpose.

Summarized below are the properties held by the Company as entertainment-themed retail centers (Auburn, Perth and Wellington), or which are currently under review for development as entertainment-themed retail centers (Moonee Ponds). No assurance can be given that any of the properties held for development entertainment-themed retail center locations will ever be developed:

Site	Land Size in Sq. Feet	Approximate Cinema Size in Sq. Feet	Improvements in Sq. Feet
Australia			
Auburn, NSW	499,122	56,693	115,862
Perth (Belmont)	103,204	40,687	67,220
Moonee Ponds, Victoria	124,754	—	—
Newmarket, Queensland	176,528	—	—
New Zealand			
Wellington-Courtenay Central(1)	114,130	65,800	109,426

(1) The Company is currently working on the development of phase two of its Wellington entertainment-themed retail center, anticipated to consist of approximately 110,000 square feet of retail space, a multi-screen art and specialty cinemas. The figures set out in the chart do not reflect the construction of this phase two development.

Joint Venture Cinemas

Two of the Company's cinemas, consisting of 11 screens and located in country towns, are owned by Australia Country Cinemas Pty, Limited ("ACC"), a company owned 75% by Reading Australia and 25% by a company owned by an individual familiar with the market for cinemas in country towns. ACC has a limited right of first refusal to develop any cinema sites identified by Reading Australia or such individual that are located in country towns.

One of the Company's cinemas, a 5-screen facility in Melbourne, is owned by an unincorporated joint venture in which the Company has a 66.6% unincorporated joint venture interest with the original owner.

Reading New Zealand has a 50% unincorporated joint venture interest in a 5 screen multiplex cinema located in Whangaparoa, a 4 screen multiplex cinema located in Mission Bay, and a 4 screen cinema located in Takapuna, all of which are operated under the Berkeley Cinemas name. All of these communities are in the greater Auckland metropolitan area. Reading New Zealand's partner in these ventures is an experienced cinema owner and operator. Two of the joint venture cinemas are fee properties and the third is leased. Since Berkeley Cinemas is an unincorporated joint venture, Reading owns direct undivided interests in the fees and the lease, equipment and business comprising the joint venture's assets. The joint venture has also entered into an agreement fore lease with respect to an 8-screen cinema currently under construction in Christchurch.

Reading Australia has also agreed to acquire a 33.3% unincorporated joint venture interest in a 16 screen multiplex cinema located in a suburb of Brisbane, and operated under the Birch Caroll & Coyle name. Since this is an unincorporated joint venture, Reading will hold its 33% interest directly as an undivided interest in the lease, equipment and business comprising this cinema asset.

Certain Real Estate Development Risk Factors

At the present time, Reading's activities in Australia and New Zealand are in material part speculative real estate development activities. While, in each case other than the 50 acre Burwood site and the 176,528 square foot Newmarket site, Reading is, or is anticipated to be, its own anchor tenant, the success of the real estate aspects of Reading's business will depend upon a number of variables and are subject to a number of risks, some of which are outside of Reading's control. These variables and risks include, without limitation:

- construction risks, such as weather, unknown and unknowable site conditions, and the availability and cost of materials and labor;
- leasing risk with respect to ancillary space being constructed in connection with the entertainment-themed retail centers — in certain cases such ancillary space constitutes a substantial portion of the net leasable area of a particular entertainment-themed retail center;
- political risk, such as the possible change in midstream of existing zoning or development laws to accommodate competitive interests at Burwood; and
- financing risks, such as the risk of investing U.S. dollars in Australia during times of currency exchange rate instability, and the difficulties of acquiring construction financing.

In light of these risks, no assurances can be given that the Reading will be able to accomplish its real estate business objectives in Australia and/or New Zealand. Furthermore, even if those objectives are eventually achieved, the realization of these objectives may require a longer period of time and a greater level of developmental costs than currently anticipated by Reading.

Management of Cinemas

Reading Australia's cinemas and Reading New Zealand's Wellington cinema are managed by employees of Reading. Reading New Zealand's cinemas, other than the Wellington cinema, are operated by Berkeley Cinemas, in which Reading New Zealand is a 50% joint venture partner. Reading's employees are actively involved in the management of Berkeley Cinemas. The 16-screen joint venture cinema located in a suburb of Brisbane will be operated under a management committee over which each of the joint venturers will hold veto power, and will be managed by Birch Carroll & Coyle.

Background Information Regarding Australia

Australia is a self-governing and fully independent member of the Commonwealth of Nations. The constitution resembles that of the United States in that it creates a federal form of government, under which the powers of the central government are specified and all residual powers are left to the states. The country is organized into five mainland states (New South Wales, Queensland, South Australia, Victoria and Western Australia), one island state (Tasmania) and two territories (Australian Capital Territory and the Northern Territory).

The ceremonial supreme executive is the British monarch, represented by the governor-general and in each of the six states by a governor. These officials are appointed by the British monarch, but appointments are nearly always recommended by the Australian government. True executive power rests with the prime minister, the leader of the majority party in the House of Representatives. The legislature is bicameral, with a Senate and a House of Representatives, and the ministers are appointed by the prime minister from the membership of the House and the Senate. The organization of the state government is similar to that of the central government. Each state has an appointed governor, an elected premier and a legislature.

Although Australia is the sixth largest country in the world in landmass, it only has a population of approximately 19.8 million people. This population is concentrated in a few coastal urban areas, with approximately 4 million in the greater Sydney area, 3.4 million in the greater Melbourne area, 1.6 million in the Brisbane area, 1.4 million in Perth and 1.1 million in Adelaide. Australia is one of the richest countries in the world in terms of natural resources per capita and one of the most economically developed countries in the world, although vast areas of the interior, known as "the Outback," remain all but uninhabited. The principal

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language is English, and the largest part of the population traces its origin to Britain and Europe, although an increasing portion of the population has emigrated from the Far East. Australian taste in film has historically been similar to that of American audiences.

Internal trade is dominated by the two most populous states, New South Wales (mainly Sydney) and Victoria (mainly Melbourne). Together these two states account for a majority of all wholesale trade and approximately 70% of all retail sales. At the present time, Australia's principal trading partners are the United States and Japan.

Australia does not restrict the flow of currency into the country from the U.S. or out of Australia to the United States. Also, subject to certain review procedures, U.S. companies are typically permitted to operate businesses and to own real estate. On July 1, 2000, Australia implemented a goods and services tax ("GST") on all goods and services at a consistent rate of 10%. The Company does not believe that the GST has had a significant impact on the Company business.

Background Information Concerning New Zealand

New Zealand is also a self-governing member of the Commonwealth of Nations. It is comprised of two large islands, and numerous small islands, with a total land area of approximately 104,500 square miles. The country has a population of approximately 4 million people, most of who are of European descent and the principal language is English. Wellington, with a population of approximately 420,000, is the capital and Auckland, with a population of approximately 1.2 million, is the largest city. Most of the population lives in urban areas.

New Zealand is a prosperous country with a high standard of social services. The national economy is largely dependent upon the export of raw and processed foods, timber and wool. Principally a trading nation, New Zealand exports about 30% of its gross national product. In the past (particularly before the United Kingdom entered the Common Market in 1973), New Zealand's marketing focused on a small number of countries, principally the United Kingdom. Currently, only approximately 10% of New Zealand's trade is with the United Kingdom, with Japan and Australia being its principal trading partners. While no country currently accounts for more than 20% of its exports, its economy remains sensitive to fluctuations and demand for its principal exports.

Like Australia, New Zealand has a largely ceremonial governor-general, appointed by the Queen of England. However, the executive branch is run by a prime minister — typically the leader of the majority party in Parliament — and appointed ministers (typically chosen from the members of Parliament). The Parliament is elected by universal adult suffrage using a mixed member proportional system. Under this system, each voter casts two votes at the federal level, one for a local representative and one for a party. Fifty percent of the 120 seats in Parliament are determined by the direct election of local representatives, and the remaining fifty percent are elected based upon the number of votes garnered by the parties. The Prime Minister and his cabinet serve so long as they retain the confidence of the Parliament.

With the exception of special excise taxes on tobacco, liquor, petroleum products and motor vehicles the only general sales tax is a GST imposed on all such services at the consistent rate of 12.5%. In effect, by a series of refunds, GST is only paid by the end-user of the goods or services in question. Resident companies pay income tax at a rate of 33%, however, dividend imputation credits generally prevent double taxation of company profits. There are no restrictions on repatriation of capital or profits, but some payments to overseas parties are subject to withholding tax. There is no capital gains tax, and there are tax treaties with many countries, including the United States.

The laws for monitoring and approving significant overseas investment into New Zealand reflect the country's generally receptive attitude towards such investment and the generally facilitating nature of the country's foreign investment policies. One hundred percent overseas ownership can be approved in nearly all industry sectors, including motion picture exhibition and distribution. A review process is also applicable to certain land transactions and the purchase of businesses or assets having a value of NZ\$10,000 or more.

Licensing/Pricing

Films are licensed under agreements with major film distributors and several local distributors who distribute specialized films. Film exhibitors are provided with an opportunity to view films prior to negotiating with the film distributor the commercial terms applicable to its release. Films are licensed on a film-by-film, theater-by-theater basis. Reading Australia and Reading New Zealand license films from all film distributors as appropriate to each location. Generally, film payment terms are based upon various formulas that provide for payments based upon a specified percentage of box office receipts.

Competition

The film exhibition market in Australia and New Zealand is highly concentrated and, in certain cases, vertically integrated. The principal exhibitors in Australia and New Zealand include Village Roadshow Limited (“Village”) with approximately 587 screens in Australia and 76 screens in New Zealand, Greater Union/ Birch Carroll & Coyle with approximately 460 screens in Australia and Hoyts Cinemas (“Hoyts”) with approximately 500 screens in Australia and 70 screens in New Zealand. These figures, however, understate in certain respects the degree of concentration in Australia and New Zealand. Typically, the Major Exhibitors (Village, Greater Union and Hoyts) own the newer multiplex and megaplex cinemas, while the independent exhibitors typically have older and smaller cinemas. Accordingly, Reading believes it likely that the Major Exhibitors may control upwards of 60% of the total cinema box office in Australia and New Zealand.

The Major Exhibitors have in recent periods built a number of new multiplexes as joint venture partners or under shared facility arrangements, and have historically not engaged in head-to-head competition, except in the downtown areas of Sydney and Melbourne. However, in Sydney, the Major Exhibitors have entered into an agreement under which they share a recently redeveloped 17-screen cinema in the George Street entertainment district. In other markets, two or more of the Major Exhibitors have formed joint ventures to own and operate new multiplex cinemas. More recently, Hoyts Greater Union and Village formed a joint venture to acquire the largest screen advertising company in Australia. Accordingly, there are significant business interrelations between Australia’s three principal film exhibition companies.

Recently, Reading has agreed to acquire a 33% unincorporated joint venture interest in an existing 16 screen cinema located in suburban Brisbane which is currently owned in principal part by Village and Birch Carroll & Coyle. This marks Reading’s first joint venture arrangement with any of the Major Exhibitors.

Greater Union is the owner of Birch Carroll & Coyle. Generally speaking, all new multiplex cinema projects announced by Village are being jointly developed by a joint venture comprised of Greater Union, Village, and Warner Bros., but recently Village and Greater Union have announced a deal to buyout Warner Bros.’ interest on a 50/ 50 basis. These companies have substantial capital resources. Village had a publicly reported consolidated net worth of approximately AUS\$830.7 million at June 30, 2002. The Greater Union organization does not separately publish financial reports, but its parent, Amalgamated Holdings, had a publicly reported consolidated net worth of approximately AUS\$413.5 million at June 30, 2002. Hoyts Cinemas does not separately publish financial reports as it has been acquired by a major Australian media and entertainment company, Consolidated Press Holdings, which is controlled by Kerry Packer. Mr. Packer is considered one of the wealthiest men in Australia with a net worth estimated at AUS\$5.9 billion.

The industry is also somewhat vertically integrated in that Roadshow Film Distributors which serves as a distributor of film in Australia and New Zealand for Warner Bros. and New Line. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow Film Distributors.

In the view of Reading, the principal competitive restraint on the development of its business in Australia and New Zealand is the limited availability of good sites, as Reading now receives access to substantially all first run film on competitive terms at all of its cinemas. Reading’s competitors and certain major commercial real estate interests have historically used land use development laws and regulations in Australia to prevent or

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delay the construction of freestanding cinemas in new entertainment oriented complexes, particularly where those complexes are located outside of an established central business district or shopping center development.

In December 2002, the Major Exhibitors acquired Val Morgan, the principle lessor of screen advertising space in Australia and New Zealand. During 2002 and 2001, Reading received approximately \$1,254,000 (AUS\$1,942,433 and NZ\$308,155) and \$902,000 (AUS\$1,762,925) respectively from Val Morgan for screen advertising. Reading's contract with Val Morgan expires on July 1, 2003. Notwithstanding concerns expressed by Reading and other Independent Exhibitors to the Australian Consumer and Competition Commission (the "ACCC") that such an arrangement would give the Major Exhibitors an unfair competitive advantage in the area of screen advertising, the ACCC ultimately approved the acquisition due to concerns that but for the intervention of the Major Exhibitors Val Morgan would fail. Under the terms approved by the ACCC, net revenues are to be split 50/ 50 between Val Morgan and Reading from the advertising shown at Reading's cinemas. However, Reading has no control over Val Morgan's costs and in light of the fact that Val Morgan was unable to operate profitably under its prior contracts with exhibitors, it is likely that future revenues from screen advertising will be less, and may be materially less, than those realized in 2001 and 2002.

Currency Risk

Generally speaking, Reading does not engage in currency hedging. Reading presently intends, to the fullest extent possible, to operate its Australian and New Zealand operations on a self-funding basis. The book value, stated in U.S. dollars, of Reading's net assets in Australia and New Zealand, (assets less third party liabilities, but without deduction for intercompany debt), at December 31, 2002 are as follows (dollars in thousands):

	<u>Net Assets</u>
Reading Australia	\$28,068
Reading New Zealand	8,126
	<u>\$36,194</u>

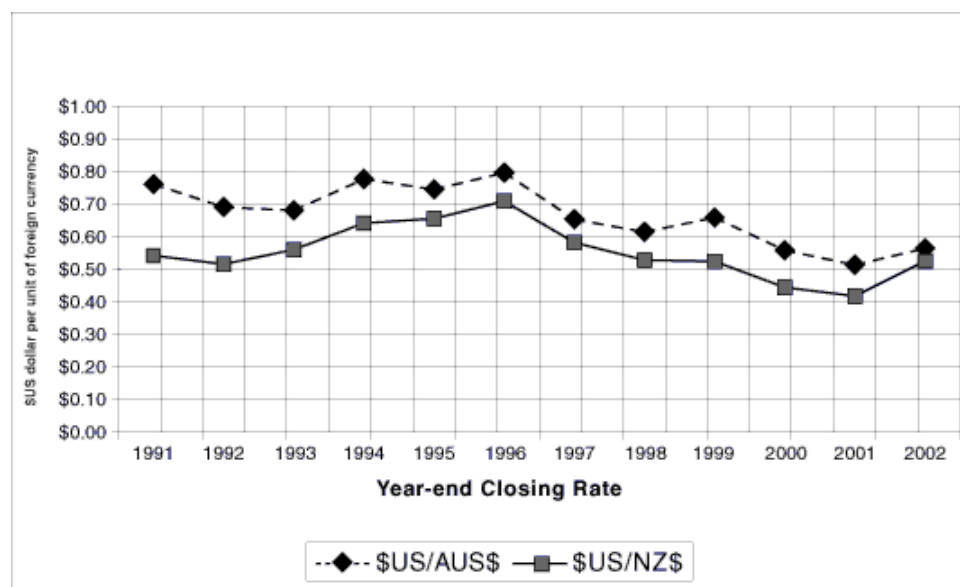
Reading believes that its asset bases in Australia and New Zealand should provide a sufficient capital base to support its current borrowing needs in those markets.

Virtually all of the operating costs of Reading Australia and Reading New Zealand are denominated in the respective currencies of these two companies. Concessions are purchased locally, and film rental is calculated as a percentage of box office. Reading has also attempted to keep its general and administrative costs localized.

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At the present time, the Australian and New Zealand dollars are trading at the lower third of their historic 25-year range vis-à-vis the U.S. dollar. Set forth below is a chart of the exchange ratios between these three currencies over the past ten years.

Exchange Rates



Exchange Rates Graph

	\$US/NZ\$	\$US/AUS\$
1991	0.54051	0.75955
1992	0.51396	0.68914
1993	0.55869	0.67903
1994	0.64008	0.77527
1995	0.65395	0.74349
1996	0.70750	0.79483
1997	0.58022	0.65153
1998	0.52663	0.61281
1999	0.52249	0.65697
2000	0.44261	0.55633
2001	0.41610	0.51170
2002	0.52390	0.56250

Seasonality

Major films are generally released to coincide with the school holiday trading periods, particularly the summer holidays. Accordingly, Reading Australia and Reading New Zealand record greater revenues and earnings during the first half of the calendar year.

Employees

Reading Australia has 26 full time executive and administrative employees and approximately 550 cinema level employees. Reading New Zealand currently has approximately 100 employees at its Wellington entertainment-themed retail center, which is managed by Reading Australia. Berkeley Cinemas has 5 full time executive and administrative employees and approximately 95 cinema employees. The Company believes its relations with its employees to be good.

Reading Domestic Cinemas

General

Reading currently operates 54 screens in ten cinemas in the United States (including two managed cinemas with 5 screens) and has entered into an agreement to operate an additional five screens in a new art and specialty cinema currently under construction in Plano, Texas. Reading’s domestic cinema operations focus on the exhibition of mainstream general release film in its conventional cinemas, such as the Cinemas 1, 2 & 3 and 86th Street Playhouse in Manhattan and the Manville 12 in Manville, New Jersey, and on the exhibition of art and specialty film at its art cinemas such as the Angelika Film Centers in Manhattan, Dallas and Houston. Reading does not currently have any plans to develop new cinemas in the United States, but will likely consider adding to its cinema chain through the acquisition of existing cinemas being divested by other

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exhibitors, particularly where those cinemas offer critical mass in a particular marketplace or offer a reasonable opportunity to expand Reading's art specialty circuit. Also, Reading will continue to offer to manage cinemas owned by third parties, particularly where those cinemas feature art or specialty product.

All the Company's domestic cinemas are leased, other than the 86th Street Playhouse and Paris in Manhattan which are operated under management agreements. The Angelika cinema in Manhattan is owned by a limited liability company owned 50/50 by Reading and a subsidiary of National Auto Credit but managed by the Company. The Company has the option to purchase the fee interest underlying its Sutton Cinema in Manhattan. The Manville 12 is leased pursuant to a ground lease through April 2024, which allows the property to be used, at Reading's discretion, for other retail uses.

The cinema exhibition industry is in the midst of a major retrenchment and consolidation, creating considerable uncertainty as to the direction of the domestic film exhibition industry, and Reading's role in that industry. Several major cinema exhibition companies have gone through bankruptcy over the past few years, or are being otherwise financially restructured. Regal Cinemas has emerged from bankruptcy and combined with Edwards and United Artists (which also went through bankruptcy) to create a 5,663-screen, 524 cinema circuit. In addition, Regal has announced an agreement to acquire 554 screens in 52 cinemas currently owned by Hoyts. Loews has likewise emerged from bankruptcy and now has approximately 2,451 screens in 264 cinemas located largely in principal urban markets in the US, Canada, and Europe. Landmark Theaters, the largest art and specialty film exhibitor in the United States, has also emerged from bankruptcy and is now owned by a large investment fund, that also has, directly or through its affiliates, material ownership interests in Loews and Regal. These companies, having used bankruptcy to restructure their debt and to rid themselves of burdensome leases and in some cases to consolidate, are now much stronger competitors than they were just a few years ago.

A significant number of older conventional screens have, as a result of this consolidation process, been taken out of the market. It is estimated that the total domestic screen count has decreased from 36,110 in 2001 to 35,289 in 2002. Industry analysts project further consolidation in the industry, as players such as Cablevision seek to divest their domestic cinema exhibition assets. However, some issues have risen as to potential anti-trust limitations on such consolidation. For example, a recently announced plan to sell Landmark to the controlling stockholder of Loews was called off due, according to the parties, to regulatory issues. Accordingly, while recent developments have, in the view of management, in some ways aided the overall health of the domestic cinema exhibition industry, there remains considerable uncertainty as to the impact of this consolidation trend on Reading and its domestic cinema exhibition business, as it is forced to compete with these stronger and reinvigorated competitors and their significant market share commanded by these competitors.

There is also considerable uncertainty as to the future of digital exhibition and in-the-home entertainment alternatives. In the case of digital exhibition, there is currently considerable discussion within the industry as to the benefits and detriments of moving from conventional film projection to digital projection technology. There are issues **(i)** as to when it will be available on an economically attractive bases, **(ii)** as to who will pay for the conversion from conventional to digital technology between exhibitors and distributors, **(iii)** as to what the impact will be on film licensing expense, and **(iv)** as to how to deal with security and potential pirating issues if film is distributed in a digital format. In the case of in-the-home entertainment alternatives, the industry is faced with the significant leaps achieved in recent periods in both the quality and affordability of in-the-home entertainment systems and in the accessibility to entertainment programming through cable, satellite and DVD distribution channels. These are issues common to both Reading's domestic and international cinema operations.

While no assurances can be given, it may be that the reorganization and restructuring of the domestic cinema exhibition market will produce opportunities for Reading to grow its art and specialty circuit by acquiring, on favorable terms, rights to operate cinemas no longer seen as suitable or competitive as conventional first run film venues, or for other reasons no longer attractive to other exhibitors. Reading does not, however, intend to aggressively pursue such opportunities, and if they do not become available, Reading

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will focus on the operation of its existing cinemas and the exploitation of the real estate elements underlying those cinemas.

Reading's domestic cinemas derive approximately 75% of their revenues from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children. Box office receipts are reported net of state and local sales or service taxes. Show times and features are placed in advertisements in local newspapers with the costs of such advertisements paid by Reading. Film distributors may supplementally advertise certain feature films with the costs generally paid by distributors. Film rental represented approximately 40% of box office for 2002.

Concession sales account for approximately 19% of total revenues. Concession products primarily include popcorn, candy and soda, but Reading's art cinemas typically offer a wider variety of concession offerings. Reading's Angelika cinemas in Manhattan, Dallas and Houston include café facilities, and the operations in Dallas and Houston are licensed to sell alcoholic beverages. Reading's domestic cinemas achieved a gross margin on concession sales of approximately 83% for 2002.

Screen advertising revenues contribute approximately 4% of total revenues. Other sources of revenue include revenues from theater rentals for meetings, conferences, special film exhibitions and vending machine receipts or rentals.

Licensing/ Pricing

Film product is available from a variety of sources ranging from the major film distributors such as Columbia, Disney, Buena Vista, MGM, Warner Bros and Universal, and from a variety of smaller independent film distributors such as Miramax. The market for mainstream conventional film is principally dominated by the major distributors. Similarly, most art and specialty film today comes from the art and specialty divisions of these major distributors, such as Fox' Searchlight and Disney's Miramax. Generally speaking, film payment terms are based upon an agreed upon percentage of box office receipts. Recent periods have seen an unusually high percentage of films with truncated exhibition runs, which has adversely impacted the margins available to exhibitors. At least in recent periods, with the surplus of screens currently available to distributors, bargaining power has been on the side of the distributors and not on the side of the exhibitors. While there is uncertainty as to whether this will continue, given the recent development of mega circuits such as Royal and Loews, no assurance can be given that Reading's domestic cinemas would benefit from the exercise of the market power by circuits such as Regal and Loews. Indeed, as discussed below, in certain situations, Reading believes that its access to first-run film has been adversely affected by the market power exhibitors such as Regal and Loews.

Competition

The principal factor in the success or failure of a particular cinema is access to popular film products. If a particular film is only offered at one cinema in a given market, then customers wishing to see that film will, of necessity, go to that cinema. If two or more cinemas in the same market offer the same film, then customers will typically take into account factors such as the relative convenience and quality of the various cinemas. In many markets, the number of prints in distribution is less than the number of exhibitors seeking that film for that market, and distributors typically take the position that they are free to provide or not provide their films to particular exhibitors, at their complete and absolute discretion.

Competition for films can, accordingly, be intense, depending upon the number of cinemas in a particular market. Reading's ability to obtain top grossing first run feature films may be adversely impacted by its comparatively small size, and the limited number of screens it can supply to distributors. Moreover, as a result of the dramatic and recent consolidation of screens into the hands of a few very large and powerful exhibitors such as Regal and Loews, these mega exhibition companies are in a position to offer distributors access to many more screens in major markets than can Reading. Accordingly, distributors may decide to give preferences to these mega exhibitors when it comes to licensing top grossing films, rather than to deal with independents such as Reading. The situation is different in Australia and New Zealand where typically every

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multiplex has access to all of the film then currently in distribution, regardless of the ownership of that multiplex.

On March 18, 2003, Reading and Sutton Hill Capital, LLC filed a complaint against Oaktree Capital management LLC, Onex Corporation, Regal Entertainment Group, United Artists Theatre Company, United Artists Theatre Circuit, Inc., Loews Cineplex Entertainment Corporation, Columbia Pictures Industries, Inc., the Walt Disney Company, Universal Studios, Inc., Paramount Pictures Corporation, Metro-Goldwyn-Mayer Distribution Company, Fox Entertainment Group, Inc., Dreamworks LLC, Stephen Kaplan and Bruce Karsh in the United States District Court for the Southern District of New York. The suit alleges, among other things, violations by the defendants of various sections of the Sherman and Clayton Acts, (commonly referred to as the antitrust laws) and New York state law relating to their concerted efforts to deny first-run industry anticipated top grossing commercial films to plaintiff's Village East Theatre. The complaint also alleges that defendants Oaktree, Onex, Regal and Loews have violated the antitrust laws in acquiring theatre circuits and that defendant Oaktree has violated the antitrust laws by attempting to monopolize the market for the exhibition of first run industry anticipated top grossing commercial films. The complaint further alleges that defendant Oaktree, through its senior officers, unlawfully serves on the boards of directors of both Loews and Regal. The complaint seeks, among other things, damages, an injunction barring the distributor defendants from refusing to license said films to the Village East Theatre and from granting licenses to said films to defendants Regal and Loews that prevent the Village East Theater from exhibiting said films simultaneously with defendants Regal's and Loew's theaters. The complaint also seeks an order requiring defendants Regal and Loews to divest a sufficient number of theaters to restore competition in the affect relevant markets, and that defendant Regal Loews, Oaktree and Onex not acquire any further theaters that exhibit said films. The complaint also seeks an order requiring defendant Oaktree to divest its interest in defendant Loews and that the existing interlocking directorships between Loews and Regal be eliminated. It is expected that the defendants will contest the allegations of the complaint. Although the plaintiffs intend to pursue this action vigorously, there can be assurance that plaintiffs will prevail.

In reaction to this lawsuit, Fox has advised Reading that Fox and its affiliate, Fox Searchlight, will no longer provide film to Reading's domestic cinemas after existing commitments have been satisfied.

In addition, the competitive situation facing Reading is uncertain given the ongoing development of in-the-home entertainment alternatives such as DVD, cable and satellite distribution of films, and the increasing quality and declining cost of in-the-home entertainment-themed retail center components:

Seasonality

Traditionally, the exhibition of mainstream commercial films has been somewhat seasonal, with most of the revenues being generated over the summer and Christmas holiday seasons. However, with the increasing number of releases, this seasonality is becoming less of a factor. The exhibition of art and specialty films has historically been less seasonal than the exhibition of mainstream commercial films.

Management

All of Reading's domestic cinemas are managed by officers and employees of Reading. Angelika Film centers, LLC (the owner of the Angelika Film Center & Café in the Soho district of New York), is owned on a 50/50 basis by Reading and a subsidiary of National Auto Credit, Inc. However, Reading manages that theater pursuant to a management contract. Further more, the operating agreement of Angelika Film Centers, LLC provides that, in the event of deadlock between Reading and NAC, the Chairman of the Board of Reading will cast the deciding vote.

Employees

At December 31, 2002 approximately 466 individuals were employed to operate Reading's domestic cinemas. On January 31, 2003, Reading renegotiated its collective bargaining agreement with the projectionist union and this agreement expires on January 31, 2006. Reading believes its relations with these employees to be good.

Reading Live Theaters (Liberty Theaters)

General

Liberty Theaters is in the business, through its wholly owned theater operating companies, of leasing theater auditoriums to the producers of “Off Broadway” theatrical productions and providing various box office and concession services. Liberty Theaters generates revenues by (a) leasing its theaters (b) charging various service fees for the use of its box office staff and facilities and (c) selling concessions. While Reading typically does not engage in the producing or financing of productions, Reading may, from time to time, acquire minority interests in the shows using its theaters. Reading’s theaters are booked and managed by a separate management company owned by Margaret Cotter, the daughter of James J. Cotter.

At the current time, Liberty Theaters has three single auditorium theaters in Manhattan: **(1)** the Minetta Lane (390 seats), **(2)** the Orpheum (360 seats) and **(3)** the Union Square (499 seats). Liberty also owns a four auditorium theater complex in Chicago (main stage 452 seats, cabaret 191 seats, great room 110 seats and gallery 66 seats). Reading owns the fee interest in each of these theaters.

While Reading offers concessions at each of its live theaters, the concession stand receipts generated by live theaters are typically much less material to operations than in cinemas. In 2002, only approximately 4% of the revenue of the Liberty Theaters was derived from concession sales.

Competition

Competition comes from other live theaters as well as other entertainment sources (such as television, videos, movies, concerts and other theatrical presentations). In Manhattan and Chicago, the number of theaters available for Off Broadway type productions is limited. While there are more than twenty Off Broadway venues (theaters with between 99 and 499 seats) in Manhattan, there are only four such theaters that have the same or greater seating capacity than Liberty Theaters’ properties. In Chicago, there are currently four other venues available for commercial Off Broadway type productions, and six venues for Broadway style productions.

Due to high land values and high construction costs in urban areas, and the parking requirements for such facilities, there are significant barriers to the construction of new theaters in both Manhattan and Chicago. As a result, in addition to a 499-seat theater than opened in the fall of 2002, insofar as we are aware, there are only two Off Broadway style theater complexes currently under development in Manhattan: one complex with two 499-seat theaters and two 299-seat theaters which is expected to open in mid 2004 and the other complex with one 499-seat theater, one 399-seat theater, and one 199-seat theater which is still in the early stages of construction and uncertain as to its opening date. The new Off Broadway theater that opened in 2002 has a rental package of approximately \$10,000 more per week than our packages, and has, to date, had only one show which lasted for only approximately 5 weeks before closing. Likewise, the two theaters currently in development are not expected to have a negative impact on our Manhattan theaters as these theaters are located, in our opinion, outside of established theater districts.

Generally speaking, the difference between “Off Broadway” and “Broadway” venues is the seating size of the auditorium. Typically, Off Broadway theaters have less than 500 seats. Accordingly, as the revenue generating capacity of an Off Broadway theater is limited, the size, scope and cost of the productions making use of such facilities are likewise typically more limited. However, with the current demand for theater space in Manhattan, this line is blurring somewhat, as more expensive productions are now being booked into Off Broadway venues. Also, typical productions making use of Off Broadway style theaters are non-Equity, meaning that they are permitted to make use of production crews and actors who are not members of the union leagues and that they are not required to pay the same wage scale as is applicable to Broadway productions.

Seasonality

Generally speaking, there is little or no seasonality in the live theater business. While it may be that a larger selection of plays open in February and in later September/ October, demand for space is relatively

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constant through the year, varying more with the number of shows in production and looking for space than with the season.

Employees

Each of the theater operating companies has its own employees, most of who are employed in connection with the operation of the box offices and concession facilities of the respective theaters. Consequently, the number of employees fluctuates significantly throughout the year, depending on the number of shows booked at the theaters. The individuals responsible for the development and construction of sets and for the staging of the production, as well as all of the individuals appearing in a particular production, are the employees of the production company and not of the Reading. When a particular theater is dark, no employees, other than a theater manager, are needed. When a theater is leased to a show, approximately 5 employees are required to operate the theater and to supply box office services, while an additional 3–6 ushers are needed to seat the theater patrons. Reading believes its relations with these employees to be good.

Puerto Rico (“CineVista”)

General

Acquired by Reading in 1994, CineVista currently operates 52 screens in seven leased facilities in Puerto Rico. Reading does not presently anticipate further expansion of this circuit, and would like to exit this market if a suitable buyer can be found. Reading is currently in discussions with certain parties who have expressed interest in acquiring a significant portion of Reading’s assets in Puerto Rico. However, no assurances can be given that any agreement will be reached, or if reached, that all conditions to closing will be satisfied and the transaction closed.

In Puerto Rico, Reading’s concentration has been on multiplex cinemas located on leasehold properties, and the exhibition of conventional film product. All of CineVista’s theaters are modern multi-screen facilities.

CineVista derives approximately 68% of its revenues from box office receipts. Ticket prices vary by location, and provide for reduced rates for senior citizens and children. Box office receipts are reported net of a 10% excise tax imposed by Puerto Rico. Show times and features are placed in advertisements in local newspapers with the costs of such advertisements paid by CineVista. Film distributors may supplementally advertise certain feature films with the costs generally paid by distributors. Film rental averaged approximately 44% of box office for 2002.

Concession sales account for approximately 26% of total revenues. Concession products primarily include popcorn, candy and soda. Screen advertising revenues contribute approximately 6% of total revenues. Other sources of revenue include revenues from theater rentals for meetings, conferences, special film exhibitions and vending machine receipts or rentals.

Background Information about Puerto Rico and the Puerto Rican Cinema Market

Puerto Rico is a self-governing Commonwealth of the United States with a population of approximately 3.8 million people. Puerto Rico exercises control over internal affairs similar to states of the United States; however, the relationship with the United States Federal Government is different than that of a state. Residents of Puerto Rico are citizens of the United States, but do not vote in national elections and, with certain exceptions, do not pay federal income taxes. Income taxes are paid instead under a system established by the Commonwealth. The United States mainland is Puerto Rico’s largest trading partner.

During the last six years, Puerto Rico has undergone significant retail shopping center development. During this period, the number of multiplex theaters has increased substantially. The Company’s principal competitor, Caribbean Cinemas, a privately-owned company, has opened 11 complexes adding approximately 103 screens since the beginning of 1996, and is expected to continue to open theaters competitive with those of CineVista. These new screens have adversely affected the Company’s current operations. Since 1994, this competitor’s share of the Puerto Rico box office has increased from 48% to 82%. Reading believes that the

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Puerto Rico market is currently over-built, and that there will be few, if any, opportunities in the near to medium term that would be attractive to Reading.

Licensing/ Pricing

Films are licensed under agreements with major film distributors and several local distributors specializing in films of special interest to residents of Puerto Rico. Puerto Rico regulations generally require that film exhibitors be provided with an opportunity to view films prior to submitting bids, that film distributors provide advance notice of films that will be provided to the market, and are generally designed to preclude anticompetitive practices. Films are licensed on a film-by-film, theater-by-theater basis. Generally, film payment terms provide for payment to film distributors under various formulas, which provide for payments based upon a percentage of gross box office receipts. Historically, CineVista has not had major difficulty in obtaining first run film. However, no assurances can be given that this will continue, given the market dominance of Caribbean Cinemas with approximately 82% of the market. Also, while Puerto Rican law prohibits exhibitors from also being in the distribution business, exhibitors such as Caribbean Cinemas could go into the distribution of film, to the extent that no company chooses to distribute a particular film in Puerto Rico. Given the market dominance of Caribbean Cinemas, no assurances can be given that the major distributors will continue to maintain film distribution operations in Puerto Rico.

CineVista licenses film from substantially all of the major United States studios and is not dependent upon any one film distributor for all of its product. However, in the event the Company was unable to license film from a major studio, such lack of supply could have a material effect upon CineVista's business. CineVista believes that the popularity of the Puerto Rico exhibition market and Puerto Rico rules governing film licensing make such a situation unlikely. In 2002, films licensed from CineVista's four largest film suppliers accounted for approximately 76.5% of CineVista's box office revenues.

Competition

Reading believes there are approximately 24 first-run movie theaters in daily operation with approximately 255 screens in Puerto Rico. Based upon number of screens, box office revenues and number of theaters, CineVista is the second largest exhibitor in Puerto Rico, with the two largest exhibitors accounting for over 99% of the box office revenues recorded in 2002, measured by theaters in daily operation. Competition among the theater exhibitors exists not only for theater patrons within certain geographic areas, but also for the licensing of films and the development of new theater sites. The number of sites suitable for multiplex cinemas is limited, but CineVista's principal competitor is expected to continue to open theaters competitive with those of CineVista. Caribbean Cinemas currently operates 198 screens in Puerto Rico representing approximately 82% of the total box office generated in that county.

In Puerto Rico, Reading's strategy has been to build generally higher quality cinemas, with larger seats, more leg room and better sound than those constructed by its principal competitor, and to seek out and build in either well established retail centers with adequate parking on-site or in connection with the development of new retail centers being developed by experienced and well financed developers. Reading's principal competitor appears to have adopted a strategy of market dominance, building cinemas in areas which, in Reading's view, are already over-screened, and offering rents which, again in Reading's view, cannot provide an adequate return on capital for the cinema operator.

Particularly injurious to Reading's competitive position in Puerto Rico was the opening in 2000 by Caribbean of a state-of-the-art multiplex cinema in the Plaza Las Americas — the largest shopping center in Puerto Rico. Prior to the opening of this cinema, CineVista's cinema complex at the Plaza Las Americas was Reading's top grossing cinema in Puerto Rico. Reading believes that the entering into of the lease with respect to this cinema by the owner of the Plaza Las Americas and Caribbean Cinemas was in violation of agreements reached between CineVista and the owner of the Plaza, and was an exercise of monopoly power by the Plaza and Caribbean Cinemas. Reading has commenced separate litigation against the owner of the Plaza and Caribbean Cinemas for, among other things, breach of contract, tortious interference and various trade practice violations. However, this litigation is proceeding slowly, in part due to the fact that the number of law

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firms in Puerto Rico who can take a position adverse to both the ownership of the Plaza Las Americas and the ownership of Caribbean Cinemas and who have the experience to prosecute an antitrust case, is very limited. Reading's initial counsel was conflicted out of the case as the result of a motion brought by the Plaza, and has now been replaced, causing a delay in the prosecution of the case of well over one year.

Seasonality

Most major films are released to coincide with the summer months, when schools are closed or the winter holiday seasons. Accordingly, CineVista has historically recorded greater revenues and earnings during the second half of the calendar year.

Employees

CineVista has approximately 159 employees in Puerto Rico, 13 of whom are employed under the terms of a collective bargaining agreement. The collective bargaining agreement expires in May 2004. The Company believes its relations with its employees in Puerto Rico to be good.

Other Assets and Investments

General

Prior to its determination in 2000 to enter the cinema and live theater exhibition businesses, Citadel made investments in 1997 in agriculture and in 1998 in healthcare. Reading disposed of its agricultural assets in July 2002 and is now in the process of liquidating its healthcare interests.

Agriculture

In December 1997, Citadel acquired a 40% partnership interest in the Agricultural Partnerships, and an 80% membership interest in Big 4 Farming, the limited liability company formed to farm the properties owned by the Agricultural Partnerships. The Agricultural Partnerships owned approximately 1,600 acres of land in the Kern County, California, approximately 1,100 acres of which was improved with citrus orchards. These properties are commonly known in the Kern County area as the Big 4 Ranch.

In large part due to the lasting effects of a freeze in late 1998, which wiped out most of the citrus crop in Kern County, and to competition from imported fruit, the Agricultural Partnerships did not perform well. In 2000, Citadel wrote down the carrying value of its investment in the Agricultural Partnerships and in Big 4 Farming to \$0, and in July 2002 the Agricultural Partnerships reconveyed their interests in the Big 4 Ranch to the original owner of that property in satisfaction of the purchase money mortgage held by that original owner.

Health Care

In 1998, Citadel invested approximately \$1 million to acquire 398,850 shares representing approximately 11.6% of the outstanding stock of Gish Biomedical, Inc. ("Gish"). Thereafter, the Company increased its holdings to 583,900 shares at December 31, 2002, representing approximately 16.3% of such outstanding stock. Gish is in the business of manufacturing medical devices, focusing principally on devices used in open-heart surgery. All of Gish's products are single use disposable products or have a disposable component.

The transaction was brought to the Company by Value Asset Fund Limited Partnership ("VAF"), which currently owns approximately 587,300 shares of Gish, representing approximately 16.4% of such stock. Collectively, the Company and VAF own approximately 32.6% of the outstanding Gish stock. While VAF has taken an active role in the management and strategic direction of Gish, the Company's investment has been completely passive. Except for James J. Cotter, Jr., (the son of James J. Cotter, the Chairman and Chief Executive Officer of Reading and, since March 2002, a Director of RII) who served on the Board of Directors of Gish until his resignation on March 7, 2002, Reading's officers and directors are not involved in the management or strategic direction of Gish.

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The Company's investment in Gish was acquired at a cost of approximately \$1,435,000 or \$2.46 per share. At March 26, 2003, the closing price for such shares was \$1.31. The Company is currently liquidating its investment in open market transactions and at March 26, 2003 had reduced its position to 375,037 shares.

Financial Information Relating to Industry Segments and Foreign and Domestic Operations

See Note 22 to the Consolidated Financial Statements contained elsewhere herein.

Item 2 — Properties

Executive and Administrative Offices

Reading leases approximately 7,480 square feet of office space in Los Angeles, California, in the United States and approximately 6,458 square feet of office space in Melbourne, Australia, for administrative office purposes.

Entertainment Properties

Leasehold Interests

Reading leases approximately 709,340 square feet of completed cinema space in the United States, Australia and Puerto Rico as follows:

	Aggregate Square Footage	Approximate Range of Terms (including renewals)
United States	221,782	5 – 42 years
Australia	294,737	29 – 40 years
Puerto Rico	192,821	3 – 40 years

Fee Interests

In Australia, Reading owns approximately 3,193,261 square feet of land at seven locations. Substantially all of this land is located in the greater metropolitan areas of Brisbane, Melbourne, Perth and Sydney, including the fifty-acre Burwood site in suburban Melbourne.

In New Zealand, Reading owns a 151,803 square foot site, which includes an existing 400,000 square foot nine level parking structure in the heart of Wellington, the capital of New Zealand. All but 37,674 square feet of the Wellington site has been developed as an entertainment-themed retail center which incorporates the existing parking garage. The remaining land is currently leased to a previously owned-luxury car dealer, and is slated for development as phase two of the Wellington entertainment-themed retail center.

In the United States, Reading owns approximately 111,164 square feet of improved real estate comprised of four live theater buildings which include approximately 16,700 square feet of leasable space.

Joint Venture Interests and Interests in Less than Wholly-Owned Subsidiaries

Reading also holds real estate through several unincorporated joint venture interests and one majority-owned subsidiary, as described below.

- Reading Australia owns a 66% unincorporated joint venture interest in a leased five screen multiplex cinema in Melbourne; and a 75% interest in a subsidiary company which leases two cinemas with eleven screens in two Australian country towns. Reading Australia has agreed to acquire a 33% unincorporated joint venture interest in a 16-screen leasehold cinema in a suburb of Brisbane. Reading New Zealand owns a 50% unincorporated joint venture interest in two fee properties and one leasehold property, totaling approximately 87,231 square feet in the Auckland area. The two fee parcels are improved with cinema/restaurant complexes. The leasehold is improved with a new multiplex cinema. In addition, the joint venture has entered into an agreement to lease for an additional 4,000-square foot 8-screen cinema complex currently under construction in Christchurch.

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- Reading owns a 50% membership interest in Angelika Film Centers, LLC., which holds the lease to the approximately 17,500 square foot Angelika Film Center & Café in the Soho district of Manhattan.

Non-Entertainment Properties

Reading Australia

In December 1995, Reading Australia acquired a fifty-acre site in Burwood, a suburban area within the Melbourne metropolitan area, initially as a potential entertainment-themed retail center location. Reading is currently negotiating with potential joint venture partners with respect to the development of a mixed-use project (residential, office and retail) on the site. Reading currently intends to begin master planning the site in 2003.

Reading Australia acquired a 176,528-square foot parcel in Newmarket, a suburb of Brisbane, initially as a potential entertainment-themed retail center location. Reading is currently developing this site as a shopping center.

Domestic

Reading's domestic non-entertainment properties are described below:

- *Commercial Property:* Reading owns a 95,752 square foot 6 level office building, located on a 1.06 acre square foot parcel, with a 2 level parking structure, located in Glendale California. This property is fully leased to Disney Enterprises, Inc. (87%) and California National Bank (formerly Fidelity Federal Bank) (13%). These leases expire in February 2007 and May 2005, respectively.
- *Railroad Properties:* When Reading's railroad assets were conveyed to Conrail, Reading retained fee ownership of approximately 700 parcels and rights-of-way located throughout Pennsylvania, Delaware, and New Jersey. Approximately fifteen parcels and rights-of-way located outside of Philadelphia are still owned by Reading. The parcels consist primarily of vacant land and buildings, some of which are leased.

Item 3 — Legal Proceedings

Tax Audit

The Internal Revenue Service (the "IRS") has completed its audits of the tax return of Old Reading for its tax year ended December 31, 1996, and the tax return of Craig for its tax year ended June 30, 1997. With respect to both Old Reading and Craig, the principal focus of these audits had been the treatment of the contribution by Reading Entertainment, Inc. to Reading Australia and subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the "Stater Stock") received by Reading Entertainment, Inc. from Craig as a part of a private placement of securities by Reading Entertainment, Inc. closed in October 1996.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of Old Reading and Craig for the years in question (the "Examination Reports"). The Examination Report for each of Old Reading and Craig proposes that the gain on the disposition by Reading Entertainment Inc. of Stater Stock, reported as taxable on the Reading return, should be reallocated to Craig. This proposed change would result in an additional tax liability for Craig of approximately \$21,000,000 plus interest. As reported on Old Reading's return, the gain on the disposition of the Stater Stock was fully offset for regular income tax purposes by net operating losses, but gave rise to an alternative minimum tax liability of approximately \$2,000,000. Under the Examination Report issued to Old Reading a consequence of the reallocation to Craig of the gain on the disposition of the Stater Stock is the elimination of Old Reading's alternative minimum tax liability, which would result in a refund to Old Reading of approximately \$2,000,000, plus interest.

The Examination Report does not constitute a final determination of Old Reading's or Craig's tax liability and Craig has sought review of these proposed changes with the IRS Office of the Regional Director of

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Appeals. Since these tax liabilities relate to time periods prior to the consolidation, and since Old Reading and Craig continue to exist as wholly owned subsidiaries of RII, it is expected that any adverse determination would be limited in recourse to the assets of Old Reading or Craig, as the case may be, and not to the general assets of RII. At the present time, Craig's assets are comprised principally of RII securities. Accordingly, the Company does not anticipate, even if there were to be an adverse judgment in favor of the IRS, that the satisfaction of that judgment would interfere with the internal operations or result in any levy upon or loss of any of its material operating assets. The satisfaction of any such adverse judgment would, however, be material dilution to existing shareholder interest.

Craig intends to appeal and to vigorously contest the IRS' proposed changes as set out in its Examination Report. However, no assurances can be given that Craig will quickly or ultimately prevail in its position. While Old Reading does not intend to challenge the proposed finding in the Examination Report that it is entitled to a refund, in the event that Craig prevails in its appeal, the IRS would be free (absent a settlement with Reading) to revisit its position with respect to the refund to Reading and with respect to the availability of the Reading losses to offset any gain in the disposition of the Stater Stock by Reading.

Whitehorse Center Litigation

On October 30, 2000, Reading Australia commenced litigation in the Supreme Court of Victoria at Melbourne, Commercial and Equity Division, against its joint venture partner and the controlling stockholders of its joint venture partner in the Whitehorse Center. That action is entitled *Reading Entertainment Australia PTY, LTD vs. Burstone Victoria PTY, LTD and May Way Khor and David Frederick Burr*, and was brought to collect on a loan made by Reading Australia to Ms. Khor and Mr. Burr, which loan was guaranteed by Burstone Victoria PTY, LTD ("Burstone"). The defendants have asserted certain set-offs and counterclaims, alleging, in essence, that Reading Australia breached its alleged obligations to build a cinema at the Whitehorse Center, causing the defendants substantial damages. Reading believes that it has good and sufficient defenses to the defendants' assertions and counter claims. While the case is currently in the discovery stage, it is currently anticipated that the case will go to trial in 2003.

Certain Shareholder Litigation

The Alphin Litigation

In September 1996, the holder of 50 shares of common stock commenced a purported class action on behalf of Old Reading's minority shareholders in the Philadelphia County Court of Common Pleas relating to the reincorporation of Old Reading under the laws of Delaware (Old Reading's predecessor was a Pennsylvania corporation), and the issuance of Old Reading's equity securities to Craig and Citadel in a private placement. The complaint in the action (the "Complaint") named Old Reading, Craig and certain then current or former directors of Old Reading as defendants. The Complaint alleged, among other things, that the Independent Committee (set up to review the transactions), and the current and former directors of Old Reading breached their fiduciary duty to the minority shareholders in the review and negotiation of the transactions and that none of the directors of the Company were independent and that they all were controlled by James J. Cotter, Craig or those controlled by them. The Complaint also alleged, in part, that the defendants failed to disclose the full future earnings potential of Old Reading and that Craig would benefit unjustly by having its credit rating upgraded and its balance sheet bolstered and that the value of the minority shareholders' interest in Old Reading was diluted by the transactions.

In November 1996, the petitioner filed an Amended Complaint against all of Old Reading's directors at that time, two former directors of Old Reading and Craig. The Amended Complaint did not name Old Reading as a respondent. The Amended Complaint essentially restated all of the allegations contained in the Complaint and contended that the named respondent directors and Craig breached their fiduciary duties to the alleged class. The Amended Complaint sought unspecified damages on behalf of the alleged class and attorneys and experts' fees. On December 9, 1997, the Court certified the case as a Class Action and approved the petitioner as Class Representative.

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On September 28, 1998, the respondents filed a motion for summary judgment. In 2000, the Trial Court granted summary judgment against the petitioner and in favor of all defendants and in February 2001, the petitioner appealed.

The Trial Court's summary judgment in favor of the respondent was affirmed by the Pennsylvania Court of Appeals on October 26, 2001. The petitioner's petition to the Pennsylvania Supreme Court to review the decision of the Court of Appeals was denied on June 26, 2002.

The Harbor Finance Partners Litigation

In February 2002, Harbor Finance Partners dismissed with prejudice and issued a release of claims against all defendants with respect to its putative class action against Old Reading, its directors, and Craig relating to the Consolidation completed on December 31, 2001. In the related settlement, Old Reading agreed, without conceding any liability or merit to the plaintiff's claims, to reimburse to Harbor Finance certain limited out-of-pocket costs, in the aggregate amount of approximately \$16,500. Old Reading determined to settle, since defense costs would have been far in excess of the settlement amount, which Old Reading considers to be nominal.

Harbor Finance Partners filed its suit on August 3, 2001, in the Nevada State District Court, Clary County, Nevada, styled *Harbor Finance Partners, Plaintiff v. James J. Cotter, Robert J. Smerling, S. Craig Tompkins, Scott A. Braley, Robert M. Loeffler, Kenneth S. McCormick, Craig Corporation and Reading Entertainment, Inc.*, Case no. A438155. The Harbor complaint alleged that Old Reading's directors and Craig, as the controlling stockholder of Reading, breached their respective duties to the stockholders of Old Reading in various respects, and sought various remedies, including preliminary and permanent injunction against the Consolidation and monetary damages.

Other Claims

The Company is not a party to any other pending legal proceedings or environmental action which management believes could have a material adverse effect on its financial position. While the City of Philadelphia has asserted that the Company's share of any environmental clean up costs related to its North Viaduct Property would be in the range of \$3,500,000, the Company does not believe that it has any current obligation to commence such remediation and believes such estimated clean-up costs to be excessive.

Item 4 — Submission of Matters to a Vote of Security Holders

At the Company's 2002 Annual Meeting of Shareholders held on November 8, 2002, the shareholders elected the Company's directors.

Election of Directors	For	Withheld
James J. Cotter	1,316,629	16,535
Eric Barr	1,316,648	16,516
James J. Cotter, Jr.	1,315,709	17,455
Margaret Cotter	1,315,728	17,436
Gerard P. Laheney	1,316,648	16,516
William C. Soady	1,316,648	16,516
Alfred Villaseñor, Jr.	1,316,648	16,516

PART II**Item 5 — Market for Registrant's Common Equity and Related Stockholder Matters****Market Information**

Until the consolidation of Citadel Holding Corporation, Reading Entertainment, Inc., and Craig Corporation on December 31, 2001, the Company's common stock was listed and quoted on the American Stock Exchange ("AMEX") under the symbols CDL.A and CDL.B. Following the consolidation, the Company changed its name to Reading International, Inc. ("RII"). Effective January 2, 2002, RII traded on the American Stock Exchange under the symbols RDI.A and RDI.B. The following table sets forth the high and low closing prices of the RDI.A and RDI.B common stock for each of the quarters in 2002 and the CDL.A and CDL.B common stock each of the quarters in 2001 as reported by AMEX.

	Class A Nonvoting Common Stock		Class B Voting Common Stock	
	High	Low	High	Low
2002:				
Fourth Quarter	\$3.9900	\$3.2000	\$4.0000	\$3.4500
Third Quarter	\$4.3500	\$3.2600	\$4.1300	\$3.4000
Second Quarter	\$4.4000	\$2.8000	\$4.2500	\$2.8000
First Quarter	\$2.8100	\$1.6800	\$2.8000	\$1.6800
2001:				
Fourth Quarter	\$1.8700	\$1.4500	\$1.9500	\$1.5000
Third Quarter	\$1.9000	\$1.2600	\$1.9500	\$1.5000
Second Quarter	\$2.0500	\$1.3500	\$2.2700	\$1.5000
First Quarter	\$2.6875	\$1.7200	\$3.0000	\$2.2700

Holders of Record

The number of holders of record of the Company's Class A and Class B common stock at March 26, 2003 was 2,093 and 179, respectively. On March 26, 2003, the high, low and closing price per share of the Company's Class A Nonvoting was \$4.10, and the high, low and closing price per share of the Company's Class B Voting Common Stock was \$4.00.

Dividends on Common Stock

While the Company has never declared a cash dividend on its common stock and has no current plan to declare a dividend, the Company reviews this matter on an ongoing basis.

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Item 6 — Selected Financial Data

The table below sets forth certain historical financial data regarding Reading International, Inc. This information is derived in part from, and should be read in conjunction with the Consolidated Financial Statements of the Company included elsewhere herein, and the related notes thereto (dollars in thousands, except per share amounts).

	At or for the Year Ended December 31,				
	2002	2001	2000	1999	1998
Revenue	\$ 86,486	\$ 23,744	\$ 7,384	\$ 3,952	\$ 5,985
Operating (loss) income	\$ (5,977)	\$ (3,382)	\$ (1,055)	\$ 1,101	\$ 1,995
Net (loss) earnings	\$ (7,954)	\$ (4,572)	\$ (3,542)	\$ 9,487	\$ 5,687
Basic (loss) earnings per share	\$ (0.36)	\$ (0.21)	\$ (0.47)	\$ 1.42	\$ 0.85
Diluted (loss) earnings per share	\$ (0.36)	\$ (0.21)	\$ (0.47)	\$ 1.42	\$ 0.85
Other Information					
Shares outstanding	21,821,147	21,821,324	9,947,964	6,669,924	6,669,924
Weighted average shares and dilutive share equivalents	21,821,236	9,980,946	7,557,718	6,669,924	6,669,924
Total assets	\$ 182,772	\$ 170,595	\$ 63,922	\$ 47,206	\$ 35,045
Long-term debt	\$ 48,121	\$ 37,490	\$ 15,221	\$ 10,872	\$ 9,008
Working capital	\$ 124	\$ 548	\$ 13,062	\$ 25,587	\$ 8,668
Stockholders' equity	\$ 91,265	\$ 91,125	\$ 39,128	\$ 33,483	\$ 23,741
EBIT	\$ (5,172)	\$ (3,425)	\$ (3,928)	\$ 14,685	\$ 1,445
Depreciation and amortization	\$ 8,705	\$ 2,044	\$ 657	\$ 340	\$ 414
EBITDA	\$ 3,533	\$ (1,381)	\$ (3,271)	\$ 15,025	\$ 1,859
Debt to EBITDA	13.62	—	—	0.72	4.85
Capital expenditure	\$ 10,437	\$ 10,325	\$ 10,773	\$ 67	\$ 789
Number of employees at 12/31	1,304	1,110	147	3	3

The balance sheet data for 2002 and 2001 include assets, borrowings, and stockholders' equity of Citadel Holding Corporation, Reading Entertainment, Inc. and Craig Corporation following the consolidation of the three companies on December 31, 2001. The balance sheet data for 2000, 1999 and 1998 include assets, borrowings, and stockholders' equity of Citadel Holdings Corporation only.

The 1998 net earnings include a deferred income tax benefit amounting to approximately \$4,828,000 resulting principally from the reversal of federal and state income tax valuation allowances.

Item 7 — Management's Discussions and Analysis of Financial Condition and Results of Operations

The following review should be read in conjunction with the consolidated financial statements and related notes included within Item 8 of this Form 10K. Historical results and percentage relationships are not necessarily indicative of operating results for any future periods.

Overview

Reading International, Inc., the surviving entity following the consolidation of Reading Entertainment, Inc. ("Old Reading"), Craig Corporation ("Craig") and Citadel Holding Corporation ("Citadel") on December 31, 2001, is now the owner of the consolidated businesses and assets of Reading Entertainment, Inc., Craig Corporation, and Citadel Holding Corporation. These businesses consist primarily of:

- the development, ownership and operation of cinemas in the United States, Australia, New Zealand, and Puerto Rico;

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- the development, ownership and operation of cinema based entertainment-themed retail centers in Australia and New Zealand;
- the ownership and operation of “Off Broadway” style live theaters in the United States; and
- as a business ancillary to its ownership and operation of cinemas, entertainment-themed retail centers and live theaters, the development, ownership and operation of commercial real estate in Australia, New Zealand and the United States.

We consider ourselves to be essentially a cinema and live theater exhibition company with a focus on real estate oriented assets. Consequently, our business plan is to continue to identify, develop and acquire cinema and live theater properties, focusing on those opportunities where we can acquire either the fee interest underlying such operating assets, or long term leases, which provide flexibility with respect to the usage of such leasehold estates. In July 2002, we disposed of our only agricultural investments and we have begun the process of selling our only healthcare investment. We are also looking to dispose of our interests in Puerto Rico. From time to time we may dispose of, or put to alternative use some or all of our interests in various operating assets, in order to realize the real estate values of such assets. To this end, we achieved the following significant milestones:

1. *Investment in Gish Biomedical, Inc. (“Gish”)*

We began liquidating our investment in Gish in 2003, and as of March 26, 2003 had reduced our holdings from 583,900 shares to 375,037 shares. The Gish stock is carried as an available-for-sale security at approximately \$1,016,000 under the caption “Investment in Gish Biomedical, Inc.” on our Consolidated Balance Sheets, for the year ended December 31, 2002.

2. *Agricultural Operations*

In July 2002, we effectively disposed of our only agricultural investment when the Agricultural Partnerships reconveyed their interests in the Big 4 Ranch to the original owner of that property in satisfaction of the purchase money mortgage held by that original owner. In September 2000, we wrote off our investment in and advances made to the Agricultural Partnerships.

3. *Courtenay Central Opening*

In March 2002, we opened our Courtenay Central complex located in Wellington, New Zealand. In addition to a 10-screen cinema, there is approximately 43,626 square feet of restaurant and retail space and a car park. As of December 31, 2002, approximately 85% of the leaseable restaurant and retail space has been leased.

4. *Murray Hill Transaction*

With the release of the Murray Hill cinemas from the City Cinemas Operating Lease in February 2002, our annual rental obligation under that lease was reduced by \$825,000 and our obligation under the related City Cinemas Standby Credit Agreement to lend Sutton up to \$28,000,000 commencing in July 2007 was decreased to \$18,000,000. This credit facility is intended to provide Sutton with liquidity pending our determination whether or not to exercise our option to purchase the various assets subject to the lease.

5. *Consolidation*

On December 31, 2001, Reading Entertainment, Inc. and Craig Corporation each merged with wholly owned subsidiaries of Citadel Holding Corporation. While Citadel is technically the surviving company, it changed its name to Reading International, Inc. incident to the consolidation, to reflect the fact that the great bulk of the operating assets of the consolidated company belonged to Reading Entertainment, Inc. prior to the consolidation. In the consolidation, each holder of Reading Entertainment, Inc.’s common stock received 1.25 shares of Reading International Inc. Class A Common Stock and each holder of Craig Corporation Common Stock and Craig Corporation Common Preference Stock received 1.17 shares of Reading

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International Inc. Class A Common Stock. Prior to the consolidation, each of these companies was a separate publicly traded company, but with overlapping stock ownership, management and control.

As required by GAAP, the Consolidated Statements of Operations for the year ended December 31, 2001 only contain the operating results of Citadel Holding Corporation (renamed to Reading International, Inc.) since the date of consolidation was December 31, 2001. Operating results of Craig Corporation and Reading Entertainment, Inc. are excluded from these numbers, but are presented as pro forma statements in the Notes to Consolidated Financial Statements. The Consolidated Balance Sheets at December 31, 2001, however, contain the assets and liabilities of all three consolidated companies adjusted for intercompany balances.

The Consolidation has enabled us to reduce our annual general and administrative expense by approximately \$1,000,000.

6. Acquisition of Cinema and Theater Assets

Additionally, in March 2001 and September 2000, we acquired certain cinema and live theater assets, located principally in the borough of Manhattan, New York.

The Reading Domestic Cinemas Acquisition. In March 2001, we acquired the leasehold interest in four additional cinemas, consisting of 28 screens from Reading Entertainment, Inc. The purchase price of \$1,706,000 was based upon a six times multiple applied against the aggregate 2000 cinema level cash flow from the four cinemas. The purchase price was paid in a two-year promissory note, accruing interest and payable quarterly, at the rate of 8% per annum. The purchase price represented the carrying value on Reading Entertainment's books.

The Angelika-Dallas Acquisition. On September 22, 2000, we acquired from Reading Entertainment, Inc. the leasehold interest in an 8-screen Angelika cinema in Dallas ("Angelika-Dallas"). The construction of the Angelika-Dallas was completed during 2001 and the cinema opened to the public on August 3, 2001. The lease was initially entered into by Reading Entertainment, Inc. and was transferred to us at Reading Entertainment's carrying value.

Off-Broadway Investments, Inc. Acquisition. On September 20, 2000, we acquired Off Broadway Investments, Inc. from Messrs. Cotter and Foreman pursuant to a stock-for-stock merger and renamed the company Liberty Theaters, Inc. ("Liberty Theaters"). At the time of its acquisition, Off Broadway Investments, Inc. operated three live theaters in Manhattan, two of which were owned in fee and the third of which was leased. In February 2001, Liberty Theaters acquired the fee interest in the property in which the third of these theaters is located for \$7,700,000.

The Angelika Film Center and the City Cinemas Acquisition. On September 1, 2000, we acquired, in each instance either directly from Messrs. Cotter and Forman or from entities owned by Messrs. Cotter and Forman, collectively referred to herein as "Sutton," (1) a 1/6th (16.7%) interest in the Angelika Film Center LLC ("AFC"), the owner of the Angelika Film Center and Café located in the Soho district of Manhattan (the "NY Angelika"), and (2) certain rights and interests comprising the City Cinemas cinema chain, currently consisting of 12 screens in three Manhattan locations (the "Leased Cinemas") and the right to manage an additional 24 screens in five locations (the "Managed Cinemas") (the "City Cinemas Transaction"). As part of the consolidation we acquired a further 33.3% interest in a subsidiary of the AFC, previously owned by a subsidiary of Reading Entertainment, Inc. The remaining 50% interest is owned by National Auto Credit, Inc. ("NAC"). As a result of this incremental acquisition and as we are the managing partner of the AFC, we are required to consolidate AFC's results of operations on an ongoing basis. AFC's assets and liabilities were consolidated as of December 31, 2001 and the operating results of AFC is included in our Consolidated Statement of Operations for the year ended December 31, 2002.

Summary

Inclusive of the cinemas acquired as a result of the transactions discussed above, at December 31, 2002, we operated thirty-five cinemas with 227 screens and four live theatres. Along with the three entertainment-

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themed retail centers that we developed in Australia and New Zealand, we have fee interests in five properties in the United States, three of which generate rental income.

Cinema Properties

Australia	Screens
Auburn	10
Belmont	10
Bundaberg	4
Chirside Park	8
Dubbo	5
Elsternwick****	5
Harbourtown	14
Maitland	4
Mandurah	6
Market City	5
Mt. Gravatt*****	16
Redbank	8
Townsville	6
Waurm Ponds	8
Total Screens	109
New Zealand	Screens
Courtenay Central	10
Mission Bay**	4
Takapuna**	4
Whangaparoa**	5
Total Screen	23
United States	Screens
Angelika New York	6
Angelika Dallas	8
Angelika Houston	8
Manville	12
Minneapolis***	5
NYC-Cinemas	3
NYC-Paris 3rd*	1
NYC-Sutton	2
NYC-Village	7
NYC-86th Street*	4
Sacramento	3
Total Screens	59
Puerto Rico	Screens
Carolina	12
Hatillo	6
Humacao	8
Las Americas	8
Mayaguez Twm	8
Mayaguez Univ	6
Senorial	4
Total Screens	52

* Denotes managed cinemas.

** Denotes cinemas owned and operated through the New Zealand Berkeley Cinemas joint venture.

*** Closed February 14, 2003.

**** Denotes cinemas owned and operated through unincorporated joint ventures.

***** Reading has agreed to acquire a 33% unincorporated joint venture interest. Not included in the operating results of fiscal 2002.

Rental Properties*

Australia

Auburn entertainment-themed retail center
Belmont entertainment-themed retail center

New Zealand

Courtenay Central entertainment-themed retail center

United States

Brand Building — Office
Union Square — Retail
Royal George — Office/ Retail
Sutton — Retail
Village East — Retail

* Except for the Brand building, the office and retail space is ancillary to primary cinema/theater use.

Live Theatre Properties**United States**

1) Chicago-Royal George	4 stages
2) NYC-Minetta	1 stage
3) NYC-Orpheum	1 stage
4) NYC-Union Square	1 stage

Results of Operations

As discussed above, fiscal 2002 is the first year of the consolidated operations of what used to be three separate public companies: Craig, Old Reading and Citadel. Following the Consolidation, we started reporting the operating result of these companies as one, under the name Reading International, Inc. Our fiscal 2001 and 2000 results presented below include only the operating results of what used to be Citadel Holding Corporation and consequently, the Consolidation accounts for a significant portion of the revenue increase from fiscal 2001 and 2000. The opening of the Courtenay Central complex located in Wellington, New Zealand, on March 21, 2002 also contributed to the increase in revenue.

Our Australian and New Zealand operations represented a significant part of our overall business. In addition to cinema exhibition, Reading Australia and Reading New Zealand are also engaged in the development of entertainment-themed retail centers that typically consist of a multiplex cinema, complementary restaurant and retail facilities, and convenient parking, all on land that we own or control. From December 1999 when the Old Reading opened our first entertainment-themed retail center in Perth, Australia, we have opened two additional entertainment-themed retail centers: one in the Sydney suburb of Auburn and the other in Wellington, New Zealand. We have, to date, entered into lease agreements with respect to 43% of the restaurant and retail space in our Perth center, 78% of the restaurant and retail space in the Auburn center and 85% of the restaurant and retail space in the Wellington center, resulting in a corresponding increase in rental income.

The tables below summarize the results of operations for our principal business segments for the years ended December 31, 2002, 2001 and 2000 (dollars in thousands).

Year Ended December 31, 2002	Cinema/Live Theater	Real Estate	Corporate	Total
Revenue	\$79,911	\$ 6,489	\$ 86	\$86,486
Expense	77,235	7,498	7,730	92,463
Operating income (loss)	2,676	(1,009)	(7,644)	(5,977)
Other expense	—	—	(1,971)	(1,971)
Income (loss) before tax	2,676	(1,009)	(9,615)	(7,948)
Income tax expense	—	—	6	6
Net income (loss)	\$ 2,676	\$(1,009)	\$(9,621)	(7,954)
Year Ended December 31, 2001				
Revenue	\$20,045	\$3,617	\$ 82	\$23,744
Expense	21,519	1,867	3,740	27,126
Operating (loss) income	(1,474)	1,750	(3,658)	(3,382)
Other expense	—	—	(982)	(982)
(Loss) income before tax	(1,474)	1,750	(4,640)	(4,364)
Income tax expense	—	—	208	208
Net (loss) income	\$(1,474)	\$1,750	\$(4,848)	\$(4,572)

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Year Ended December 31, 2000	Cinema/Live Theater	Real Estate	Corporate	Total
Revenue	\$4,677	\$2,397	\$ 310	\$ 7,384
Expense	5,223	1,097	2,119	8,439
Operating (loss) income	(546)	1,300	(1,809)	(1,055)
Other expense	—	—	(2,487)	(2,487)
(Loss) income before tax	(546)	1,300	(4,296)	(3,542)
Income tax expense	—	—	—	—
Net (loss) income	\$ (546)	\$1,300	\$(4,296)	\$(3,542)

Cinema and Live Theaters

2002 Compared with 2001

The domestic cinema exhibition industry has experienced a major retrenchment and consolidation, creating considerable uncertainty as to its direction, and our position in that market. Several major cinema exhibition companies have gone through bankruptcy over the past few years, or are being otherwise financially restructured. These companies, having used bankruptcy to restructure their debt and to rid themselves of burdensome leases and in some cases to consolidate, are as a consequence, now much stronger competitors than they were just a few years ago. This scenario has not been evident in Australia and New Zealand, where over-screening has not reached U.S. proportion. Despite the continued uncertainty in the industry, we have had a strong year both in terms of attendance and box office receipts buoyed by string of well-received films throughout the year such as the “Lord of the Rings,” “Spiderman,” “My Big Fat Greek Wedding,” “Minority Report,” “Star Wars: Attack of the Clones” and “Signs.”

We currently operate, directly or indirectly through consolidated joint ventures, 209 screens in 30 cinema complexes, excluding our unconsolidated joint venture interests in an additional 13 screens in three cinema complexes. We own the fee interest in and operate four live theaters, as well as manage an additional 5 screens in two cinema complexes. In fiscal 2001, our cinema and live theater segment included the operating results of nine cinemas with 52 screens (including an 8-screen cinema in Dallas which opened in August 2001) and four live theaters, since the operation of Old Reading were not consolidated with those of the Company for most of this period.

The cinema and live theater revenue consists of admissions, concessions, and advertising with respect to the cinemas as well as lease income and box office service revenues with respect to the live theaters. The cinema and live theater expense consists of the costs directly attributable to the operation of the cinemas and theaters (including employee-related, occupancy and operating costs, and depreciation) and in the case of the cinemas, film rent expense. Both the cinemas revenue and expense fluctuate in line with the availability of quality first-run films and the length of stay in the market. Live theater results likewise depend on a strong production with crowd appeal to sustain a long run.

In 2002, our worldwide cinema operations generated a profit for the first time, primarily due to the positive results of our Australian and New Zealand cinema operations. The profit reported in 2002 was mainly attributable to increased in attendance from prior years due to the availability of films with box office draw. In fiscal 2002, the average attendance per screen increased significantly over prior year by 15.8%.

The live theaters also generated a profit in fiscal 2002 despite a 13% increase in “dark-time” (period when the live theaters carry no productions) from fiscal 2001. The primary driver of this increased dark-time was the main stage at our Royal George Theater. The live theaters’ operating results were helped by the continued

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success of the *Stomp*, as well as the high gross earned on the *Burn This* and *I Love You You're Perfect, Now Change* productions. Our theaters are currently running the following shows:

- *Orpheum Theater:* *Stomp* (On-going)
- *Minetta Lane:* *Tuesdays with Morrie* (Closed February 2003, *Talking Heads* scheduled to start in March/ April 2003)
- *Union Square:* *Burn This* (Closed January 2003, *Our Lady of 121st Street* opened in February 2003)
- *Royal George:* Main Stage — *Flying Karamazov Brothers* (Closes in January 2003, negotiations are proceeding for a new production)
- *Royal George:* Great Room — *Late Nite Catechism* (On-going)
- *Royal George:* Gallery — *B.S.* (On-going)
- *Royal George:* Cabaret — *I Love You You're Perfect, Now Change* (On-going)

In November 2002, we made an investment in the production of the *Flying Karamazov Brothers*. The show opened at the Royal George Theater on December 15, 2002 and closed on January 19, 2003 with a net loss of approximately \$41,000 excluding the \$92,000 that we had received as rental income.

In October 2002, we invested approximately \$85,000 for a 25% equity investment in the production of *I Love You You're Perfect, Now Change*. The show opened to sound reviews in October 2002 and based on the volume of advance tickets sales in the fourth quarter of fiscal 2002, we expect to recoup our investment in the production before the show closes.

2001 Compared with 2000

For 2001, our cinema and live theater segment included the operating results of nine cinemas with 52 screens (including an 8-screen cinema in Dallas which opened in August 2001) and four live theaters. For 2000, our cinema and live theater segment was comprised of operating results of four cinemas with 16 screens and four live theaters from August 1, 2000 to December 31, 2000.

Cinema operations generated a negative margin for 2001. The loss reported in 2001 was mainly attributable to **(1)** increased competition from new state-of-the-art multiplex cinemas constructed in Manhattan over the past two years which negatively impacted attendance, **(2)** the impact of the World Trade Center bombing and ongoing concerns about terrorist activities, and **(3)** the absence of a blockbuster film with a sustained box office draw.

The decrease in the live theater gross margin was primarily due to the Royal George Theatre's main stage going dark from May to the end of October 2001 and due to the cancellation of a production in the Minetta Lane Theater as a result of the September 11th terrorist attack. *Joseph and the Amazing Technicolor Coat* started its run on October 26, 2001 at the Royal George's main stage and finished its run on January 27, 2002. Productions in the theaters at December 31, 2001 were:

- *Orpheum Theater:* *Stomp* (On-going)
- *Minetta Lane:* *Last Five Years* (On-going)
- *Union Square:* *Saving Grace* (On-going)
- *Royal George:* Main Stage — *Uncle Broadway* (Closed in March 2002)
- *Royal George:* Great Room — *Late Nite Catechism* (On-going)
- *Royal George:* Gallery — *Little House* (On-going)
- *Royal George:* Cabaret — Stage was dark

Real Estate

2002 Compared with 2001

For fiscal 2001, our domestic real estate earnings consisted of rental income from **(1)** one rental property, an office building located in Glendale, California, **(2)** the retail tenants at the Village East cinema and the Union Square property, and **(3)** the office tenants at the Royal George. The fiscal 2002 real estate earnings include, in addition to those discussed above, the operating results of our real estate holdings acquired through the Consolidation, located primarily in Australia and New Zealand.

Our rental real estate holdings in Australia and New Zealand are mostly comprised of three entertainment-themed retail centers that we constructed on land we purchased. The Perth entertainment-themed retail center in Australia was opened in December 1999; the Auburn entertainment-themed retail center in Australia opened in September 2000; and the Wellington entertainment-themed retail center in New Zealand opened in March 2002. We have leased approximately 43% and 78% of the total available retail space at our Perth and Auburn entertainment-themed retail centers, respectively, as of December 31, 2002. Approximately 85% of the restaurant and retail space in the Wellington Center was leased at December 31, 2002. In addition to the entertainment-themed retail centers, we hold certain domestic railroad-related properties, a fifty acre property assemblage located in the greater Melbourne, Australia area, and two other properties in Australia that were acquired as potential entertainment-themed retail center sites and that are presently held for future development, though not necessarily as entertainment-themed retail centers.

In contrast to the cinema/live theater results, the consolidated operations of our worldwide real estate operations generated a negative margin in 2002 primarily due to **(1)** our real estate holdings in Australia and New Zealand, which have not yet developed to their full income potential, **(2)** holding costs associated with the three remaining undeveloped parcels of land in Australia and which currently generates no meaningful revenue, and **(3)** settlement costs with regards to an environmental claim concerning one of our historic railroad properties.

2001 Compared with 2000

The increase in real estate income for 2001 was primarily due to **(1)** rental income from the Union Square building which was purchased in February 2001 and **(2)** rental income from the Royal George Theater, which leased out its excess office space. The remaining increase in income reflects a full year's rental income from the retail tenants at the Village East cinema (Village East was leased as part of the City Cinemas Transaction and 2000 results only include periods from August to December 2000). The income from the Brand building remained comparable to that of Fiscal 2000.

Corporate

2002 Compared to 2001

Our corporate revenue is entirely comprised of farming management fees earned from the agricultural partnerships. Corporate other expense is comprised of interest income/ expense, dividend income, gain/loss on sale of assets, and equity income (loss).

Corporate expense includes general and administrative expenses that are not directly attributable to other operating segments. Lease payments made to Sutton under the City Cinemas Operating Lease of \$2,815,000 in fiscal 2002 are recorded as general and administrative expense of the Cinema/ Live theater segment. The increase in corporate expense is primarily due to increased general and administrative expense reflecting the Consolidation. To a smaller degree, the general and administrative expense also increased due to higher legal fees relating to the prosecution or preparation of various antitrust claims in Australia, Puerto Rico, and the United States, the litigation relating to the loan made by Reading to the principals of its joint venture partner in the Whitehorse Center, as well as several smaller disputes. In total, the general and administrative expense for fiscal 2002 is lower than the unconsolidated general and administrative expense of the three separate companies in the 2001 period by approximately \$1,000,000.

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The Corporate other expense for fiscal 2002 doubled from fiscal 2001. This increase is due to the following factors:

- \$1,788,000 in higher interest expense due to the debt assumed in the Consolidation and the discontinuation of the capitalization of construction period interest with the completion and opening of our entertainment-themed retail center in Wellington, New Zealand;
- \$455,000 less dividend income received due to the Consolidation;
- \$446,000 increase in minority interest; and
- \$216,000 less in interest income received from affiliates due to the Consolidation.

The above were offset by:

- \$911,000 in recovered loans;
- \$852,000 of impairment loss relating to available-for-sale securities;
- \$211,000 in higher equity income received from the New Zealand joint venture.

2001 Compared to 2000

In 2001, corporate revenue was entirely comprised of a farming management fee received by Big 4 Farming LLC from the Agricultural Partnerships. Corporate other expense was comprised of interest income/ expense, dividend income, gain/loss on sale of assets, and equity income (loss).

Corporate expense includes general and administrative expenses that are not directly attributable to other operating segments. Lease payments made to Sutton under the City Cinemas Operating Lease of \$295,623 per month are recorded as expenses of the cinema segment. The increase in corporate expense was primarily due to increased general and administrative expense reflecting (1) a full year of operations of the cinemas acquired in September 2000 and (2) administrative expense relating to cinema/ theater properties acquired during the year.

The movement in corporate other expense from \$1,573,000 to \$519,000 in corporate other income was primarily due to \$4,462,000 decrease in equity loss and loan reserve relating to the agricultural operation partially offset by:

- an \$894,000 decrease in interest income;
- an \$852,000 of impairment loss relating to available-for-sale securities; and
- the absence of any gains from the sale of securities to replace the \$829,000 in gain recognized on sale of NAC securities in 2000.

Business Plan, Capital Resources and Liquidity of the Company

Financial Condition

As previously discussed, our business plan is to continue to identify, develop and acquire cinema and live theater properties, focusing on those opportunities where we can acquire either the fee interest underlying such operating assets, or long term leases, which provide flexibility with respect to the usage of such leasehold estates. We are continuing our discussions with third parties interested in purchasing our Puerto Rico cinema circuit and have begun to dispose of our investment in Gish securities. From time to time we may dispose of, or put to alternative use, our interest in various operating assets, in order to realize the real estate values of such assets.

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

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financing and/or to convert non-performing or non-strategic assets into cash. We cannot separate liquidity from capital resources in achieving our long-term goals or in order to meet our debt servicing requirements.

Currently, our liquidity needs arise mainly from:

- working capital requirements;
- capital expenditures; and
- debt servicing requirements.

Operating Activities

Cash provided by operations was \$3,165,000 in 2002 compared with cash used in operations of \$2,265,000 in 2001, and cash provided by operations of \$1,960,000 in 2000, respectively. The increase in cash provided by operating activities between 2002 and 2001 of \$5,430,000 is primarily due to the following reasons:

- a \$3,279,000 improvement in operating results after adjusting for depreciation and amortization;
- a \$1,110,000 recovery of loans to the Agricultural Partnerships that were previously written off; and
- a \$2,459,000 due to increase in payables and liabilities.

The decrease in cash due to operating activities between 2001 and 2000 of \$4,225,000 was primarily due to the following contributors:

- a \$3,308,000 increase in net loss after adjusting for depreciation and amortization, gain/ (loss) on sale of assets, provision for loss, equity earnings and minority interest; and
- a \$3,600,000 decrease in payables and liabilities; offset by
- a \$2,700,000 decrease in current assets.

Investing Activities

Cash used in investing activities was \$10,220,000 in 2002, \$10,023,000 in 2001, and \$8,893,000 in 2000. The increase in cash used in investing activities between 2002 and 2001 of \$197,000 was mostly due to the \$112,000 increase in capital expenditures over the prior year.

The decrease in cash due to investing activities between 2001 and 2000 of \$1,130,000 was primarily due to the following contributors:

- the \$1,768,000 proceeds from sale of NAC securities;
- a \$450,000 decrease in purchase of capital assets; and
- a \$190,000 increase in cash distribution from AFC.

Financing Activities

Cash provided by financing activities was \$3,952,000 in 2002 and \$17,154,000 in 2001 compared with cash used in financing activities of \$1,789,000 in 2000. The reduction in cash provided by financing activities between 2002 and 2001 of \$13,202,000 was primarily due to the following:

- a one time cash receipt of \$11,891,000 in 2001 due to the Consolidation and
- a \$1,879,000 reduction in debt.

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The increase in cash due to financing activities between 2001 and 2000 of \$18,943,000 was primarily due to the following contributors:

- a \$11,891,000 increase in the cash balance due to the Consolidation;
- a \$5,202,000 increase in proceeds from borrowings; and
- a \$1,475,000 decrease in loans to the Agricultural Partnerships.

Summary

Our cash position at December 31, 2002 was \$19,286,000. During 2002 and 2001, we put into place several measures that are expected to have a positive effect on our overall liquidity, namely:

- During 2002, we recognized cost savings due to the synergies generated by the consolidation of Old Reading, Craig and Citadel, which have amounted to approximately \$1,000,000 annually, based on the pre-consolidated general and administrative expenses of the three companies.
- On December 17, 2002, we renegotiated and extended our AUS\$30,000,000 loan facility, although final loan documents have not yet been signed. Our new loan agreement provides for an AUS\$15,000,000 term loan and an AUS\$15,000,000 revolving line of credit. The term loan and the revolving line of credit mature and become payable on January 2008 and January 2006, respectively. The loans are secured by our Australian assets. In addition, we will begin making quarterly repayments of AUS\$250,000 starting on March 31, 2003.
- On December 5, 2002, Reading paid off a term note in the amount of \$4,500,000 bearing 8.25% interest to SHC, an entity owned by Michael Forman and James Cotter, originally issued as payment for a 1/6th interest in the AFC and certain rights and interests with respect to the City Cinemas cinema chain.
- On November 29, 2002, we entered into a \$2,500,000 loan agreement with a financial institution secured by our interest in the Royal George Theater. The loan is a 5-year term loan that accrues interest at 3.91%, payable monthly in arrears.
- As of July 1, 2002, the Agricultural Partnerships in which we own a 40% interest, reconveyed the Big 4 Ranch to the original owner in consideration of the release from all obligations and liabilities otherwise owed to the original owner. We are currently in the process of winding up our agricultural activities.
- On July 18, 2001, we entered into an agreement to borrow NZ\$4,135,000 which was used to fit-out the cinema constructed as a part of the Wellington entertainment-themed retail center.
- In consideration of the release of our rights with the Murray Hill Cinema under the City Cinemas Operating Lease, we have effectively reduced our ongoing annual rental payment obligations under the City Cinemas Operating Lease by \$825,000 commencing in February 2002. Also our obligation to fund, beginning in 2007, certain loans to Sutton has been reduced by \$10,000,000 from \$28,000,000 to \$18,000,000. Likewise, the exercise price of our option to acquire real property assets underlying the City Cinemas Operating Lease has been reduced by \$10,000,000 from \$48,000,000 to \$38,000,000.

Potential uses for funds during 2003 that would reduce our liquidity, other than those relating to working capital needs and debt service requirements include:

- the payment of tenant improvement incentives to lessees in Australia and the U.S, amounting to approximately \$3,200,000;
- the purchase, for approximately \$1,825,000 (AUS\$3,244,000), of an undivided 33% unincorporated joint venture interest in an Australian cinema operation; and
- equity funding for several new developments in Australia and New Zealand amounting to approximately \$9,500,000.

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Based upon the current levels of the consolidated operations, anticipated cost savings and future growth, we believe our cash flow from operations, together with both the existing and anticipated lines-of-credit and other sources of liquidity (including future potential asset sales) will be adequate to meet our anticipated requirements for interest payments and other debt service obligations, working capital, capital expenditures and other operating needs. There can be no assurance, however, that the business will continue to generate cash flow at or above current levels or that estimated cost savings or growth can be achieved. Future operating performance and our ability to service or refinance existing indebtedness, will be subject to future economic conditions and to financial and other factors, such as access to first-run-films, many of which are beyond our control. If our cash flow from operations and/or proceeds from anticipated borrowings should prove to be insufficient to meet our funding needs, our current intention is either (1) to defer construction of projects currently slated for land presently owned by the Company, (ii) to take on joint venture partners with respect to one or more of such development projects, and/or (iii) to sell assets. At the present time, included among the assets that are securing the Company's AUS\$30,000,000 loan facility are the Company's 50-acre Burwood property, which the Company believes to have a present value of approximately AUS\$28,000,000, and the Company's Newmarket property, which the Company believes to have a present value of approximately AUS\$5,500,000. In light of Australian operating losses incurred by the Company as its has broken into the Australian market, these assets could be liquidated without the payment of any taxes.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of the company's financial condition and results of operations and the most demanding in their calls on judgment. While accounting for our core business of cinema and live theater exhibition with a real estate focus is relatively straight-forward, 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 reviewed long-lived assets, including goodwill and intangibles, for impairment as part of our annual budgeting process, in the fourth quarter, and whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. We review internal management reports on a monthly basis as well as monitor current and potential future competition in film markets for indications of potential impairment. We evaluate our long-lived assets using historical and projected data of cash flow as our primary indicator of potential impairment and consider the seasonality of our business. If the sum of the estimated future cash flows, undiscounted, are less than the carrying amount of the asset, an impairment is recognized for the amount by which the carrying value of the asset exceeds its estimated fair value based on a discounted cash flow calculation. Goodwill and intangible assets are evaluated on a reporting unit basis which is basically our business segments. The impairment evaluation is based on the present value of estimate future cash flows of the segment plus the expected terminal value. There are significant amounts of assumptions and estimates used in determining the future cash flows and terminal value and accordingly, actual results could vary materially from such estimates. We have had no impairment losses recorded for the year ended December 31, 2002.

We record our estimated future tax benefits arising from the temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carryforwards. We estimate the recoverability of any tax assets recorded on the balance sheet and provide any necessary allowances as required. As of December 31, 2002, we had recorded approximately \$1,008,000 of deferred tax assets (net of valuation allowances of \$48,962,000) related to the estimated future tax benefits of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss carryforwards. The recoverability of this asset is dependent upon our ability to generate future taxable income. There is no assurance that sufficient future taxable income will be generated to benefit from our tax loss carryforwards.

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Due to our historical involvement in the railroad industry under Old Reading, we have a number of former employees of Old Reading claiming monetary compensation for hearing loss, black lung and other asbestos related illness suffered as a result of their past employment with Old Reading. In addition, we have an environmental contamination law suit with the City of Philadelphia that has been on-going for some time. In regards to the personal injury claims, our insurance carriers end up paying approximately 98% of the claims and we do not believe that we have a significant exposure. However, no such assurances can be provided. With regard to the environmental law suit, we intend to vigorously defend our position as we believe a complete disclosure of the property was made at the time of the sale. Again, no assurances can be provided that we will eventually prevail.

Financial Risk Management

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

Since the Consolidation on December 31, 2001, we have started recognizing unrealized foreign currency translation gains and losses. As more and more of our operational focus shifts to Australia and New Zealand, such unrealized foreign currency translation gains/losses could materially affect our financial position. We currently manage our currency exposure by creating natural hedges in Australia and New Zealand. This involves local country sourcing of goods and services as well as borrowing in local currencies.

Our exposure to interest rate risk arises out of our long-term debt obligations. Consistent with our internally developed guidelines, we seek to reduce the negative effects of changes in interest rates by changing the character of the interest rate on our long-term debt, converting a fixed rate into a variable rate and vice versa. Our procedure allows us to enter into derivative contracts on certain borrowing transactions to achieve this goal. During 2002, no such contracts had been utilized and none were in existence at December 31, 2002 or at December 31, 2001.

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 fully recover the higher costs of acquired goods and services through price increases. We attempt to mitigate the impact of inflation by implementing continuous process improvement solutions to enhance productivity and efficiency and, as a result, lower costs and operating expenses. In our opinion, the effects of inflation have been managed appropriately and as a result, have not had a material impact on our operations and the resulting financial position or liquidity.

Taxation

The Internal Revenue Service (the "IRS") has completed its audits of the Reading Entertainment, Inc.'s tax return for its tax year ended December 31, 1996, and of the Craig Corporation's tax return for its tax year ended June 30, 1997. With respect to both Reading Entertainment, Inc. and Craig Corporation, the principal focus of these audits had been the treatment of the contribution by Reading Entertainment, Inc. to Reading Australia and subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the "Stater Stock") received by Reading Entertainment, Inc. from Craig Corporation as a part of a private placement of securities by Reading Entertainment, Inc. that closed in October 1996.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of Reading Entertainment, Inc. and Craig Corporation for the years in question (the "Examination Reports"). The Examination Report for each of Reading Entertainment, Inc. and Craig Corporation proposes that the gain on the disposition by Reading Entertainment Inc. of Stater Stock, reported as taxable on its tax return, should be reallocated to Craig Corporation. This proposed change would result in an additional tax liability for Craig Corporation of approximately \$21,000,000 plus interest. As reported on Reading Entertain-

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ment Inc.'s return, the gain on the disposition of the Stater Stock was fully offset for regular income tax purposes by net operating losses, but gave rise to an alternative minimum tax liability of approximately \$2,000,000. Under the Examination Report issued to Reading Entertainment, Inc., a consequence of the reallocation to Craig Corporation of the gain on the disposition of the Stater Stock is the elimination of Reading Entertainment Inc.'s alternative minimum tax liability, which would result in a refund to Reading Entertainment, Inc. of approximately \$2,000,000, plus interest. The examination Reports do not constitute a final determination of Reading Entertainment Inc.'s or Craig Corporation's tax liability.

Craig Corporation intends to vigorously contest the IRS' proposed changes in its Examination Report, and filed for a review of the proposed changes with the IRS Office of the Regional Director of Appeals. Since these tax liabilities relate to time periods prior to the consolidation, and since Old Reading and Craig continue to exist as wholly owned subsidiaries of RII, it is expected that any adverse determination would be limited in recourse to the assets of Old Reading or Craig, as the case may be, and not to the general assets of RII. At the present time, Craig's assets are comprised principally of RII securities. Accordingly, the Company does not anticipate, even if there were to be an adverse judgment in favor of the IRS, that the satisfaction of that judgment would interfere with the internal operations or result in any levy upon or loss of any of its material operating assets. The satisfaction of any such adverse judgment would, however, be material dilution to existing shareholder interest. No assurances can be given that Craig Corporation will quickly or ultimately prevail in its positions. Reading Entertainment, Inc. and Craig Corporation have entered into agreements with the IRS, tolling the applicable statutes of limitation with respect to the returns in question.

Litigation

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

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

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

Where we are the defendants, we accrue for probable damages, which may not be covered by insurance, as they become known and can be reasonably estimated. In our opinion, any claims and litigation in which we are currently involved are not reasonably likely to have a material adverse effect on our business, results of operations, financial position or liquidity. However, we do not give any assurance as to the ultimate outcome of such claims and litigation. The resolution of such claims and litigation could be material to our operating results for any particular period, depending on the level of income for such period.

Recent Accounting Pronouncements

Effective January 1, 2002, the Company adopted SFAS 142 which addresses the financial accounting and reporting for acquired goodwill and other intangible assets. As a result of adopting SFAS 142, goodwill and a substantial amount of the Company's intangible assets are no longer amortized. Pursuant to SFAS 142, intangible assets must be periodically tested for impairment, and the new standard provides six months to complete the impairment review. During the fiscal 2002, the Company completed its impairment review, which indicated that there was no impairment. See Notes 1 and 10 to the Consolidated Financial Statements.

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The FASB also issued Statement of Financial Accounting Standards No. 143, Accounting for Obligations Associated with the Retirement of Long-Lived Assets (SFAS 143) in August 2001, which establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The adoption of SFAS 143 did not have a material impact on its consolidated results of operations and financial position upon adoption.

The Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which did not have a material impact on the Company's consolidated results of operations and financial position. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Correction" ("SFAS 145"). The most significant provisions of this statement relate to the rescission of Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and it also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Under this new statement, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet certain defined criteria must be reclassified. The Company will adopt this statement as of January 1, 2003 but does not expect any material reclassifications as the result of our adoption.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 requires that the initial measurement of a liability be at fair value. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 with early adoption encouraged. The Company plans to adopt SFAS 146 effective January 1, 2003 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

In October 2002, the FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions, an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9." The provisions of Statement No. 147 that relate to the application of the purchase method of accounting apply to all acquisitions of financial institutions, except transactions between two or more mutual enterprises. The provisions that require that an unidentifiable excess in a business combination be treated as goodwill rather than as a separate unidentifiable intangible asset apply to all acquisitions of financial institutions. The provisions of Statement No. 147 became effective October 1, 2002. Adoption of Statement No. 147 did not material impact on the Company's consolidated results of operations and financial position.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." Statement No. 148 amends Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation (the "transition provisions"). In addition, Statement No. 148 amends the disclosure requirements of Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, to require pro forma disclosure in interim financial statements by companies that elect to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25. The transition methods of Statement No. 148 are effective for the Company's March 31, 2003 Form 10-Q. The Company continues to use the intrinsic value method of accounting for stock-based compensation. As a result, the transition provisions will not have an effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 significantly changes the current practice in the accounting for, and disclosure of, guarantees. Guarantees and indemnification agreements meeting the characteristics described in FIN 45 are required to be initially recorded as a liability at fair value. FIN 45 also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor having to make payment under the guarantee is

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remote. The disclosure requirements within FIN 45 are effective for financial statements for annual or interim periods ending after December 15, 2002. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted the disclosure provisions of FIN 45 as of December 31, 2002. Management does not expect the adoption of the initial recognition and measurement provisions will have a material effect on the Company's results of operations or financial condition.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." FIN 46 sets forth the criteria used in determining whether an investment in a variable interest entity ("VIE") should be consolidated and is based on the general premise that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 would require the consolidation of specified VIE's created before February 1, 2003 in the Company's September 30, 2003 Form 10-Q. For specified VIE's created after January 31, 2003, FIN 46 would require consolidation in the Company's March 31, 2003 Form 10-Q. The Company has not completed its evaluation of the effect that the adoption of FIN 46 will have on its consolidated financial statements.

Business Climate

Cinema Exhibition — General

The cinema exhibition industry is in the midst of a major retrenchment and consolidation, creating considerable uncertainty as to the direction of the domestic film exhibition industry, and Reading's role in that market. Several major cinema exhibition companies have gone through bankruptcy over the past few years, or are being otherwise financially restructured. Regal Cinemas has emerged from bankruptcy and combined with Edwards and United Artists (which also went through bankruptcy) to create a 5,663-screen, 524 cinema circuit. In addition, Regal has announced an agreement to acquire 554 screens in 52 cinemas currently owned by Hoyts. Loews has likewise emerged from bankruptcy and now has approximately 2,451 screens in 264 cinemas located largely in principal urban markets in the US, Canada, and Europe. Landmark Theaters, the largest art and specialty film exhibitor in the United States, has also emerged from bankruptcy and is now owned by a large investment fund, that also has, directly or through its affiliates, material ownership interests in Loews and Regal. These companies, having used bankruptcy to restructure their debt and to rid themselves of burdensome leases and in some cases to consolidate, are now much stronger competitors than they were just a few years ago.

A significant number of older conventional screens have, as a result of this consolidation process, been taken out of the market. It is estimated that the total domestic screen count has decreased from 36,110 in 2001 to 35,289 in 2002. Industry analysts project further consolidation in the industry, as players such as Cablevision and Hoyts seek to divest their domestic cinema exhibition assets. However, some issues have arisen as to potential anti-trust limitations on such consolidation. For example, a recently announced plan to sell Landmark to the controlling stockholder of Loews was called off due, according to the parties, to regulatory issues. Accordingly, while recent developments have, in the view of management, aided the overall health of the domestic cinema exhibition industry, there remains considerable uncertainty as to the impact of this consolidation trend on Reading and its domestic cinema exhibition business, as it is forced to compete with these stronger and reinvigorated competitors with their significant market power.

There is also considerable uncertainty as to the future of digital exhibition and in-the-home entertainment alternatives. In the case of digital exhibition, there is currently considerable discussion within the industry as to the benefits and detriments of moving from conventional film projection to digital projection technology. There are issues as to when it will be available on an economically attractive basis, as to who, between the exhibitors and distributors, will pay for the conversion from conventional to digital technology between exhibitors and distributors, as to what the impact will be on film licensing expense, and as to how to deal with security and potential pirating issues if film is distributed in a digital format. In the case of in-the-home entertainment alternatives, the industry is faced with the significant leaps achieved in recent periods in both the quality and affordability of in-the-home entertainment systems and in the accessibility to entertain-

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ment programming through cable, satellite and DVD distribution channels. These are issues common to both Reading's domestic and international cinema operations.

While no assurances can be given, it may be that the reorganization and restructuring of the domestic cinema exhibition market will produce opportunities for Reading to grow its art and specialty circuit by acquiring, on favorable terms, rights to operate cinemas no longer seen as suitable or competitive as conventional first run film venues, or for other reasons no longer attractive to other exhibitors. Reading does not, however, intend to aggressively pursue such opportunities, and if they do not become available, Reading will focus on the operation of its existing cinemas and the exploitation of the real estate elements underlying those cinemas. Also, recent consolidations in the industry have adversely affected our ability to get film in certain domestic markets where we compete against major exhibitors.

Cinema Exhibition — North America

In North America distributors may find it more commercially appealing to deal with major exhibitor, rather than to deal with independents like us, which can only supply screens in a very limited number of markets. This competitive disadvantage has increased significantly in recent periods with the development of mega circuits like Regal and Loews, who are able to offer distributors access to screens on a truly nationwide basis, or on the other hand, to deny access if their desires with respect to film supply are not satisfied. The situation is different in Australia and New Zealand where typically every multiplex has access to all of the film then currently in distribution, regardless of the ownership of that multiplex.

It is unclear, with the restructuring and consolidation currently going on in the industry, and the emergence of increasingly attractive in-home entertainment alternatives, and with the largest exhibitor of art and specialty film in the United States — Landmark Theaters — only recently emerging from bankruptcy and now owned by a company that, directly or through its affiliates, also has equity interests in Regal and Loews, what the competitive future holds for our North American operations.

We recently commenced litigation against Regal, Loews, and certain of the major film distributors in order to regain access to top-grossing first-run film in the Union Square area of Manhattan. However, litigation of this type is expensive, and no assurances can be given that our efforts will be successful. Moreover, at least two major distributors, Fox and Fox Searchlight, have announced that they will no longer supply our domestic cinemas with film due to our lawsuit.

Cinema Exhibition — Australia/New Zealand

The film exhibition market in Australia and New Zealand is highly concentrated. Typically, the Major Exhibitors own the newer multiplex and megaplex cinemas, while the independent exhibitors typically have older and smaller cinemas. Accordingly, we believe it likely that the Major Exhibitors may control upwards of 75% of the total cinema box office in Australia and New Zealand. Also, the Major Exhibitors have in recent periods built a number of new multiplexes as joint venture partners or under shared facility arrangements, and have historically not engaged in head-to-head competition, except in the downtown areas of Sydney and Melbourne.

The industry is also somewhat vertically integrated in that one of the Major Exhibitors Roadshow Film Distributors also serves as a distributor of film in Australia and New Zealand for Warner Bros. and New Line. Films produced or distributed by the majority of the local international independent producers are also distributed by Roadshow.

In our opinion, the principal competitive restraint on the development of our business in Australia and New Zealand is the limited availability of good sites. However, unless we are successful in our efforts to open access to film in certain markets, it may be that access to film will also prove to be a principal competitive restraint on the further development of our business in Australia. Although generally we have not encountered problems in obtaining access to first run film product in Australia or New Zealand, we have encountered some difficulty where we have attempted to take on the established competitors in the downtown area of Sydney and

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in one situation where an art and specialty cinema, owned by a joint venture in which we are a participant, competes with affiliates of Roadshow.

In December 2002, the Major Exhibitors acquired Val Morgan, the principle lessor of screen advertising space in Australia and New Zealand. During 2002 and 2001, Reading received approximately \$1,254,000 (AUS\$1,942,433 and NZ\$308,155) and \$902,000 (AUS\$1,762,925) respectively from Val Morgan for screen advertising. Reading's contract with Val Morgan expires on July 1, 2003. Notwithstanding concerns expressed by Reading and other Independent Exhibitors to the ACCC that such an arrangement would give the Major Exhibitors an unfair competitive advantage in the area of screen advertising, the ACCC ultimately approved the acquisition due to concerns that but for the intervention of the Major Exhibitors Val Morgan would fail. Reading is currently attempting to renegotiate its contract with Val Morgan. However, in light of the fact that Val Morgan was unable to operate profitably under its prior contracts with exhibitors and in light of the fact that the Major Exhibitors who now control Val Morgan are not under any obligation to offer contracts to Independent Exhibitors on the same terms and conditions as the Major Exhibitors deal with themselves, it is likely that future revenues from screen advertising will be less, and may be materially less, than those realized in 2001 and 2002.

Cinema Exhibition — Puerto Rico

Based upon number of screens, box office revenues and number of theaters, we are the second largest exhibitor in Puerto Rico, with the two largest exhibitors accounting for over 99% of the box office revenues recorded in 2001, measured by theaters in daily operation. Competition among the theater exhibitors exists not only for theater patrons within certain geographic areas, but also for the licensing of films and the development of new theater sites. The number of sites suitable for multiplex cinemas is limited, but our principal competitor is expected to continue to open theaters competitive with ours. Caribbean Cinemas, our principal competitor, currently operates screens representing approximately 82% of the total box office generated in Puerto Rico.

Live Theater — North America

Competition comes from other live theaters as well as other entertainment sources (such as television, videos, movies, concerts and other theatrical presentations). In Manhattan and Chicago, the number of theaters available for Off Broadway type productions is limited. While there are more than twenty Off Broadway venues (theaters with between 99 and 499 seats) in Manhattan, there are only four such theaters that have the same or greater seating capacity than our properties. In Chicago, there are currently four other venues available for commercial Off Broadway type productions, and six venues for Broadway style productions.

Due to high land values and high construction costs in urban areas, and the parking requirements for such facilities, there are significant barriers to the construction of new theaters in both Manhattan and Chicago. As a result, in addition to a 499-seat theater than opened in the fall of 2002, there are only two more Off Broadway style theater complexes currently under development in Manhattan: One complex with two 499-seat theaters and two 299-seat theaters which is expected to open in mid 2004 and the other complex with one 499-seat theater, one 399-seat theater, and one 199-seat theater which is still in the early stages of construction and uncertain as to its opening date. The new Off Broadway theater that opened in 2002 has a rental package of approximately \$10,000 more per week than our packages, and has had one show for approximately 5 weeks before going dark. It has remained dark since the beginning of 2003. Likewise, the two theaters currently in development are not expected to have a negative impact on our Manhattan theaters as these theaters are located, in our opinion, outside of established theater districts.

In Chicago, there is one competitive theater complex with four stages in the downtown area which opened in 2001. However, we do not believe that this theater has had a material adverse effect on the Royal George.

Income Taxes

We are subject to income taxation in several jurisdictions throughout the world. Our effective tax rate and income tax liabilities will be affected by a number of factors, such as:

- the amount of taxable income in particular jurisdictions;
- the tax rates in particular jurisdictions;
- tax treaties between jurisdictions;
- the extent to which income is repatriated; and
- future changes in law.

Generally, we file consolidated or combined tax returns in jurisdictions that permit or require such filing. For jurisdictions which do not permit such a filing, we may owe income, franchise, or capital taxes even though, on an overall basis, we may have incurred a net loss for the tax year.

Forward-Looking Statements

This annual report contains forward-looking statements regarding, among other items:

- cash flow available to be applied to debt reduction or servicing and the availability of additional financing;
- our business strategy;
- the impacts of recent accounting changes;
- anticipated trends in our business;
- our liquidity requirements and capital resources;
- anticipated proceeds from sales of assets;
- potential IRS claims resolution;
- the effects of inflation on our operations; and
- earnings and sales growth.

These forward-looking statements are based on our expectations and are subject to a number of risks and uncertainties, some of which are beyond our control. These risks and uncertainties include, but are not limited to:

- loss of market share or decline in margins through aggressive competition in the exhibition market;
- quality and quantity of film releases and availability of film;
- demand for retail space;
- fluctuations in foreign exchange rates and interest rates;
- global economic and political conditions;
- unanticipated reductions in cash flow and difficulty in sales of assets;
- the finalization of new credit lines; and
- other factors that cannot be identified at this time.

Although we believe we have the exhibition and real estate resources to achieve our objectives, actual results could differ materially from those anticipated by these forward-looking statements. There can be no assurance that events anticipated by these forward-looking statements will in fact transpire as expected.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

The Securities and Exchange Commission requires that registrants include information about potential effects of changes in currency exchange and interest rates in their Form 10-K filings. Several alternatives, all with some limitations, have been offered. The following discussion is based on a sensitivity analysis, which models the effects of fluctuations in currency exchange rates and interest rates. This analysis is constrained by several factors, including the following:

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

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

At December 31, 2002, approximately 43% and 16% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), respectively, including \$7,638,000 in cash and cash equivalents. At December 31, 2001, approximately 33% and 10% of our assets were invested in assets denominated in Australian and New Zealand dollars, respectively, including \$10,048,000 in cash and cash equivalents. We had no assets denominated in foreign currency prior to 2001.

Our policy in Australia and New Zealand is to match revenue and expenses, whenever possible, in local currencies. As a result, a majority of our expenses in Australia and New Zealand have been procured in local currencies. Due to the developing nature of our operations in Australia and New Zealand, our revenue is not yet significantly greater than our operating expense. The resulting natural operating hedge has led to a negligible foreign currency effect on our earnings.

Our policy is to borrow in local currencies to finance the development and construction of our entertainment complexes in Australia and New Zealand whenever possible. As a result, the borrowings in local currencies have provided somewhat of a natural hedge against the foreign currency exchange exposure. Even so, approximately 71% and 36% of our Australian and New Zealand assets, respectively, remain subject to such exposure unless we elect to hedge our foreign currency exchange between the U.S. and Australian and New Zealand dollars. At the present time, we have no plan to hedge such exposure.

Commencing in 2002, we also began recognizing unrealized foreign currency translation gains or losses which could materially affect our financial position. For the year ended December 31, 2002, we have recorded an unrealized foreign currency translation gain of approximately \$7,787,000.

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

The majority of our Australian and New Zealand bank loans have variable rates and a change of approximately 1% in short-term interest rate would have resulted in approximately \$232,000 increase or decrease in our 2002 interest expense.

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INDEPENDENT AUDITORS REPORT

To the Board of Directors and Stockholders

Reading International, Inc.
Los Angeles, California:

We have audited the accompanying consolidated balance sheets of Reading International, Inc., and subsidiaries (the "Company") as of December 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the management of the Company. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Los Angeles, California

March 7, 2003

READING INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

as of December 31, 2002 and 2001

	December 31,	
	2002	2001
(Dollars in thousands)		
ASSETS		
Cash and cash equivalents	\$ 19,286	\$ 20,876
Receivables	3,765	3,662
Inventory	452	333
Investment in Gish Biomedical, Inc.	1,016	496
Restricted cash	341	493
Prepaid and other current assets (Note 11)	2,529	2,552
Deferred income tax assets, net (Note 20)	1,008	1,220
	28,397	29,632
Total current assets		
Rental property, net (Note 7)	8,438	8,959
Property & equipment, net (Note 8)	101,481	74,878
Property held for development	19,745	28,145
Asset held for sale (Note 6)	—	3,018
Investment in Joint Ventures (Note 9)	1,120	891
Capitalized leasing costs	544	678
Goodwill, net (Note 10)	5,021	5,029
Intangible assets, net (Note 10)	14,381	15,631
Other noncurrent assets (Note 11)	3,645	3,734
	\$182,772	\$170,595
Total assets		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	\$ 13,183	\$ 12,395
Film rent payable	4,092	3,259
Income taxes payable (Note 20)	7,435	6,920
Deferred current revenue	1,150	1,131
Notes payable — current portion (Note 13)	2,119	4,892
Other current liabilities (Note 14)	294	487
	28,273	29,084
Total current liabilities		
Note payable — long-term portion (Note 13)	48,121	37,490
Deferred noncurrent revenue	659	217
Other noncurrent liabilities (Note 14)	9,517	7,908
	\$ 86,570	\$ 74,699
Total liabilities		
Commitments and contingencies (Note 17)		
Minority interest in consolidated affiliate (Note 15)	4,937	4,771
Stockholders' equity:		
Class A Nonvoting Common Stock, par value \$0.01, 100,000,000 shares authorized, 33,858,310 issued and 20,484,813 outstanding (Note 18)	205	205
Class B Voting Common stock, par value \$0.01, 20,000,000 shares authorized, 1,989,589 issued and 1,336,334 outstanding (Note 18)	13	13
Nonvoting Preferred Stock, par value \$0.01, 12,000 shares authorized	—	—
Additional paid-in capital	123,517	123,517
Accumulated deficit	(40,512)	(32,558)
Accumulated other comprehensive income (loss) (Note 21)	8,042	(52)
	91,265	91,125
Total stockholders' equity		
	\$182,772	\$170,595
Total liabilities and stockholders' equity		

See accompanying notes to consolidated financial statements.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

for the Three Years Ended December 31, 2002

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands, except per share amounts)		
Operating revenue			
Theater	\$ 79,911	\$ 20,045	\$ 4,677
Real estate	6,489	3,617	2,397
Management fee	86	82	172
Consulting fees from shareholder	—	—	138
	\$ 86,486	\$ 23,744	\$ 7,384
Operating expense			
Theater	65,493	16,532	3,434
Real estate	4,044	1,304	748
General and administrative	14,221	7,246	3,600
Depreciation and amortization	8,705	2,044	657
	92,463	27,126	8,439
Operating loss	(5,977)	(3,382)	(1,055)
Non-operating income (expense)			
Interest income	512	345	1,239
Interest income from shareholder	—	216	258
Interest expense	(3,288)	(1,500)	(1,111)
Dividends on Reading Preferred Stock (Note 9)	—	455	455
Equity earnings of Angelika Film Center LLC (Note 9)	—	124	109
Earnings (loss) from investment advances to Agricultural Partnerships (Note 9)	1,110	199	(4,262)
Equity earnings of affiliates	211	—	—
Loss on marketable securities	—	(852)	—
Other (expense) income	(55)	46	—
Gain on sale of assets	—	—	829
	(7,487)	(4,349)	(3,538)
Loss before minority interest and income taxes	(7,487)	(4,349)	(3,538)
Minority interest	(461)	(15)	(4)
	(7,948)	(4,364)	(3,542)
Loss before taxes	(7,948)	(4,364)	(3,542)
Income tax expense (Note 20)	6	208	—
	(7,954)	(4,572)	(3,542)
Net loss	(7,954)	(4,572)	(3,542)
Basic and diluted loss per share	\$ (0.36)	\$ (0.21)	\$ (0.47)
Weighted average number of shares outstanding	21,821,236	9,980,946	7,557,718

See accompanying notes to consolidated financial statements.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2002, 2001, and 2000

	Common Stock						Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income/(Loss)	Note Receivable from Stockholder	Total Stockholders' Equity
	Common Stock		Class A		Class B						
	Shares	Par Value	Shares	Par Value	Shares	Par Value					
	(In thousands)										
At January 1, 2000	6,670	\$ 67	—	\$ —	—	\$ —	\$ 59,603	\$(24,444)	\$ 255	\$(1,998)	\$33,483
Net loss	—	—	—	—	—	—	—	(3,542)	—	—	(3,542)
Other comprehensive loss —											
Unrealized loss on securities	—	—	—	—	—	—	—	—	(814)	—	(814)
Total comprehensive loss											(4,356)
Conversion of common stock pursuant to the reorganization (Note 18)	(6,670)	(67)	5,336	54	1,334	13	—	—	—	—	—
Class A common stock issued	—	—	2,622	26	—	—	7,973	—	—	—	7,999
Class B common stock issued	—	—	—	—	656	7	1,995	—	—	—	2,002
At December 31, 2000	—	\$ —	7,958	\$ 80	1,990	\$ 20	\$ 69,571	\$(27,986)	\$ (559)	\$(1,998)	\$39,128
Net loss	—	—	—	—	—	—	—	(4,572)	—	—	(4,572)
Other comprehensive income —											
Unrealized gain on securities	—	—	—	—	—	—	—	—	507	—	507
Total comprehensive loss											(4,065)
RII Class A common stock issued for Consolidation	—	—	12,527	125	(654)	(7)	53,946	—	—	1,998	56,062
At December 31, 2001	—	\$ —	20,485	\$205	1,336	\$ 13	\$123,517	\$(32,558)	\$ (52)	\$ —	\$91,125
Net loss	—	—	—	—	—	—	—	(7,954)	—	—	(7,954)
Other comprehensive income											
Cumulative foreign exchange rate adjustment	—	—	—	—	—	—	—	—	7,786	—	7,786
Unrealized gain on securities	—	—	—	—	—	—	—	—	308	—	308
Total comprehensive income	—	—	—	—	—	—	—	—	8,094	—	8,094
At December 31, 2002	—	\$ —	20,485	\$205	1,336	\$ 13	\$123,517	\$(40,512)	\$8,042	\$ —	\$91,265

See accompanying notes to consolidated financial statements.

READING INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the Three Years Ended December 31, 2002

	Year Ended December 31,		
	2002	2001	2000
	(Dollars in thousands)		
Operating Activities			
Net loss	\$ (7,954)	\$ (4,572)	\$ (3,542)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>			
Depreciation and amortization	8,705	2,044	657
Gain on sale of assets	—	—	(829)
Provision for loss on advances to Agricultural Partnerships	(1,110)	(199)	4,262
Equity (earnings) loss from affiliates	(211)	(124)	(109)
Minority interest	461	15	4
Others, net	56	(2)	—
<i>Changes in assets and liabilities:</i>			
Decrease (increase) in receivables	(83)	(1,108)	(1,335)
(Increase) decrease in inventory	(103)	(41)	—
(Increase) decrease in prepaids and other assets	(106)	699	(1,828)
Increase in payables and accrued liabilities	1,503	914	4,875
Increase (decrease) in film rent payable	509	(770)	(337)
Increase in deferred revenues and other liabilities	1,498	907	142
Net cash provided by (used in) operating activities	3,165	(2,265)	1,960
Investing Activities			
Payment of option fee and acquisition costs	—	—	(5,943)
Purchase of available-for-sale securities	—	—	(757)
Proceeds from sale of available-for-sale securities	—	—	1,768
Purchase of live theater assets	—	(7,751)	(3,678)
Purchase of domestic cinema assets	—	(1,706)	(356)
Purchase of property and equipment, net	(4,511)	(868)	(39)
Additions to property held for development	(5,926)	—	—
Decrease in restricted cash	194	—	—
Investment in Joint Ventures	(85)	—	—
Distribution from Joint Ventures	436	302	112
Distributions to minority interest	(328)	—	—
Net cash used in investing activities	(10,220)	(10,023)	(8,893)
Financing Activities			
Cash receipt due to Consolidation	—	11,891	—
Repayments of debt	(4,958)	(151)	(128)
Proceeds from borrowings	8,130	5,202	—
Borrowing of Agricultural Partnerships	—	(186)	(1,661)
Repayments from Agricultural Partnerships and Joint Ventures	780	398	—
Net cash provided by (used in) financing activities	3,952	17,154	(1,789)
(Decrease) increase in cash and cash equivalents	(3,103)	4,866	(8,722)
Effect of exchange rate on cash	1,513	—	—
Cash and cash equivalents at beginning of year	20,876	16,010	24,732
Cash and cash equivalents at end of year	\$ 19,286	\$ 20,876	\$16,010
Supplemental Disclosures			
Cash paid during the period for:			
Interest on borrowings, net of \$178,000 (NZ\$339,000) capitalized for property under development	\$ 3,307	\$ 1,315	\$ 1,038
Income taxes	\$ 18	\$ 129	\$ 149
Non-Cash Transactions			
Purchase of Angelika Interest (Note 5)			
Issuance of Common Stock for OBI (Note 5)			
December 31, 2001 Consolidation (Note 4)			

See accompanying notes to consolidated financial statements.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

Note 1 — Nature of Business

Reading International, Inc. (“RII” and collectively with its predecessors and consolidated affiliates “Reading” or the “Company”) is the result of the merger on December 31, 2001, of Reading Entertainment, Inc. (“RDGE” and collectively with its consolidated subsidiaries, “Old Reading”), and Craig Corporation (“CRG” and collectively with its wholly owned subsidiaries, “Craig”) with wholly owned subsidiaries of Citadel Holding Corporation and the simultaneous amendment of the Articles of Incorporation of Citadel Holding Corporation to change its name to Reading International, Inc. (the “Consolidation”). As a result, following the Consolidation RII held a 50% controlling interest in the Angelika Film Centers LLC (“AFC”) and began consolidating the accounts of AFC as of December 31, 2001. The Company, as it existed prior to the Consolidation, is referred to in these footnotes as “Citadel”; Citadel Holding Corporation, prior to the Consolidation and its name change, is referred to in the footnotes as “CDL.” The Consolidation transaction is discussed in Note 4.

Reading International, Inc., the surviving entity following the Consolidation, is now the owner of the consolidated businesses and assets of Reading Entertainment, Inc., Craig Corporation, and Citadel Holding Corporation. These businesses consist primarily of:

- The development, ownership and operation of cinemas in the United States, Australia, New Zealand, and Puerto Rico;
- The development, ownership and operation of cinema based entertainment-themed retail centers in Australia and New Zealand;
- The ownership and operating of “Off Broadway” style live theaters in the United States; and
- As a business ancillary to its ownership and operation of cinemas, entertainment-themed retail centers and live theaters, the development, ownership and operation of commercial real estate in Australia, New Zealand, and the United States.

Reading considers itself to be essentially a cinema and live theater exhibition company with a focus on real estate oriented assets.

Note 2 — Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements of RII and its subsidiaries include the accounts of Citadel, Old Reading, Craig, and AFC, of which RII own 50% and exercises management control, after elimination of all significant intercompany transactions and balances. The Company’s investments in 20% to 49% owned companies are accounted for on the equity method. Investments in other companies are carried at cost.

Accounting Principles

The Company’s consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Reading considers all highly liquid investments with original maturity of three months or less to be cash equivalents. Included in cash and cash equivalents at December 31, 2002 and 2001 is approximately \$6,974,000 and \$9,782,000, respectively, of funds being held in institutional money market mutual funds.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Receivables

Reading's trade receivable is comprised primarily of credit card receivables. Cinema ticket sales charged on customer credit cards are collected upon processing of the credit card transactions. The remaining receivables balance is primarily made up of the goods and services tax ("GST") refund receivable from the Australian taxing authorities and management fee receivable from the two managed cinemas. Reading has no history of significant bad debt losses and believes its receivables to be fully collectible.

Inventory

Inventory is comprised of confection goods used in theater operations and is stated at the lower of cost (first-in, first-out method) or net realizable value.

Available-For-Sale Securities

The Company's securities holding in Gish Biomedical, Inc. ("Gish") is recorded at its respective fair value at each reporting date, and is classified as available-for-sale. Any unrealized gains/losses are reported as a separate component of shareholders' equity. The cost basis of available-for-sale securities that experience a non-temporary decline in fair value is written down to fair value with the amount of the write-down being included in earnings as a realized loss on the securities.

The Gish stock was deemed impaired in September 2001, following two consecutive quarters of decline in fair value and was written down to \$1.00 per share. At December 31, 2002, the Company owned 583,900 shares representing approximately 16.3% of the outstanding common stock of Gish at an adjusted cost basis of approximately \$583,900. The closing price of Gish common stock at December 31, 2002, was \$1.74 per share or approximately \$1,016,000 (See Note 24).

Property Held For Development

Property held for development consists of land (including land acquisition costs) acquired for the potential development of multiplex cinemas and/or entertainment-themed retail centers and currently held either for such purposes or for other development purposes. Property held for development is carried at cost and, at the time that construction of the related multiplex cinema, entertainment-themed retail center, or other development commences, is transferred to property and equipment and accounted for as construction-in-progress.

Construction-in-Progress and Property Development Costs

Construction-in-progress and property development costs are comprised of direct costs associated with the development of potential cinemas (whether for purchase or lease), entertainment-themed retail center locations, or other improvements to real property in those cases where properties acquired for entertainment purposes have been applied to other uses. Startup costs and other costs not directly related to the acquisition of long term assets are expensed as incurred. Amounts are carried at cost unless management decides that a particular location will not be pursued to completion or if the costs are no longer relevant to the proposed project. If such a judgment is made, previously capitalized costs which are no longer of value are expensed.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Depreciation and Amortization

Depreciation and amortization is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are generally as follows:

Building and building improvements	40 years
Leasehold improvement	Shorter of the life of the lease or useful life of the improvement
Farming equipment	3 – 10 years
Theater equipment	7 years
Furniture and fixtures	5 – 10 years

Deferred Leasing/ Financing Costs

Direct costs incurred in connection with obtaining tenants and/or financing are amortized over the respective term of the lease or loan on a straight-line basis.

Advertising Costs

Reading expenses the costs of advertising as incurred.

Revenue Recognition

Revenue from cinema ticket sales and concession are recognized when sold. Rental revenue is recognized when the rent becomes due as specified in the lease agreements.

Translation of Non-U.S. Currency Amounts

The financial statements and transactions of Reading's Australian and New Zealand cinema and real estate operations are in their functional currencies (Australian and New Zealand dollars, respectively) and are translated into U.S. dollars. Assets and liabilities of such operations are denominated in their functional currency and are translated at exchange rates in effect at the balance sheet date. Revenue and expense will be translated at the average exchange rate for periods subsequent to December 31, 2002. Translation adjustments are reported as "Accumulated other comprehensive income," a component of Shareholders' equity.

The carrying value of the Reading's Australia and New Zealand assets will fluctuate due to changes in the exchange rate between the U.S. dollar and Australian dollar (\$0.5625 and \$0.5117, were the respective exchange rates of U.S. dollars per Australian dollar at December 31, 2002 and 2001) and the U.S. dollar and New Zealand dollar (\$0.5239 and \$0.4161, were the respective exchange rates of U.S. dollars per New Zealand dollar at December 31, 2002 and 2001).

Earnings Per Share

Basic earnings per share is based on 21,821,236, 9,980,946, and 7,557,718 weighted average number of shares of Class A and Class B common stock outstanding during the years ended December 31, 2002, 2001, and 2000, respectively. Diluted earnings per share is calculated by dividing net earnings applicable to common shareholders by the weighted average common shares outstanding plus the dilutive effect of stock options. Stock options to purchase 2,340,180, 1,996,820, and 165,000 shares of common stock were outstanding at December 31, 2002, 2001, and 2000 at a weighted average exercise price of \$4.87, \$7.50, and \$2.77 per share, respectively. During the years ended December 31, 2002, 2001 and 2000, however, the Company recorded a net loss and therefore, the effect of these stock options was anti-dilutive.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Accounting for the Impairment of Long Lived Assets

Long lived assets are reviewed annually for impairment and whenever events or changes in circumstances indicate that an impairment may have occurred. No impairment loss was recorded in the three years ended December 31, 2002.

New Accounting Pronouncements

Effective January 1, 2002, the Company adopted SFAS 142 which addresses the financial accounting and reporting for acquired goodwill and other intangible assets. As a result of adopting SFAS 142, goodwill and a substantial amount of the Company's intangible assets are no longer amortized. Pursuant to SFAS 142, intangible assets must be periodically tested for impairment, and the new standard provides six months to complete the impairment review. During the fiscal 2002, the Company completed its impairment review, which indicated that there was no impairment.

The FASB also issued Statement of Financial Accounting Standards No. 143, Accounting for Obligations Associated with the Retirement of Long-Lived Assets (SFAS 143) in August 2001, which establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. The adoption of SFAS 143 did not have a material impact on the Company's consolidated results of operations and financial position.

The Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which did not have a material impact on the Company's consolidated results of operations and financial position effective January 1, 2002. SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations.

In April 2002, the FASB issued Statement of Financial Accounting Standards No. 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Correction" ("SFAS 145"). The most significant provisions of this statement relate to the rescission of Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt" and to the amendment of existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Under this new statement, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior presented periods that does not meet certain defined criteria must be reclassified. The Company will adopt this statement as of January 1, 2003 but does not expect any material reclassifications as a result.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (SFAS 146). SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 requires that the initial measurement of a liability be at fair value. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 with early adoption encouraged. The Company plans to adopt SFAS 146 effective January 1, 2003 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

In October 2002, the FASB issued Statement No. 147, "Acquisitions of Certain Financial Institutions, an amendment of FASB Statements No. 72 and 144 and FASB Interpretation No. 9." The provisions of Statement No. 147 that relate to the application of the purchase method of accounting apply to all acquisitions of financial institutions, except transactions between two or more mutual enterprises. The provisions that require that an unidentifiable excess in a business combination be treated as goodwill rather than as a separate unidentifiable intangible asset apply to all acquisitions of financial institutions. The provisions of Statement No. 147 became effective October 1, 2002. Adoption of Statement No. 147 did not material impact on the Company's consolidated results of operations and financial position.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." Statement No. 148 amends Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation (the "transition provisions"). In addition, Statement No. 148 amends the disclosure requirements of Accounting Principles Board ("APB") Opinion No. 28, Interim Financial Reporting, to require pro forma disclosure in interim financial statements by companies that elect to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25. The transition methods of Statement No. 148 are effective for the Company's March 31, 2003 Form 10-Q. The Company continues to use the intrinsic value method of accounting for stock-based compensation. As a result, the transition provisions will not have an effect on the Company's consolidated financial statements.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 significantly changes the current practice in the accounting for, and disclosure of, guarantees. Guarantees and indemnification agreements meeting the characteristics described in FIN 45 are required to be initially recorded as a liability at fair value. FIN 45 also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor having to make payment under the guarantee is remote. The disclosure requirements within FIN 45 are effective for financial statements for annual or interim periods ending after December 15, 2002. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company adopted the disclosure provisions of FIN 45 as of December 31, 2002. Management does not expect the adoption of the initial recognition and measurement provisions will have a material effect on the Company's results of operations or financial condition.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." FIN 46 sets forth the criteria used in determining whether an investment in a variable interest entity ("VIE") should be consolidated and is based on the general premise that companies that control another entity through interests other than voting interests should consolidate the controlled entity. FIN 46 would require the consolidation of specified VIE's created before February 1, 2003 in the Company's September 30, 2003 Form 10-Q. For specified VIE's created after January 31, 2003, FIN 46 would require consolidation in the Company's March 31, 2003 Form 10-Q. The Company has not completed its evaluation of the effect that the adoption of FIN 46 will have on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in previously issued financial statements have been reclassified to conform to the 2002 financial statement presentation.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Note 3 — Related Parties and Transactions

Overlapping Management

Prior to 2000, Citadel Holding Corporation, Reading Entertainment, Inc., and Craig Corporation (the “members of the Craig Group of Companies”) allocated certain overhead expenses and provided various management services to one another pursuant to various cost sharing and consulting arrangements. During 2000, Old Reading moved its executive offices from Philadelphia to Los Angeles, and the members of the Craig Group of Companies reorganized and consolidated their general and administrative staffs under CRG. Consequently, substantially all of the general and administrative employees of the Craig Group of Companies were, until the Consolidation, employed directly by CRG, and received all of their health, medical, retirement and other benefits from CRG. The general and administrative expense of the Craig Group of Companies was then periodically allocated, in accordance with the amount of time spent by these employees providing services for the respective member of the group.

Certain Transactions Between the Members of the Craig Group of Companies and their Affiliates

Certain Entertainment Property Transactions

In 1999, Old Reading determined that, in view of its limited capital resources and the size and scope of its investments and commitments in Australia and New Zealand, it should focus on its overseas activities and dispose of its domestic entertainment assets. During this same period, Citadel was searching for hard asset investment opportunities in which to invest its cash (\$21,440,000 at June 30, 1999).

In the summer of that year, management began conversations with National Auto Credit, Inc. (“NAC”), about a potential transaction in which NAC would acquire, in partnership with Citadel, all of the domestic cinema assets of Old Reading, including Old Reading’s rights to acquire the Manhattan based City Cinemas chain. In April 2000, Old Reading conveyed a 50% membership interest in AFC to NAC in consideration of the issuance to it of certain securities and granted to NAC, in consideration of the payment by NAC to Old Reading of an option fee of \$500,000, an option to acquire the remainder of Old Reading’s domestic cinema assets. That option was subject to the right of Citadel to participate as a 50/50 partner with NAC in those assets, if Citadel were to so elect. Ultimately, NAC determined not to exercise that option, and determined instead to invest in a developmental “dot.com” company. Old Reading then resold to NAC the securities it received in consideration of the transfer of the 50% membership interest in AFC for gross proceeds of approximately \$14,702,000.

During this same period, Citadel determined to proceed with the acquisition from Old Reading of the remainder of Old Reading’s domestic entertainment assets. During 2000 and the first quarter of 2001, Old Reading conveyed to Citadel the following domestic entertainment assets as discussed in Note 5:

- Reading’s rights to acquire the assets eventually acquired by the Company in the City Cinemas and Liberty Theaters Transactions
- The Domestic Cinemas consisting of the Tower, Manville, St. Anthony and Angelika Houston
- The Royal George Theatre Complex
- Rights to the Angelika Dallas

From time to time the members of the Craig Group of Companies, and Mr. Cotter and the other members of management, have been afforded the opportunity to invest in the plays that play or may play in the live theaters owned by the Company. These investments are monitored by Mr. Cotter, and periodically reported to the Reading Audit and Conflicts Committee.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Acquisition of the Angelika Film Center and the City Cinemas Transaction

On September 1, 2000, Citadel acquired, in each instance from entities owned by James J. Cotter and Michael Forman (collectively, "Sutton"), (1) a 1/6th interest in AFC, the owner of the Angelika Film Center and Café located in the Soho district of Manhattan (the "Angelika New York"), and (2) certain rights and interests comprising the City Cinemas cinema chain, currently consisting of 12 screens in three Manhattan locations (the "Leased Cinemas") and the right to manage an additional 24 screens at five locations (the "Managed Cinemas") (the "City Cinemas Transaction"). At the time of this acquisition, the remaining interests in AFC were owned by Old Reading (33.3%) and by an affiliate of NAC (50.0%). (Upon consolidation of Citadel, Old Reading and Craig on December 31, 2001, Reading owns a 50% interest in AFC with the other 50% interest being held by that same third party). The acquisition of the AFC interest was accounted for as a purchase, in which Citadel issued an interest-bearing note to Sutton, in the amount of \$4,500,000, bearing interest at 8.25%, and matured in July 2002. That note was paid in full on December 5, 2002.

The City Cinemas Transaction is an operating lease (the "Operating Lease"), under which Citadel was obligated, initially, to make annual payments to Sutton totaling \$3,217,500, subject to certain cost of living and other adjustments. In addition, Citadel was also obligated to pay as additional rent, rental and other payments due under various property leases underlying the Operating Lease. With respect to 2002, these additional rent payments totaled approximately \$906,000. In exchange for these payments, Citadel is, generally speaking, entitled to the cash flows generated from operation of the Leased Cinemas and the management fees associated with the Managed Cinemas. At the end of the ten-year term of the operating lease, Reading has the option, for which it paid an aggregate option fee of \$5,000,000, to acquire for \$48,000,000, the underlying leases and physical improvements of the leased cinemas (to the extent owned by Sutton), and the fee interests in the Murray Hill and Sutton cinemas. With the release of the Murray Hill from the Operating Lease in February 2002, the purchase price has been reduced to \$38,000,000 and the obligation to make ongoing rental payments to Sutton has been reduced to \$2,392,500. Alternatively, Reading can extend the operating lease at the then fair market rental. The option fee would be credited against the purchase price should the purchase option be exercised by Reading. Reading is amortizing the option fee over the ten-year term of the Operating Lease.

In connection with the City Cinemas Transaction, Reading was obligated to lend Sutton up to \$28,000,000, commencing in July 2007 (the "Sutton Loan Commitment"). With the release of Murray Hill cinemas from the Operating Lease in February 2002, this obligation has decreased to \$18,000,000. This credit facility is intended to provide Sutton with liquidity pending an acquisition determination by Reading whether or not to purchase various assets subject to the option. Any amounts outstanding under this credit facility at the date the option is exercised will be a credit against the purchase price otherwise payable by Reading. In case Reading does not exercise its option, the money advanced to Sutton is to be returned to the Company on December 1, 2010.

Certain Agricultural Transactions

Prior to the Consolidation, the Craig Group of Companies collectively owned approximately 60% of the equity interest in three partnerships (the "Agricultural Partnerships") formed in 1997 to purchase approximately 1,600 acres of agricultural land in Southern California commonly known as the "Big 4 Ranch." The property is principally improved with mature citrus groves. In order to satisfy certain federal laws relating to access to federal water supplies, the ownership of the Big 4 Ranch was taken in the Agricultural Partnerships, which are owned 40% by Citadel, 40% by Big 4 Ranch, Inc. ("BRI") and 20% by Visalia LLC ("Visalia").

Visalia is owned 49% by certain members of James J. Cotter's family and 51% by Cecelia Packing ("Cecelia") a company wholly owned by Mr. Cotter. The outside Directors of CDL felt that it was important

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

that Mr. Cotter acquire an equity interest in the Agricultural Partnerships, since Citadel was relying principally upon his expertise and experience in making and providing executive supervision of the investment.

BRI was initially a wholly owned subsidiary of CDL, and was spun off to the stockholders of CDL immediately prior to the acquisition by the Agricultural Partnerships of Big 4 Ranch. Accordingly, Craig and Old Reading received their interests in BRI initially as a result of that spin-off. Thereafter, Craig increased its holdings in BRI through the purchase of additional BRI shares in privately negotiated transactions. Craig and Old Reading owned their interests in the Agricultural Partnerships indirectly through their ownership of CDL and BRI shares. Prior to the Consolidation, Craig and Reading controlled BRI, owning 49% of the voting power of that company. In addition, Cecelia and a trust for the benefit of one of Mr. Tompkins's children own an additional 3.2% of BRI. Historically, the officers and directors of CRG have served as the officers and directors of BRI.

The Big 4 Ranch was farmed by Big 4 Ranch Farming, LLC ("Farming"), which is owned 80% by Citadel and 20% by Cecelia. Farming was reimbursed for all of its out-of-pocket costs by the Agricultural Partnerships, plus a fee equal to 5% of the gross revenues of the Agricultural Partnerships, after deducting the expenses of picking, packing and hauling. Farming, in turn, contracted with Cecelia for certain bookkeeping and administrative services, for which it paid a fee of \$6,000 per month. Farming was reimbursed for this expense from the Agricultural Partnerships. Cecelia also packed fruit for the Agricultural Partnerships for which it was paid \$806,000 and \$1,146,000 for 2002 and 2001, respectively. The Craig Group of Companies provided various administrative services for the Agricultural Partnerships and BRI, for which they received no compensation.

Due to a variety of factors, principally bad weather and market conditions, the Agricultural Partnerships have lost in excess of 100% of their equity, and have been funded principally by loans from Reading and Visalia and by advances from Farming and the packing houses, with which the Agricultural Partnerships do business. Following the Consolidation, Reading determined to dispose of its interest in the Big 4 Ranch and to focus on its cinema, live theater and ancillary real estate businesses and in July 2002, the Agricultural Partnerships reconveyed their interests in the Big 4 Ranch to the original owner of the ranch in consideration of the satisfaction of all liabilities under the purchase money mortgage encumbering the ranch.

Certain Family Relationships

Mr. James J. Cotter, Sr., the principal stockholder of Reading, has advised the Board of Directors that he considers his holdings in Reading to be long-term investments to be passed to his heirs. The Directors of Reading believe that it is in the best interests of these companies, and their respective stockholders, for heirs to become experienced in the operations and affairs of the Company. Accordingly, all of Mr. Cotter's children are currently involved with the Company:

- Mr. James J. Cotter, Jr. was elected to the Board of Directors of RII on March 21, 2002, and is a former director of Gish Biomedical Inc., a company that was owned approximately 16.3% by Reading at December 31, 2002. Mr. Cotter has direct or indirect ownership interests in Visalia and Hecco Ventures, a California general partnership and major RII shareholder. Mr. J. Cotter Jr. is a graduate of the Brown University, and obtained his law and tax degrees from the New York University. He is currently in the private practice of law with the firm of Winston & Strawn, in Manhattan.
- Ms. Margaret Cotter was elected to the Board of Directors on September 27, 2002. She is a member of the Board of Directors of BRI, has served as an officer of Cecelia and Union Square Management, Inc., and is the owner and President of OBI LLC ("OBI Management"), a company that provides management services to Liberty Theaters. Ms. Cotter has direct or indirect ownership interests in Visalia and Hecco Ventures, a California general partnership and major RII shareholder. Ms. Margaret Cotter has an undergraduate degree from Georgetown and a juris doctorate from

READING INTERNATIONAL, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)**

Georgetown Law School. She then spent four years as an assistant district attorney and felony trial prosecutor in New York prior to joining the Company.

- Ms. Ellen Cotter is the Chief Operating Officer of the Company's domestic cinema operations. Ms. Ellen Cotter has direct or indirect ownership interests in Visalia and Hecco Ventures, a California general partnership and major RII shareholder. Ms. Ellen Cotter is a graduate of Smith College and holds a juris doctorate from Georgetown Law School. She was in private practice with the law firm of White & Case as a corporate attorney for four years prior to joining the Company.

Mr. James J. Cotter, Sr. is the general partner and Mr. James J. Cotter, Jr., Ms. Margaret Cotter and Ms. Ellen Cotters are the limited partners of a limited partnership which is the general partner of Hecco Ventures.

Certain Miscellaneous Transactions

Reading has loaned to Mr. Smerling, Director of Domestic Cinema Operations, \$70,000 pursuant to a demand loan.

Note 4 — Consolidation of Citadel, Reading and Craig Corporation

On August 16, 2001, the Boards of Directors of CDL, RDGE, and CRG approved an Agreement and Plan of Merger (the "Merger Agreement") providing for the consolidation of Citadel, Craig and Old Reading into a single consolidated public company. Under the terms of the Merger Agreement, each holder of RDGE common stock received 1.25 shares of RII Class A Nonvoting common stock for each share of RDGE common stock and each holder of CRG common stock and CRG common preference received 1.17 shares of RII Class A Nonvoting common stock for each share of the CRG common and CRG common preference stock. Holders of CDL common stock hold the same shares after the Consolidation as they did prior to the Consolidation since Citadel, though renamed Reading International, Inc., was the survivor in the transaction. Accordingly, each holder of CDL Class A Nonvoting common stock now holds an equal number of shares of RII Class A Nonvoting common stock and each holder of CDL Class B Voting common stock now holds an equal number of shares of RII Class B Voting common stock. The shareholders approved the Consolidation at the annual shareholders' meeting and the Consolidation became effective on December 31, 2001. The RII Class A and Class B common stock is listed on the American Stock Exchange under the symbols RDI.A and RDI.B, respectively.

The operations of Craig and Old Reading are included in the Company's accounts from December 31, 2001, the effective date of the Consolidation. As a result, the Company's Consolidated Balance Sheet for the year ended December 31, 2001 includes the assets, liabilities and equity of Citadel, Old Reading, Craig, and AFC but the Company's Consolidated Statement of Operations includes only Citadel's operating results. The pro forma information presented below is not necessarily indicative of what the actual financial results would have been, had the Consolidation taken place on January 1, 2001. Unaudited pro forma operating results for the consolidated company, assuming that the Consolidation had occurred on January 1, 2001, are set forth below (dollars in thousands, except for per share amounts).

	For the Year Ended December 31, 2001
Revenue	\$ 70,291
Net loss	(12,191)
Basic loss per share	\$ (0.56)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Note 5 — Acquisition and Disposal of Assets

Acquisition of Domestic Cinemas

On March 8, 2001, Citadel acquired from Old Reading four cinemas with 20 screens. (Two of these cinemas were already being managed by Citadel, such management rights having been obtained as a part of the City Cinemas Transaction). The purchase price paid was \$1,706,000, representing six times the aggregate cinema EBITDA of the four properties, and was paid through the issuance by Citadel of a two year promissory note, accruing interest, and payable quarterly in arrears, at 8.0% per annum. The transaction has been accounted for as a purchase of leasehold interests. In addition, Citadel assumed the liabilities of these cinemas and Old Reading, in exchange, has agreed to reimburse Citadel approximately \$1,115,000 representing the difference between the liabilities assumed and the amount of inventory, prepaid expenses and other current assets on the balance sheet as of the closing date.

Following the Consolidation of Citadel, Old Reading, and Craig on December 31, 2001 (Note 4), the \$1,706,000 note payable to Old Reading for the purchase price, interest paid and accrued on the note, and the receivable from Old Reading for \$1,115,000 were all eliminated in consolidation for accounting purposes as intercompany transactions.

Acquisition of the Angelika Film Center and the City Cinemas Transaction

On September 1, 2000, Citadel acquired, in each instance from entities owned by James J. Cotter and Michael Forman (collectively, "Sutton"), (1) a 1/6th interest in AFC, the owner of the Angelika Film Center and Café located in the Soho district of Manhattan (the "Angelika New York"), and (2) certain rights and interests comprising the City Cinemas cinema chain, currently consisting of 16 screens in four Manhattan locations (the "Leased Cinemas") and the right to manage an additional 24 screens at five locations (the "Managed Cinemas") (the "City Cinemas Transaction"). At the time of this acquisition, the remaining interests in AFC were owned by Old Reading (33.3%) and by an affiliate of NAC (50.0%). (Upon consolidation of Citadel, Old Reading and Craig on December 31, 2001, Reading owns a 50% interest in AFC with the other 50% interest being held by that same third party). The acquisition of the AFC interest was accounted for as a purchase, in which Citadel issued an interest-bearing note to Sutton, in the amount of \$4,500,000, bearing interest at 8.25%. That note was paid in full on December 5, 2002.

The City Cinemas Transaction is an operating lease (the "Operating Lease"), under which Citadel was obligated, initially, to make annual payments to Sutton totaling \$3,217,500, subject to certain cost of living and other adjustments. In addition, Citadel was also obligated to pay as additional rent, rental and other payments due under various property leases underlying the Operating Lease. With respect to 2002, these additional rent payments totaled approximately \$906,000. In exchange for these payments, Citadel is, generally speaking, entitled to the cash flows generated from operation of the Leased Cinemas and the management fees associated with the Managed Cinemas. At the end of the ten-year term of the operating lease, Reading has the option, for which it paid an aggregate option fee of \$5,000,000, to acquire for \$48,000,000, the underlying leases and physical improvements of the leased cinemas (to the extent owned by Sutton), and the fee interests in the Murray Hill and Sutton cinemas. With the release of Murray Hill from the Operating Lease in February 2002, the purchase price has been reduced to \$38,000,000 and the obligation to make rental payments to Sutton has been reduced to \$2,392,500. Alternatively, Reading can extend the operating lease at the then fair market rental. The option fee would be credited against the purchase price should the purchase option be exercised by Reading. Reading is amortizing the option fee over the ten-year term of the Operating Lease.

In connection with the City Cinemas Transaction, Reading was obligated to lend Sutton up to \$28,000,000, commencing in July 2007 (the "Sutton Loan Commitment"). With the release of Murray Hill cinemas from the Operating Lease in February 2002, this obligation has decreased to \$18,000,000. This credit

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

facility is intended to provide Sutton with liquidity pending an acquisition determination by Reading whether or not to purchase various assets subject to the option. Any amounts outstanding under this credit facility at the date the option is exercised will be a credit against the purchase price otherwise payable by Reading. In case Reading does not exercise its option, the money advanced to Sutton is to be repaid to the Company on December 1, 2010.

Note 6 — Asset Held for Sale*CineVista Cinemas*

Subsequent to the Company's acquisition of the CineVista circuit as part of the Consolidation, the Company decided to continue the efforts of Old Reading with respect to the disposition of its assets and operations in Puerto Rico. Old Reading had not been satisfied with the performance of that market, and recorded impairment in the amount of \$31,330,000 with respect to such assets and operations in 1999. In the third quarter of 1999, the Old Reading wrote off the entire carrying value of its 8 screen cinema at the Plaza Las Americas Cinema (the "Plaza Cinema") of \$14,022,000 upon the determination by the owners of the Plaza Las Americas in San Juan not to honor what Old Reading believes to have been a contractually binding obligation to lease to Old Reading a new state-of-the-art cinema complex at the Plaza Las Americas. The determination of the Plaza's owners to instead lease the new facility in the Plaza to Old Reading's principal competitor in Puerto Rico has eliminated the value of the existing cinema in that shopping center, and will likely materially adversely affect the value of the remainder of the CineVista circuit. In the fourth quarter of 1999, the Old Reading reduced the carrying value of CineVista to its estimated net realizable value based upon Old Reading's decision to exit the Puerto Rico market recording an additional impairment loss of \$17,308,000. Accordingly, the CineVista circuit was carried on the books of the Company at \$3,018,000, its fair market value, as an asset held for sale since that time.

Negotiations for the sale of the Puerto Rican circuit commenced by Old Reading have stalled, and while the Company is negotiating with a new potential buyer, no assurances can be given that the sale will be consummated. As a result, the Puerto Rican circuit is no longer deemed an asset held for sale for accounting purposes and is not presented as such at December 31, 2002. The Company also recorded approximately \$432,000 of catch-up depreciation in the fourth quarter to reflect the Fiscal 2002 depreciation that would have been recorded had the Puerto Rican circuit not been held for sale. Notwithstanding the classification of the asset under generally accepted accounting principles, the Company is continuing its efforts to sell this asset.

Note 7 — Rental Property

The table below sets forth Reading's investment in rental property as of the dates indicated (dollars in thousands):

	December 31,	
	2002	2001
Rental Property		
Land	\$ 2,951	\$ 2,951
Building and improvements	7,515	7,512
	10,466	10,463
Less accumulated depreciation	(2,028)	(1,504)
Rental property, net	\$ 8,438	\$ 8,959

At December 31, 2001, the office building located in Glendale, California (the "Brand Building") was the Company's only rental property not associated with an entertainment property. This property does not

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

house any of the Company's operations and is not a part of the Company's cinema exhibition or live theater businesses. With the exception of the ground floor space, the Brand Building is entirely leased to Disney Enterprises, Inc. ("Disney"). The rental rate for the Disney lease, which began on February 1, 1997, is approximately \$164,000 per month from February 1, 2002 for the remaining five-year term. In addition, Disney has the option to renew the lease for two consecutive five-year periods. Direct costs incurred to obtain the lease of \$544,000, net of \$789,000 in accumulated amortization consisting of commissions, legal and other fees, are included in the Consolidated Balance Sheet as "Capitalized leasing costs" at December 31, 2002.

Note 8 — Property and Equipment

Property and Equipment	December 31,	
	2002	2001
	(In Thousands)	
Land	\$ 22,838	\$17,757
Building	45,926	29,617
Leasehold Interests & Improvements	5,173	2,942
Construction-in-progress and property development	3,817	1,137
Fixtures and equipment	31,245	24,164
	108,999	75,617
Less accumulated depreciation	(7,518)	(739)
Property and equipment, net	\$101,481	\$74,878

Note 9 — Equity Investments and Investment in Affiliates***Investment in Old Reading***

Until the Consolidation of Citadel, Old Reading, and Craig on December 31, 2001, Old Reading was a publicly traded company whose shares were listed on the NASDAQ Stock Market. At the time of the Consolidation, Citadel owned 70,000 shares of Old Reading Series A Preferred Stock. Old Reading is now a wholly owned subsidiary of RII. The Old Reading Preferred Stock had **(1)** a liquidation preference of \$100 per share, or \$7,000,000 ("Stated Value"), **(2)** had a cumulative dividend of 6.5%, payable quarterly, and **(3)** was convertible into shares of Reading common stock at a conversion price of \$11.50 per share. Citadel had certain right to require the Old Reading to repurchase the Old Reading preferred stock for an amount equal to its Stated Value plus accumulated dividends, which rights have now been exercised.

For the years ended December 31, 2001 and 2000, Citadel accounted for its investment in Old Reading at cost and recorded as revenue dividends declared by Old Reading on the Old Reading Series A Preferred Stock. Included in the Consolidated Statement of Operations for the years ended December 31, 2001 and 2000 as "Dividends from Investment in Reading" is \$455,000 per year of dividend income earned with respect to Citadel's ownership of the Old Reading Series A Preferred Stock.

At December 31, 2001, Reading was three quarters in arrears with respect to its dividends accrued on the Old Reading Series A Preferred Stock. With the Consolidation of Citadel, Old Reading, and Craig on December 31, 2001, Citadel's investment in Old Reading Series A Preferred Stock and all such dividends paid and owed to Citadel for the year ended December 31, 2001 became intercompany transactions which are eliminated in the consolidated financial statements.

Until the Consolidation of Citadel, Old Reading and Craig on December 31, 2001, Citadel and Craig owned securities of Old Reading which afforded them an aggregate 83% voting interest in Old Reading, of which Craig's holdings represented approximately 78% of the voting power of Old Reading and Citadel's

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

holdings represented approximately 5% of such voting power. Conversely, Old Reading owned 1,690,938 shares of the CDL's Class A Nonvoting Common Stock and 422,734 shares of the CDL's Class B Voting Common Stock, or approximately 21% of the CDL's outstanding common stock, and Craig owned 876,885 shares of the CDL's Class A Nonvoting Common Stock and 230,521 shares of CDL's Class B Voting Common Stock, or approximately 11% of the CDL's outstanding common stock. In the Consolidation, the Old Reading common stock held by Craig was converted into 6,456,895 shares of RII Class A common Stock, and the CDL Class A and CDL Class B common stock held by Craig and Old Reading were retitled RII Class A and RII Class B common stock. These security holdings have been eliminated in the consolidated financial statements.

Investment in AFC

On September 1, 2000, Citadel acquired a 1/6th (16.7%) interest in AFC, the owner of the Angelika New York (Note 5). At the time of this acquisition, Old Reading and an affiliate of NAC owned remaining 33.3% and 50.0% interest in AFC, respectively. Although Citadel had only a 16.7% interest in AFC, Citadel's AFC interest was accounted for using the equity method of accounting as AFC operates as a limited liability company. For the years ended December 31, 2001 and 2000, Citadel's portion of AFC's equity earnings of approximately \$124,000 and \$109,000, respectively, were included in the Consolidated Statement of Operations as "Equity earnings of Angelika Film Centers LLC."

Upon the Consolidation of Citadel, Old Reading, and Craig on December 31, 2001, RII held, in aggregate, 50.0% of AFC representing the combination of Citadel's 16.7% interest and Old Reading's 33.3% interest in AFC. As a result, the accounts of AFC are included in the Company's Consolidated Balance Sheet at December 31, 2001. Since the Consolidation did not take place until December 31, 2001, however, AFC's operating results were not included in Reading's Consolidated Statement of Operations for the year ended December 31, 2001.

Investment in and Advances to the Agricultural Partnerships

As described in Note 3, Reading has a 40% interest in the Agricultural Partnerships, which owned a 1,600-acre citrus farm in California. In addition to its equity investment, Reading has provided financing to the Agricultural Partnerships. Reading wrote off its investment in the Agricultural Partnerships in 2000 when this investment was deemed unrecoverable.

Farming, which is owned 80% by the Company, provided farm operation services to the Agricultural Partnerships and was paid 5% of the gross agricultural receipts, less certain expenses and reimbursement of its costs.

Based upon the historically poor financial performance of the Agricultural Partnerships, the negative cash flow generated by the Agricultural Partnerships, the uncertain prospects for the harvest, and uncertainty about the prospects for the Agricultural Partnerships to generate positive cash flow in the future, management determined, in September 2000, to fully reserve its outstanding advances to the Agricultural Partnerships, thereby reducing to zero the Company's net investment therein. As of July 1, 2002, the Agricultural Partnerships reconveyed the Big 4 Ranch to the original owner in consideration of the release from all obligations and liabilities otherwise owed to the original owner. For the year ended December 31, 2002, the Company has recovered approximately \$1,110,000 in loans previously written off. The Company is in the process of winding up the agricultural activities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

New Zealand Joint Ventures

During the second quarter of 1998, Old Reading entered into a 50/50 joint venture, with a cinema operator in New Zealand (the “NZ JV”). This joint venture is not incorporated, and accordingly, Reading owns an undivided 50% interest in the assets and liabilities of the joint venture.

For the years ended December 31, 2002, the Company’s portion of the NZ JV’s equity earnings of approximately \$211,487 was included in the Consolidated Statement of Operations. For the year ended December 31, 2001, the Company’s portion of the NZ JVs equity earnings of approximately \$164,000 was included in the Consolidated Statement of Operations of Old Reading as “Equity earnings of affiliates.”

The Flying Karamazov Brothers

In November 2002, Reading invested in the production of the *Flying Karamazov Brothers*. The show opened at the Royal George Theater on December 15, 2002 and closed on January 19, 2003 with a net loss of approximately \$41,000 excluding the \$92,000 that we had received as rental income.

I Love You Productions Joint Venture

During the second quarter of 2002, the Company invested approximately \$85,000 in the I Love You Productions Joint Venture (“JV”) for a 25% interest. As of December 31, 2002, the *I Love You You’re Perfect, Now Change* show is running at the Royal George Theater.

Note 10 — Goodwill and Intangible Assets

Goodwill associated with our live theaters is tested for impairment in the fourth quarter, in conjunction with the annual budgeting. Based on the projected profits and cash flows of our live theaters, it was determined that there is no impairment to our goodwill. At December 31, 2002, Reading’s goodwill of \$5,021,000, net of accumulated amortization of \$173,000, consists of the following (dollars in thousands):

	Cinema/Live Theater Segment	Real Estate Segment	Corporate	Total
Balance as of January 1, 2001	\$5,015	\$ —	\$ —	\$5,015
Goodwill acquired	—	187	—	187
Impairment losses	—	—	—	—
Amortization of goodwill	(173)	—	—	(173)
Goodwill written off due to sale	—	—	—	—
Balance at December 31, 2001	\$4,842	\$187	\$ —	\$5,029
Change due to FX rate difference	—	18	—	18
Balance at December 31, 2002	\$4,816	\$205	—	\$5,021

Reading’s intangible assets subject to amortization of \$14,381,000, net of accumulated amortization of \$2,013,000, consist of the following (dollars in thousands):

	Beneficial Lease	Option Fee	Acquisition Costs	Total
Gross carrying amount	\$10,459	\$5,000	\$935	\$16,394
Less: Accumulated amortization	681	1,167	165	2,013
Total, net	\$ 9,778	\$3,833	\$770	\$14,381

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Reading amortizes its option fees and acquisition costs over 10 years and its beneficial lease over twenty years. For the year ended December 31, 2002, the amortization expense totaled \$1,254,000 and the estimated amortization expense for each of the five succeeding fiscal years is approximately \$1,254,000 per annum. The Company does not have any intangible assets not subject to amortization.

The Company's amortization expense and net loss for the years ended December 31, 2002, 2001 and 2000 are as follows (dollars in thousands):

	For the Year Ended December 31,			Total
	2002	2001	2000	
Reported net loss	\$(7,954)	\$(4,752)	\$(3,542)	\$(16,248)
Add back: goodwill amortization	—	173	93	266
Add back: beneficial lease amortization	680	590	590	1,860
Add back: option fee amortization	500	500	167	1,167
Add back: acquisition cost amortization	73	69	—	142
Adjusted net income	\$(6,701)	\$(3,420)	\$(2,692)	\$(12,813)

Note 11 — Prepaid and Other Assets

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

	December 31,	
	2002	2001
Prepaid and other current assets		
Prepaid expenses	\$ 475	\$ 246
Prepaid taxes	562	530
Deferred financing costs, net	552	646
Deposits	396	434
Impounds	368	245
Other	176	451
	<u>\$2,529</u>	<u>\$2,552</u>
Other noncurrent assets		
Railroad right-of-way and other assets	\$2,951	\$2,773
Long-term restricted cash	292	266
Long-term deposits	10	137
Loan receivable from Joint Venture	—	86
Deferred rent receivable	392	472
	<u>\$3,645</u>	<u>\$3,734</u>

Note 12 — Future Minimum Rental Income

Rental income amounted to \$5,845,000, \$3,617,000, and \$2,397,000 for the years ended December 31, 2002, 2001, and 2000, respectively. Rental income for the year ended December 31, 2002 includes rental income from Courtenay Central, New Zealand; Auburn and Belmont, Australia, the Brand office building, California, and from retail space associated within the Union Square, Royal George Theater, Village East Cinema and Sutton Cinema. Rental income for the year ended December 31, 2001 includes rental income from only the properties located in the United States (i.e., the Brand office building, the Union Square

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Theater, Royal George Theatre, Village East Cinema and Sutton Cinema). Rental income for the years ended December 31, 2000 is solely from the Brand office building, and is derived from two lessees, Disney Enterprises, Inc. and Fidelity Federal Bank.

The Company has operating leases with the tenants at the Brand Building that expire in 2005 and are subject to scheduled fixed increases. Accounting principles generally accepted in the United States of America require that rents due under operating leases with fixed increases be averaged over the life of the lease. This practice, known as “straight-line rents” creates an unbilled rent receivable in any period during which the amount of straight-line rent exceeds the actual rent billed, primarily at the inception of the lease period. Included in the balance sheet as “Prepaid and Other Assets” (Note 11) at December 31, 2002 and 2001 are approximately \$392,000 and \$472,000, respectively, of unbilled rent receivables which have been recognized under the straight-line method.

Future minimum rental income under all operating leases are summarized as follows (dollars in thousands):

	Year Ending December 31,
2003	\$ 7,107
2004	6,966
2005	6,257
2006	6,958
2007	3,971
Thereafter	16,258
	<u>\$47,517</u>

Note 13 — Notes Payable*Domestic**Royal George Theater LLC Term Loan*

On November 29, 2002, Royal George Theater LLC entered into a \$2,500,000 loan agreement with a financial institution. The loan is a 5-year term loan that accrues interest at 3.91%, payable monthly in arrears. At December 31, 2002, there was \$2,486,000 on unpaid principal owed on this term loan and the interest expense totaled \$97,000 for the year ended December 31, 2002. The loan is secured by the Royal George Theater and is guaranteed by RII.

Liberty Theater Term Loan

On October 4, 2001, Liberty Theaters Inc. entered into a \$3,500,000 loan agreement with a financial institution. The loan is a 10-year term loan that accrues interest at 7.31% for the first five years with the interest rate to be adjusted in the sixth year. The loan is secured by a mortgage on the Union Square building property, and may be prepaid at the end of the fifth year without penalty. Liberty Theaters prepaid the interest for the two month period from October to December 2001 and then began making monthly payments of \$25,434 per month starting December 2001. Any unpaid principal and accrued interest will become due in October 2011. At December 31, 2002, there was \$3,440,000 of unpaid principal owed on this term loan and the interest expense totaled \$251,000 for the year ended December 31, 2002.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Note Payable to Messrs. Cotter and Forman

On September 1, 2000, RII issued a term note in the amount of \$4,500,000 bearing 8.25% interest to SHC, an entity owned by Michael Forman and James Cotter in exchange for a 1/6th interest in the AFC and certain rights and interests with respect to the City Cinemas cinema chain. The note was repaid on December 5, 2002.

Brand Term Loan

On December 20, 1999, Reading Realty Inc., formerly Citadel Realty Inc., entered into an \$11,000,000, ten-year loan agreement with an institutional lender. The loan is secured with the deed of trust to a rental property and accrues interest at 8.18% per annum. Reading began making monthly payments of approximately \$86,200 per month starting February 2000, and any unpaid principal and accrued interest will become due in January 2010. The loan agreement contains various non-financial covenants regarding the use and maintenance of the property. At December 31, 2002, Reading was in compliance with each of the debt covenants and payments were current. At December 31, 2002, there was \$10,558,000 of unpaid principal owed on this term loan and the interest expense totaled \$864,000 for the year ended December 31, 2002.

Australian Loan

In March 2000, Reading Entertainment Australia Ltd. Pty (“Reading Australia”) entered into a loan agreement with an Australian bank which provided for borrowings of up to AUS\$25,000,000. In December 2000, the lender increased the loan amount to AUS\$30,000,000. On December 17, 2002, the loan agreement was renegotiated so that AUS\$15,000,000 was refinanced as a term loan and the other AUS\$15,000,000 remained as a line-of-credit, although final loan documents have not yet been signed. The AUS\$15,000,000 term loan becomes due and payable on January 1, 2008 with the AUS\$15,000,000 line-of-credit expiring on January 1, 2006. The loan is carried at a variable interest rate, which at December 31, 2002 was 6.17% plus a line fee of 0.70%. The Australian loan is secured by Australian assets and the loan agreement contains various financial covenants. Starting on March 31, 2003, the Company will begin making quarterly repayments of AUS\$250,000. At December 31, 2002, Reading Australia had drawn down \$15,657,000 (AUS\$27,835,027) on the Australian loan facility. The aggregate interest expense on the Australian loan for the year ended December 31, 2002 was \$1,031,000 (AUS\$1,892,000).

New Zealand Loans

In December 2000, Reading New Zealand Limited (“Reading New Zealand”) entered into a loan agreement with a New Zealand bank for borrowings of NZ\$30,400,000 for the purpose of the construction of its Wellington entertainment-themed retail center and for the refinancing of the loan used to acquire the Wellington site (“NZ Construction Loan”). The loan accrues interest at 8.06% fixed rate and is secured by a mortgage over the Wellington properties and a pledge of the assets of Reading New Zealand and its subsidiaries associated with the Wellington project. Reading New Zealand made payment on interest only in 2002, and will start making NZ\$375,000 principal repayment per quarter starting on September 30, 2003. The remaining balance becomes due and payable in June 2005. On July 18 2001, Reading New Zealand entered into an agreement pertaining to the borrowing of an additional NZ\$4,135,000 which was used to fit-out the cinema constructed as a part of the Wellington entertainment-themed retail center (“NZ Fitout Loan”). The NZ Fitout Loan has a variable interest rate which, at December 31, 2002, was 7.97%. At December 31, 2002, Reading New Zealand had aggregate borrowings of \$17,824,000 (NZ\$34,022,414) under the NZ Construction Loan and the NZ Fitout Loan. The aggregate interest expense on the New Zealand loans for the year ended December 31, 2002 was approximately \$1,045,000 (NZ\$1,994,000) including approximately \$178,000 (NZ\$339,000) of interest that was capitalized as construction costs.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Reading's aggregate future principal loan payments are as follows (dollars in thousands):

Year Ending December 31,	
2003	\$ 2,119
2004	2,078
2005	15,888
2006	6,398
2007	2,697
Thereafter	21,060
	<u>\$50,240</u>

Since approximately \$33,482,000 of Reading's total debt of \$50,240,000 at December 31, 2002 consisted of debt denominated in Australian and New Zealand dollars, the U.S. dollar amounts of these repayments will fluctuate in accordance with the relative values of these currencies.

Note 14 — Other Liabilities

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

	December 31,	
	2002	2001
Current liabilities		
Lease contract liability	\$ —	\$ 107
Deferred payables	258	235
Other	36	145
	<u>\$ 294</u>	<u>\$ 487</u>
Noncurrent liabilities		
Foreign withholdings tax	\$3,972	\$3,425
Straight-line rent liability	3,216	2,556
Other	2,329	1,927
	<u>\$9,517</u>	<u>\$7,908</u>

Note 15 — Minority Interest

The minority interest is comprised of the following:

- 50% of membership interest in AFC by a subsidiary of National Auto Credit, Inc. ("NAC")
- 25% minority interest in Australian Country Cinemas by 21st Century Pty Ltd.
- 20% minority interest in Big 4 Farming LLC by Cecelia

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

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

	December 31,	
	2002	2001
AFC	\$4,337	\$4,262
Australian Country Cinemas	592	440
Big 4 Farming LLC	8	69
	<u>\$4,937</u>	<u>\$4,771</u>

Note 16 — Lease Agreements

Certain of Reading's cinemas and one of its live theaters (until the Company acquired the Union Square property in February 2001) conduct their operations in leased facilities. Nine of Reading Australia's thirteen operating multiplexes are in leased facilities. All of Reading's domestic and Puerto Rico cinemas are operated in leased premises. However, in the case of the Sutton cinema, Reading holds an option to acquire the underlying fee interest. Reading's cinema leases have remaining terms inclusive of options of 10 to 50 years. Certain of Reading's cinema leases provide for contingent rentals based upon a specified percentage of theater revenues with a guaranteed minimum. Substantially all of the leases require the payment of property taxes, insurance and other costs applicable to the property. Reading also leases office space and equipment under non-cancelable operating leases. All leases are accounted for as operating leases and accordingly, Reading has no leases which require capitalization.

Included in the future minimum lease payments below is the City Cinemas Transaction Operating Lease, under which Citadel was obligated, initially, to make annual payments to Sutton totaling \$3,217,500, subject to certain cost of living and other adjustments. In addition, Citadel was also obligated to pay as additional rent, rental and other payments due under various property leases underlying the Operating Lease. With the release of the Murray Hill cinemas from the City Cinemas Transaction Operating Lease in February 2002, the Company's annual rental payments to Sutton were reduced by approximately \$825,000.

Reading determines the annual base rent expense of its theaters by amortizing total minimum lease obligations on a straight-line basis over the lease terms. Base rent expense and contingent rental expense under the operating leases totaled approximately \$8,288,000 and \$2,240,000 for 2002. Future minimum lease payments by year and in the aggregate, under non-cancelable operating leases consist of the following at December 31, 2002 (dollars in thousands):

	Minimum Lease Payments
2003	\$ 10,479
2004	10,588
2005	10,578
2006	10,553
2007	10,668
Thereafter	84,868
Total minimum lease payments	<u>\$137,734</u>

Since approximately \$33,489,000 of Reading's total minimum lease payments of \$137,734,000 at December 31, 2002 consisted of lease obligations denominated in Australian and New Zealand dollars, the U.S dollar amounts of these obligations will fluctuate in accordance with the relative values of these currencies.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Note 17 — Commitments and Contingencies

Sutton Loan Commitment

In connection with the City Cinemas Transaction, Reading undertook to lend Sutton up to \$28,000,000, commencing in July 2007 (the “Sutton Loan Commitment”). With the release of the Murray Hill cinema from the Operating Lease in February 2002, this obligation has decreased to \$18,000,000. This credit facility is intended to provide Sutton with liquidity pending an acquisition determination by Reading whether or not to purchase the assets leased pursuant to the City Cinemas Operating Lease. Any amounts outstanding under this credit facility at the date the option is exercised will be a credit against the purchase price otherwise payable by Reading. In case Reading does not exercise its option, the money advanced to Sutton is due back to the Company on December 1, 2010.

Berkeley Cinemas Loan

As part of the Company’s joint venture arrangement with the Everard Entertainment Ltd in New Zealand, the Company is 50% liable for a \$3,372,600 (NZ\$6,437,500) bank loan which is secured by a first mortgage over the land and building assets of the joint venture. However, as the Company does not consolidate the accounts of Berkeley Cinemas, the Berkeley Cinemas bank loan discussed above is not reflected in the Consolidated Balance Sheet at December 31, 2002.

Environmental

The City of Philadelphia (the “City”) has asserted that the North Viaduct property owned by a subsidiary of Old Reading requires environmental decontamination and that such subsidiary’s share of any such remediation cost will aggregate approximately \$3,500,000. Reading presently is in discussions with the City involving a possible conveyance of the property and believes that reserves related to the North Viaduct are adequate. Certain Reading subsidiaries were historically involved in railroad operations, coal mining and manufacturing. Also, certain of these subsidiaries appear in the chain of title of properties which may suffer from pollution. Accordingly, certain of these subsidiaries have, from time to time, been named in and may in the future be named in various actions brought under applicable environmental laws. Reading does not currently believe that its exposure under applicable environmental laws is material in amount.

Tax Audit

The Internal Revenue Service (the “IRS”) has completed its audits of Old Reading’s tax return for its tax year ended December 31, 1996, and of the Craig Corporation’s tax return for its tax year ended June 30, 1997. With respect to both Old Reading and Craig Corporation, the principal focus of these audits had been the treatment of the contribution by Old Reading to Reading Australia and subsequent repurchase by Stater Bros. Inc. from Reading Australia of certain preferred stock in Stater Bros. Inc. (the “Stater Stock”) received by Old Reading from Craig Corporation as a part of a private placement of securities by Old Reading that closed in October 1996.

By letters dated November 9, 2001, the IRS issued reports of examination proposing changes to the tax returns of Old Reading and Craig Corporation for the years in question (the “Examination Reports”). The Examination Reports for Old Reading and Craig Corporation proposes that the gain on the disposition by Reading Entertainment Inc. of Stater Stock, reported as taxable on its return, should be reallocated to Craig Corporation. This proposed change would result in an additional tax liability for Craig Corporation of approximately \$21,000,000 plus interest. As reported on Old Reading’s return, the gain on the disposition of the Stater Stock was fully offset for regular income tax purposes by net operating losses, but gave rise to an alternative minimum tax liability of approximately \$2,000,000. Under the Examination Report issued to Old Reading, a consequence of the reallocation to Craig Corporation of the gain on the disposition of the Stater

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Stock is the elimination of Old Reading's alternative minimum tax liability, which would result in a refund to Old Reading of approximately \$2,000,000, plus interest. The examination Reports do not constitute a final determination of Old Reading's or Craig Corporation's tax liability.

Craig Corporation intends to vigorously contest the IRS' proposed changes in its Examination Report, and filed for a review of the proposed changes with the IRS Office of the Regional Director of Appeals. Since these tax liabilities relate to time periods prior to the Consolidation, and since Old Reading and Craig continue to exist as wholly-owned subsidiaries of RII, it is expected that any adverse determination would be limited in recourse to the assets of Old Reading or Craig, as the case may be, and not to the general assets of RII. At the present time, Craig's assets are comprised principally of RII Securities. Accordingly, the Company does not anticipate, even if there were to be an adverse judgment in favor of the IRS, that the satisfaction of that judgment would interfere with the internal operations or result in any levy upon or loss of any of its material operating assets. However, no assurances can be given that Craig Corporation will quickly or ultimately prevail in its positions. While Old Reading does not intend to challenge the proposed finding in the Examination Report that it is entitled to a refund, in the event that Craig Corporation prevails in its appeal, the IRS would be free (absent a settlement with Old Reading) to revisit its position with respect to the refund to Old Reading and with respect to the availability of Old Reading's losses to offset any gain in the disposition of the Stater Stock.

Old Reading and Craig Corporation have entered into agreements with the IRS tolling the applicable statutes of limitation with respect to the returns in question.

Note 18 — Common Stock

On April 11, 1997, Craig Corporation exercised its warrant to purchase 666,000 shares of Citadel's treasury common stock at an exercise price of \$3.00 per share, or \$1,998,000. Such exercise was consummated pursuant to delivery by Craig Corporation of its secured promissory note ("Craig Secured Note") in the amount of \$1,998,000, secured by the 500,000 shares of Reading Entertainment, Inc.'s common stock that Craig Corporation owned. The Craig Secured Note was included in the Balance Sheet as a contra equity account under the caption "Note receivable from shareholder" at December 31, 2000. Interest was payable quarterly in arrears at the Prime Rate. Principal and accrued but unpaid interest becomes due upon the earlier of April 11, 2002 or 120 days following Citadel's written demand for payment. Included in the Consolidated Statements of Operations for the year ended December 31, 2001 as "Interest income from shareholder" is approximately \$113,800 earned pursuant to the Craig Secured Note. As part of the consolidation of Citadel, Reading Entertainment, Inc. and Craig Corporation on December 31, 2001, the Craig Secured Note as well as Craig Corporation's investment in 666,000 shares of Citadel common stock were eliminated for accounting purposes.

On January 4, 2000, Citadel reorganized under a new Nevada holding company. In that transaction, the outstanding shares of CDL's Common Stock were converted into 5,335,913 shares of Class A Nonvoting Common Stock and 1,333,200 shares of Class B Voting Common Stock.

On September 20, 2000, Citadel issued 2,622,466 shares of Class A Nonvoting Common Stock and 655,616 shares of Class B Voting Common Stock, respectively, to fund the Liberty Theater acquisition.

On December 31, 2001, upon consolidation of Citadel, Reading Entertainment, Inc. and Craig Corporation, the consolidated company changed its corporate name to Reading International, Inc. and its Class A and Class B common stock trade on the American Stock Exchange under the symbols RDI.A and RDI.B.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Note 19 — Employee Stock Option Plans

The 1999 Stock Option Plan of Citadel Holding Corporation (“1999 Stock Option Plan”) authorizes the grant of options to certain employees and directors of the Company or any Company “affiliate,” as defined in the 1999 Plan, at exercise prices not less than the market price at the date of grant. Employees are eligible for incentive stock options (“ISOs”) and employees and directors are eligible for what are commonly known as “nonqualified options” (“NQOs”). Options may only be granted for ten years from the date of the plan’s adoption, and options granted under the 1999 Plan expire after ten years unless extended. The options are exercisable in installments, generally beginning one year after the date of grant, except for shares granted to directors which vest immediately.

The 1999 Stock Option Plan is to be administered by an Administrator who will determine the persons to whom the options should be granted, will set the number and timing of any options granted, and will prescribe the rules and regulations applicable to the options. The Board of Directors has formed the “Stock Option and Compensation Committee,” to be comprised entirely of independent non-employee directors, to be the Administrator of the 1999 Plan. Directors Gerard Laheney, William C. Soady and Alfred Villaseñor Jr. served as the members of the Stock Option and Compensation Committee in Fiscal 2002.

On December 31, 2001, Citadel, Reading and Craig consolidated to form one company. Pursuant to the Merger Agreement, the Reading and Craig stock options were converted into either Citadel Class A or Citadel Class B stock options at an exchange ratio of 1.25 and 1.17, respectively. The Reading and Craig stock options outstanding at December 31, 2001 of 790,232 and 729,940 shares, respectively, were converted into 285,350 and 1,556,470 shares of Citadel Class A and Class B shares, respectively. As of December 31, 2002, of the 1,841,820 total shares converted as a result of the Consolidation, there were 1,082,768 of vested Reading and Craig options (dollars in thousands).

Subsequent to the Reorganization and Consolidation (See Notes 4 and 18)

	Common Stock Options		Weighted Average Price		Number of Exercisable Options	
	Class A	Class B	Class A	Class B	Class A	Class B
Converted at January 4, 2001	92,000	23,000	\$3.43	\$ 3.43	44,800	11,200
Expired	(84,000)	(21,000)	—	—	(36,800)	(9,200)
Granted/ Vested	155,000	—	\$2.76	—	86,000	—
Outstanding — December 31, 2000	163,000	2,000	\$2.76	\$ 3.43	94,000	2,000
Consolidation conversion	285,350	1,556,470	\$6.84	\$ 8.10	234,250	1,556,470
Expired	(43,100)	(327,000)	\$6.20	\$10.24	(43,100)	(327,000)
Granted/ Vested	—	—	—	—	18,500	—
Outstanding — December 31, 2001	405,250	1,231,470	\$5.40	\$ 8.10	303,650	1,231,470
Expired	(51,250)	(350,290)	\$5.24	\$11.20	(43,750)	(350,290)
Granted/ Vested	1,105,000	—	\$3.75	—	709,688	—
Outstanding — December 31, 2002	1,459,000	881,180	\$4.15	\$ 6.08	969,588	881,180

The weighted average remaining contractual life of all options outstanding at December 31, 2002 was approximately 3.52 years.

Pro forma net earnings and earnings per share information reflecting the fair value approach to valuing stock options and the corresponding increase in compensation expense is required by SFAS No. 123 in each of the years that a company grants stock options. The Company granted 1,105,000 and 155,000 shares of Class A Non-voting Common Stock in the years ended December 31, 2002 and 2000, respectively. Of the options

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

granted in fiscal 2002, 975,000 were granted as non-qualified options and 130,000 were granted under the 1999 Stock Option Plans. No option shares were granted in the year ended December 31, 2001. The fair value of the options granted in 2002 and 2000 was estimated at the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	Reading International/Citadel			Old Reading			Craig		
	2002	2001	2000	2002	2001	2000	2002	2001	2000
Stock option exercise price	\$3.75	—	\$ 2.76	—	—	\$ 6.34	—	—	\$ 5.91
Risk-free interest rate	3.06%	—	6.19%	—	—	5.61%	—	—	6.56%
Expected dividend yield	—	—	—	—	—	—	—	—	—
Expected option life	9.9 yrs	—	5 yrs	—	—	5 yrs	—	—	5 yrs
Expected volatility	50.24%	—	46.00%	—	—	25.01%	—	—	27.20%
Weighted average fair value	\$1.54	—	\$ 1.34	—	—	\$ 2.11	—	—	\$ 2.18

The pro forma effect of the issuance of these options would have been to increase the net loss for the years ended December 31, 2002, 2001, and 2000 by approximately \$1,330,000, \$71,000, and \$159,000, respectively. The pro forma adjustments may not be representative of future disclosures because the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years. Further, SFAS No. 123 requires assumptions by management, regarding the likelihood of events on which the vesting of contingent, performance based options are predicated.

Note 20 — Income Taxes

Significant components of the provision for income taxes are as follows (dollars in thousands):

	Year Ended December 31,		
	2002	2001	2000
Current income tax expense (benefit):			
Federal	\$(1,134)	\$(237)	\$ (58)
State	367	137	(80)
Foreign	759	—	—
Total	(8)	(100)	(138)
Deferred income tax expense			
Federal	11	237	58
State	3	71	80
Foreign	—	—	—
Total	14	308	138
Total Income Tax Expense	\$ 6	\$ 208	\$ —

Deferred income taxes reflect the net tax effect of “temporary differences” between the financial statement carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

income tax purposes. The components of the deferred tax liabilities and assets are as follows (dollars in thousands):

Deferred tax assets (liabilities)	December 31,	
	2002	2001
Acquired and option properties	\$ 1,305	\$ 993
Net operating loss carryforwards and impairment reserves	48,330	48,395
Unrealized loss on marketable securities	168	366
Loans to Agricultural Partnerships	—	1,292
Other	167	(23)
Gross deferred tax assets	49,970	51,023
Valuation allowance	(48,962)	(49,803)
Net deferred tax asset	\$ 1,008	\$ 1,220

As of December 31, 2002, Reading had the following U.S. net operating loss carryforwards, net of carryforwards, net of carryback refund claims (dollars in thousands):

Expiration Date	Amount
2003	\$ 589
2007	1,443
2008	1,155
2009	555
2018	453
2019	3,559
2020	542
2021	16,777
2022	3,710
	<u>\$28,783</u>

Reading has approximately \$3,320,000 in alternative minimum tax credit carryforwards at December 31, 2002, having no expiration date.

In addition, at December 31, 2001, Reading has approximately \$27,605,000 in Australia loss carryforwards and \$1,152,000 in New Zealand loss carryforwards having no expiration date. Reading also has approximately \$25,494,000 in Puerto Rico loss carryforwards expiring no later than 2009. Reading does not expect to generate enough Puerto Rico taxable income to materially utilize Puerto Rico loss carryforwards. No other substantial limitations on the future use of U.S. or foreign loss carryforwards are expected by Reading management.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

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

	Year Ended December 31,		
	2002	2001	2000
Expected tax (benefit) provision	\$(2,784)	\$(1,702)	\$(1,433)
Reduction (increase) in taxes resulting from:			
Goodwill and other permanent differences	—	92	—
Tax effect of foreign tax rates on current income	75	—	—
Change in valuation allowance	1,544	1,719	1,627
Dividend received deduction	—	(109)	(109)
State and local tax (benefit) provision	367	—	—
Foreign withholding tax provision	759	208	—
Other items	45	—	(85)
Actual tax provision	\$ 6	\$ 208	\$ —

Pursuant to ABP No. 23, "Accounting for Income Taxes-Special Areas," a provision should be made for the tax effect of earnings of foreign subsidiaries which are not permanently invested outside the United States. In the opinion of Reading management, earnings of Reading foreign subsidiaries are not permanently invested outside the United States. However, no earnings were available in Reading foreign subsidiaries as of December 31, 2002. Accordingly, no tax provision under APB 23 has been made.

Note 21 — Comprehensive Income

Generally accepted accounting principles require Reading to classify unrealized gains and losses on equity securities classified as available-for-sale as well as the Company's foreign currency adjustments as comprehensive income. The following table sets forth Reading's comprehensive income for the periods indicated (in thousands):

	Years Ended December 31,		
	2002	2001	2000
Net loss	\$(7,954)	\$(4,572)	\$(3,542)
Other comprehensive income (loss), net of tax	8,094	507	(814)
Comprehensive income (loss)	\$ 140	\$(4,065)	\$(4,356)

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Note 22 — Business Segments and Geographic Area Information

The table below sets forth certain information concerning the Company's theater and rental real estate operations for the three years ended December 31, 2002 (dollars in thousands).

	Cinema/Live Theater	Real Estate	Corporate	Consolidated
2002				
Revenue	\$79,911	\$ 6,489	\$ 86	\$ 86,486
Earnings (loss) before taxes	2,676	(1,008)	(9,616)	(7,948)
Assets	64,510	105,345	12,917	182,772
Capital expenditures	4,972	5,183	282	10,437
2001				
Revenue	\$20,045	\$ 3,617	\$ 82	\$ 23,744
Earnings (loss) before taxes	(4,163)	868	(1,069)	(4,364)
Assets	21,516	113,361	35,718	170,595
Capital expenditures	2,575	7,750	—	10,325
2000				
Revenue	\$ 4,677	\$ 2,397	\$ 310	\$ 7,384
Earnings before taxes	(556)	542	(3,528)	(3,542)
Assets	17,506	37,837	8,579	63,922
Capital expenditures	7,826	2,908	39	10,773

The cinema/live theater results shown above include revenue and operating expense directly linked to Reading's cinema and theater assets.

The rental real estate results include rental income from properties owned by Reading offset by operating expense, including mortgage payments and interest.

Corporate results include consulting fee income from Old Reading, interest and dividend income earned with respect to the Company's cash balances and investment in Reading Preferred Stock, and equity losses stemming from the Company's equity investment in the Agricultural Partnerships.

The following table indicates the property and equipment of the Company by geographical area (dollars in thousands).

	December 31,		
	2002	2001	2000
Australia	\$ 49,258	\$47,011	\$ —
New Zealand	26,127	5,727	—
Puerto Rico	2,602	—	—
United States	23,494	22,140	\$10,791
	<u>\$101,481</u>	<u>\$74,878</u>	<u>\$10,791</u>

At December 31, 2001, the property and equipment balance presented above excludes \$3,018,000 of property and equipment in Puerto Rico which was classified as an asset held for sale. The Company had no foreign or export revenue during the three years ended December 31, 2002.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

The following table indicates the revenue of the Company by geographical area (dollars in thousands).

	December 31,		
	2002	2001	2000
Australia	\$31,121	\$ —	\$ —
New Zealand	5,786	—	—
Puerto Rico	14,581	—	—
United States	34,998	22,140	7,384
	<u>\$86,486</u>	<u>\$22,140</u>	<u>\$7,384</u>

Note 23 — Quarterly Financial Information (Unaudited — dollars in thousands, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2002				
Revenue	\$16,416	\$17,958	\$17,549	\$34,563
Net loss	\$ (857)	\$ (1,442)	\$ (1,597)	\$ (4,058)
Basic loss per share	\$ (0.04)	\$ (0.07)	\$ (0.07)	\$ (0.18)
Diluted loss per share	\$ (0.04)	\$ (0.07)	\$ (0.07)	\$ (0.18)
2001				
Revenue	\$ 4,637	\$ 6,114	\$ 6,251	\$ 6,742
Net loss	\$ (872)	\$ (428)	\$ (1,848)	\$ (1,424)
Basic loss per share	\$ (0.09)	\$ (0.04)	\$ (0.19)	\$ (0.14)
Diluted loss per share	\$ (0.09)	\$ (0.04)	\$ (0.19)	\$ (0.14)

In the opinion of management, the unaudited quarterly financial information presented above reflects all adjustments that are necessary for a fair presentation of the results of the quarterly periods presented.

The increase in revenue from fiscal 2001 is primarily due to the Consolidation of the Citadel, Old Reading and Craig on December 31, 2001 and the opening of a 10-screen cinema complex in Wellington, New Zealand, on March 21, 2002. The fiscal 2002 results above include revenue generated by the Australian, New Zealand, Puerto Rican and domestic cinemas whereas the fiscal 2001 results included only the revenue of the domestic operations. Revenue in the second quarter and third quarters of 2002 increased from the first quarter primarily due to the addition of a 10-screen cinema complex in New Zealand. In the fourth quarter of 2002, the revenues increased dramatically as a result of the Puerto Rican circuit coming off "Asset held for sale" status. For the first three quarters of 2002, the Puerto Rican cinema circuit was held as an "Asset held for sale" and the net income generated from the Puerto Rican circuit was shown in the quarterly reports as "Income/(loss) from asset held for sale." In the fourth quarter, the anticipated sale of the Puerto Rican cinema circuit failed to materialize due to unforeseen circumstances and the circuit was taken off "Asset held for sale" status as it had been on the market for a full year. As a result, the revenues and expenses of the Puerto Rican cinema circuit for the full year were reported in the fourth quarter.

For the first quarter of 2002 net loss was significantly lower than the subsequent quarters due to the recovery of approximately \$714,000 of previously written off receivable from the Agricultural Partnerships. The fourth quarter net loss reflects approximately \$1,729,000 increase in depreciation expense for the quarter as a result of the catch-up depreciation taken on the Puerto Rican cinema circuit when it came off "Asset held for sale" status as well as catch-up depreciation taken on the Australian cinema assets. The Australian catch-up depreciation was due to the change in estimated useful lives of the cinema assets following the

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

Consolidation and covers the period from January 1, 2002 to December 31, 2002. In addition, the fourth quarter results also reflect the quarterly loss posted by the Puerto Rican cinema circuit in the fourth quarter and the increase in legal expenses incurred as a result of several on-going litigations in Puerto Rico and Australia.

The loss per share for the fourth quarter of 2001 is calculated based on 10,079,890 weighted average shares outstanding for the quarter, reflecting the 11,873,360 shares, net, that were issued for the Consolidation.

Note 24 — Subsequent Events

Sale of Available-for-Sale Securities

Through March 26, 2003, the Company sold a total of 208,863 shares of Gish for approximately \$298,000 or \$1.43 per share. The Gish securities had an adjusted book basis of \$1.00 per share, thus a gain on sale was recorded in the first quarter of 2003 for approximately \$80,000. Following the sale, the Company owns 375,037 shares of Gish.

Settlement of Village Law Suit

On December 16, 2001, Reading entered into Principles of Settlement with respect to the settlement of two lawsuits between Reading, as plaintiff, and Village Cinemas Australia Pty, Ltd., Birch Carroll & Coyle Ltd., AMP Life Limited, as defendants, and between Reading, as plaintiff, and Roadshow Film Distributors Pty Ltd (an affiliate of Village and Amalgamated), as defendant. Village and Birch Carroll & Coyle, when considered on a consolidated basis with its affiliate Greater Union, are two of the three largest exhibition companies in Australia. AMP is an insurance company and, through its affiliates, a major commercial landlord in Australia. Roadshow is a major film exhibitor in Australia. The settlements resolve a variety of claims on the part of Reading asserting various violation of Australian trade antitrust and trade practice laws and, in the case of its claim against AMP, alleged breach of an agreement to lease a multiplex cinema complex to Reading.

The Principles of Settlement provides that (i) Village and Birch Carroll & Coyle will sell to Reading, at a historic cost of \$1,825,000 (AUS\$3,244,000), an undivided 1/3rd interest in the unincorporated joint venture that owns and operates the 16 screen multiplex cinema that was the subject matter of the AMP litigation; (ii) Reading may, at any time prior to December 16, 2003, put its interest back to Village and Birch Carroll & Coyle for \$4,156,000 (AUS\$7,387,998); (iii) Village will give to Reading the option to purchase, at cost, an undivided 1/3rd interest in an unincorporated joint venture to be formed to develop a new multi-plex cinema or, in the event that Greater Union determines not to participate in that joint venture, the option to purchase an undivided 1/2 interest in that unincorporated joint venture; (iv) Roadshow will, generally speaking, provide Reading access to film product on the same basis as major exhibitors such as Village, Greater Union and Hoyts; and (v) Reading will be reimbursed attorneys fees in the amount of approximately \$450,000 (AUS\$800,000).

The parties are currently negotiating definitive settlement documentation implementing the agreements set forth in the Principles of Settlement.

Theater Management Agreement

On March 13, 2003, the Theater Management Agreement between Liberty Theaters Inc. and OBI Management (the "Management Agreement") was approved by the Company's Audit and Conflicts Committee and has been applied retroactively to January 1, 2002. The OBI Management is wholly owned by Margaret Cotter, the daughter of James J. Cotter and a director of RII.

READING INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (CONTINUED)

The Management Agreement generally provides that the Company will pay OBI Management 20% of the net cash flow received by the Company from its live theaters in New York. Since the fixed fees are applicable only during such periods as the New York theaters are booked, OBI Management will receive no compensation with respect to a theater at any time when it is not generating revenues for the Company.

OBI Management operates from office facilities owned by the Company on a rent-free basis, and the Company shares the cost of one administrative employee of OBI Management located at those offices. Other than these expenses and travel-related expenses for OBI Management personnel to travel to Chicago as referred to above, OBI Management is responsible for all of its costs and expenses relating to the performance of its management functions. The Management Agreement will expire on December 31, 2003, but will renew automatically for successive one-year periods unless either party gives at least six months' prior notice of intention to allow the Management Agreement to expire. The Management Agreement is terminable at any time by the Company for cause.

Item 9 — Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

PART III**Item 10 — Directors and Executive Officers of the Registrant****Directors & Executive Officers**

The names of the directors, executive officers, and significant employees of the Company are as follow:

Name	Age	Current Occupation	First Became Director
James J. Cotter(2)*	65	Chairman of the Board and Chief Executive Officer	1986
Eric Barr(3)	56	Director	2002
James J. Cotter, Jr.	32	Director	2002
Margaret Cotter	35	Director	2002
Gerard P. Laheney(1)(2)(3)	65	Director	2002
William C. Soady(1)(3)	59	Director	1999
Alfred Villaseñor, Jr.(1)(2)	72	Director	1987
Ellen M. Cotter	37	Chief Operating Officer — Domestic Cinemas	—
Brett Marsh	55	Vice President — Real Estate	—
Andrzej Matyczynski	50	Chief Financial Officer and Treasurer	—
Neil Pentecost	45	Chief Operating Officer — Australia and New Zealand	—
Robert F. Smerling	68	President — Domestic Cinemas	—
S. Craig Tompkins	52	Executive Vice President, Director — Business Affairs, and Corporate Secretary	—

- (1) Member of the Compensation and Stock Option Committee.
- (2) Member of the Executive Committee.
- (3) Member of the Audit and Conflicts Committee.

Set forth below is certain information concerning the principal occupation and business experience of each of the individuals named above.

Mr. James J. Cotter is the Chairman of the Board, President and Chief Executive Officer of the Company. Mr. Cotter was first elected to the Board in 1986, resigned in 1988, and was re-elected to the Board in 1991. He was elected Chairman of the Board in 1992, and named Chief Executive Officer on August 1, 1999. On October 16, 2000, Mr. Cotter resigned as the Chief Executive Officer of the Company in favor of a newly hired Chief Executive Officer, but resumed the positions following the resignation of that individual on December 27, 2000. Mr. Cotter is, and has been for more than the past five years, the Chairman of the Board and Chief Executive Officer of each of Craig Corporation (“CRG” and collectively with its corporate predecessors and wholly owned subsidiaries “Craig”) and Reading Holdings, Inc. (previously known as Reading Entertainment, Inc., and referred to herein as “REI”). Effective December 31, 2001, Craig and REI were consolidated with the Company, and are now wholly owned subsidiaries of the Company. Mr. Cotter is, and has been for more than the past five years, a director of The Decurion Corporation (motion picture exhibition and real estate company); the Chief Executive Officer and a director of Townhouse Cinemas Corporation (motion picture exhibition company); the General Partner of James J. Cotter, Ltd., a general

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partner in Hecco Ventures which is involved in investment activities and is a major stockholder in the Company; the Chief Executive Officer and 50% owner of Sutton Hill Capital, LLC and its predecessors (cinema exhibition and the counterparty to the various agreements comprising the City Cinemas Transaction); and prior to its acquisition by the Company, the Chairman, Chief Executive Officer and 50% stockholder of Off Broadway Investments, Inc. (owner and operator of live theaters and the counterparty to the Liberty Theaters Merger). Mr. Cotter was also a director of Stater Bros., Inc. (retail grocery company) from 1987 to 1997.

Mr. Eric Barr has been a director of the Company since March 21, 2002. Mr. Barr is a resident of Brighton, Victoria in Australia, with extensive knowledge of the Australian business community. Prior to his appointment, Mr. Barr retired in June 2001 from his position as senior audit partner with PricewaterhouseCoopers LLC in Australia, after having been with that firm for 36 years. Mr. Barr serves as the Chairman of the Company's Audit Committee.

James J. Cotter, Jr. has been a director of the Company since March 21, 2002. Mr. Cotter, Jr. is an attorney in the law firm of Winston & Strawn specializing in corporate law. He has served as a director to Cecelia Packing Corporation from February 1996 to September 1997 and as a director of Gish Biomedical from September 1999 to March 2002. Mr. Cotter, Jr. is the son of James J. Cotter and the brother of Margaret Cotter and Ellen Cotter. Mr. Cotter, Jr. is a limited partner in James J. Cotter Ltd, which is a general partner of Hecco Ventures. Mr. Cotter, Jr. is a member of Visalia LLC.

Ms. Margaret Cotter has been a director of the Company since September 27, 2002, and was a director of Craig from 1998 to September 26, 2002, when she joined the Board of the Company. Ms. Cotter is also the owner and President of Off Broadway Investments, LLC, a company that provides live theatre management services to Reading. Pursuant to that management arrangement, Ms. Cotter also serves as the President of Liberty Theatres. Ms. Cotter is also a theater producer who has produced shows in Chicago and New York. Ms. Cotter served as the Vice President of Union Square Management, Inc. (live theatre management) from 1998 to 2000 and as a director of Big 4 Ranch, Inc. ("BRI") from 1997 to September 26, 2002. Ms. Cotter is a member of the New York State Bar and, since September 1997, has been Vice President of Cecelia Packing Corporation. From February 1994 until September 1997, Ms. Cotter was an Assistant District Attorney for King's County in Brooklyn, New York. Ms. Cotter graduated from Georgetown University Law Center in 1993. She is the daughter of Mr. James J. Cotter and the sister of James J. Cotter, Jr. and Ellen Cotter. Ms. Cotter is a limited partner in James J. Cotter Ltd., which is a general partner of Hecco Ventures. Ms. Cotter is also a member of Visalia LLC.

Mr. Gerard P. Laheney has been a director of the Company since September 27, 2002, and has been a director of Craig since 1990. Mr. Laheney served as a director of Reading Company, the predecessor of REI, between November 1993 and June 1996. From November 1998 to February 2000, Mr. Laheney served as chairman and president of BRI and a member of the management committee of each of the Agricultural Partnerships discussed below under the caption "*Certain Agricultural Transactions*" below. Between July 1995 and July 1996, Mr. Laheney was a consultant for Portfolio Resources Group advising on global equities, fixed income and foreign exchange investments. Mr. Laheney has been President of Aegis Investment Management Company, an investment advisory firm specializing in global investment portfolio management, since August 1993. Mr. Laheney was Vice President of the Partners Financial Group, Inc., between December 1993 and June 1995 and a Vice President of Dean Witter Reynolds from April 1990 to December 1993.

Mr. William C. Soady has been a director of the Company since August 24, 1999. Mr. Soady has been the Chief Executive Officer of ReelMall.com, an on-line movie memorabilia company since January 1, 2000. Prior to that, Mr. Soady served as the President of Distribution, PolyGram Films since 1997. Mr. Soady has also served as Director the Foundation of Motion Picture Pioneers, Inc. from 1981 to present, the Will Rogers Memorial Fund from 1981 to present and has been a member of the Motion Picture Academy of Arts & Sciences since 1982.

Mr. Alfred Villaseñor, Jr. has been a director of the Company since 1987. He has also served as a director for Fidelity Federal Savings and Loan. Mr. Villaseñor is the President and owner of Unisure Insurance Services, Incorporated, a corporation that has specialized in life, business and group health

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insurance for over 35 years. He is also a general partner in Plaza de Villa, a California real estate commercial center. Mr. Villaseñor is a director of the John Gogian Family Foundation and a director of Richstone Centers, a non-profit organization.

Ms. Ellen Cotter is the Chief Operating Officer of the Company's domestic cinema operations. Ms. Cotter is a graduate of Smith College and holds a juris doctor from Georgetown Law School. Prior to her involvement with the Company, Ms. Cotter spent four years in private practice as a corporate attorney with the law firm of White & Case in Manhattan. Ms. Cotter is the daughter of James J. Cotter and the sister of James J. Cotter, Jr. and Margaret Cotter, each of whom are directors of the Company. Ms. Cotter is a limited partner in James J. Cotter Ltd., which is a general partner of Hecco Ventures. Ms. Cotter is also a member of Visalia LLC.

Mr. Marsh has been with the Company since 1993 and is responsible for the Company's real estate activities. Prior to joining the Company, Mr. Marsh was the Senior Vice President of Burton Property Trust, Inc., the U.S. real estate subsidiary of the Burton Group PLC. In this position, Mr. Marsh was responsible for the real estate portfolio of that company.

Mr. Matyczynski was named Chief Financial Officer and Treasurer of the Company and Craig and the Chief Administrative Officer of REI on November 18, 1999. Mr. Matyczynski was named the Chief Financial Officer and Treasurer of REI effective June 2, 2000. Prior to joining Citadel, Mr. Matyczynski held various positions over a twenty-year period with Beckman Coulter in the U.S. and Europe. Beckman Coulter is a leading provider of instrument systems and related products that automate laboratory processes. His last position at Beckman Coulter was that of Worldwide Director of Financial Reporting and Accounting, as well as serving as a director for certain Beckman Coulter subsidiaries.

Mr. Pentecost has been the Chief Operating Officer for Australia and New Zealand since August 1999 and a director of Reading Australia since September 1999. Prior to joining Reading, Mr. Pentecost was with Hoyts, where he served in a number of positions, most recently serving as Operations and Services Manager (National). Mr. Pentecost joined Hoyts in 1995. Prior thereto, Mr. Pentecost served as the Director of Retail Services (Operations) for KFC in Australia.

Mr. Smerling was appointed President of Citadel Cinemas, Inc. effective September 1, 2000 following Citadel's acquisition of the City Cinemas. Mr. Smerling also served as the President and a director of REI. Mr. Smerling was the President of REI's various domestic and Puerto Rican exhibition subsidiaries since 1994. Mr. Smerling was the President of Loews Theater Management Corporation from May 1990 until November 1993. Mr. Smerling also served as President and Chief Executive Officer of City Cinemas Corporation, a motion picture exhibitor located in New York City, from November 1993 to September 2000.

Mr. Tompkins is the Executive Vice President, Director – Business Affairs and Corporate Secretary of the Company. Mr. Tompkins was a member of the Board of Directors of the Company from 1993 to September 26, 2002, resigning immediately prior to the election of Mr. Gerard P. Laheney and Ms. Margaret Cotter in order to allow for a board comprised of a majority of independent directors. Mr. Tompkins was elected Vice Chairman of the Board and Principal Accounting Officer and Treasurer in 1994. Mr. Tompkins resigned as Principal Accounting Officer and Treasurer in November 1999, upon the appointment of Andrzej Matyczynski to serve as the Company's Chief Financial Officer. For more than the past five years, Mr. Tompkins has been the President and a Director of Craig, the Vice Chairman of the Board of Directors of REI, and a Director and the Chairman of the Audit Committee of G&L Realty, Inc. (a New York Stock Exchange listed REIT). Prior to joining Reading, Mr. Tompkins was a partner in the law firm of Gibson Dunn & Crutcher. Mr. Tompkins was a director of Fidelity Federal Bank, FSB ("Fidelity"), where he served on the Audit and Compensation Committees, from April 2000 until the sale of that institution effective December 31, 2001.

Item 11 — Executive Compensation

Summary Compensation Table

As previously disclosed in the report on Form 10-K for the year ended December 31, 2000, Citadel, Reading and Craig had a management agreement in which Craig Corporation served as the management company for the Company and for Reading Entertainment, Inc. Pursuant to this arrangement, all executive officers and administrative employees (excluding consultants and directors) became employees of Craig Corporation and the general and administrative costs paid by Craig Corporation were allocated to each company. Accordingly, while the management agreement was in effect, Citadel did not have employees who were paid directly by the entity for which their services are rendered, except for the President of Citadel Cinemas, Inc. as disclosed below.

Effective December 31, 2001, Citadel Holding Corporation, Reading Entertainment, Inc., and Craig Corporation consolidated to form Reading International, Inc. (“RII” or the “Company”). All former employees of Citadel Holding Corporation, Reading Entertainment, Inc., and Craig Corporation have become employees of RII as the date of the consolidation and the management agreement between Citadel Holding Corporation, Craig Corporation and Reading Entertainment, Inc. that was in effect from January 1, 2000 to December 30, 2001 was terminated.

The names of the executive officers of the Company are as listed below in the summary compensation table that sets forth the compensation paid by RII for the year ended December 31, 2002 and the compensation paid by Citadel for the years ended December 31, 2001 and 2000 for each of the most highly compensated executive officers of the company.

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Securities	All Other Compensation(7)
		Salary	Bonus	Other Annual Compensation	Underlying Stock Options Granted	
James J. Cotter(2)	2002	\$ —	—	\$545,000	975,000	—
Chairman of the Board,	2001	—	—	\$545,000	—	—
President and Chief Executive Officer	2000	—	—	\$545,000	—	—
Brett Marsh(3)	2002	\$180,000	\$50,000	(1)	15,000	\$4,758
Vice President —	2001	\$180,500	\$25,000	(1)	—	\$4,580
Real Estate	2000	\$170,000	\$28,000	(1)	15,000	\$4,149
Andrzej Matczynski(4)	2002	\$189,000	—	(1)	35,000	\$5,261
Chief Financial Officer	2001	\$185,250	\$10,000	(1)	—	\$5,824
and Treasurer	2000	\$180,000	—	(1)	65,100	\$4,381
Robert F. Smerling(5)	2002	\$350,000	—	(1)	—	—
Director — Domestic	2001	\$350,000	—	(1)	—	—
Cinema Operations	2000	\$350,000	—	(1)	—	—
S. Craig Tompkins(6)	2002	\$410,500	—	(1)	—	\$5,849
Executive Vice President,	2001	\$410,500	—	(1)	—	\$5,644
Director — Business Affairs	2000	\$410,900	—	(1)	40,000	\$1,785

(1) Excludes perquisites if the aggregate amount thereof is less than \$50,000, or 10% of salary plus bonus, whichever is less.

(2) In fiscal 2001 and 2000, Mr. Cotter was paid a director’s fee of \$45,000 from Citadel and \$150,000 from Reading for his services as the Chairman of the Board. Mr. Cotter was also paid an annual consulting fee of \$350,000 from Craig in fiscal 2001 and 2000. In fiscal 2002, Mr. Cotter was paid \$545,000 from RII. Craig Corp owns a condominium in a high-rise building located in Hollywood, California, which the Company uses as an executive office, and which is personally used by Mr. Cotter. Since the incremental cost to the Company of Mr. Cotter’s personal use of these facilities does not exceed \$50,000 or 10% of his annual consulting fee, the cost has not been included as compensation in the table. Mr. Cotter was

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granted options to acquire 975,000 shares of Class A Nonvoting Common Stock on July 11, 2002. These shares vest over two years in equal amounts except for the 575,000 shares that vested immediately. Mr. Cotter does not receive separate compensation for serving as the President and Chief Executive Officer of the Company.

- (3) On July 2, 2002, Mr. Marsh was granted options to acquire 15,000 shares of the Class A Nonvoting Common Stock. These shares vest equally over four years except for 3,000 shares that vested immediately. On April 13, 2000, Mr. Marsh was granted options to acquire 15,000 shares of the Class A Nonvoting Common Stock. These shares vest equally over four years except for 3,000 shares that vested immediately.
- (4) Pursuant to his employment agreement, Mr. Matyczynski is entitled to a severance payment equal to six months' salary in the event his individual employment is involuntarily terminated. In addition, Mr. Matyczynski was granted a loan for \$33,000, which was forgiven ratably over three years, is entitled to annual other compensation of \$12,000 and is eligible for a discretionary bonus of up to 25% of his base salary. Mr. Matyczynski was also granted options to acquire 65,100 shares Class A Nonvoting common stock (including the 30,000 shares of Craig Corporation common stock options which converted in the Consolidation into an option to acquire 35,100 shares). The vesting schedule is as follows: 32,550 shares vested immediately and 10,850 shares vest on the each anniversary date following. On July 2, 2002, Mr. Matyczynski was granted additional options to acquire 35,000 shares of Class A Nonvoting Common Stock. These shares vest over four years in equal amounts except for the 7,000 shares that vested immediately.
- (5) Prior to September 20, 2000, City Cinemas, a third party affiliate, and Old Reading were parties to an executive-sharing arrangement for which Mr. Smerling was paid an annual salary of \$175,000. Effective September 1, 2000, the Company acquired the assets of City Cinemas and appointed Mr. Smerling as President of its domestic cinema operations, increasing his compensation to \$350,000 annually. Mr. Smerling is entitled to receive a payment of \$175,000 in the event his employment with the Company is involuntarily terminated. Mr. Smerling's salary shown above for the year ended December 31, 2001 and 2000 reflects compensation earned from Citadel Cinemas Inc.
- (6) Mr. Tompkins' salary shown above for each of the years ended December 31, 2001 and 2000 represents that aggregate compensation paid to him by the Company, Craig and REI with respect to such periods. Mr. Tompkin's salary show above for the year ended December 31, 2002 represents the aggregate compensation paid to him by RII. While no formal written agreement exists as to the terms of Mr. Tompkins' employment, Mr. Tompkins is entitled to receive his annual base salary for a period of one year (less \$40,000) in the event that his employment is involuntarily terminated and no change of control has occurred. Mr. Tompkins is entitled to a severance payment equal to two years base salary (less \$80,000) in the event of a change of control. Mr. Tompkins was granted options to acquire 40,000 shares of Class A Nonvoting Common Stock on April 13, 2000. These shares vest over four years in equal amounts except for the 8,000 shares that vested immediately.
- (7) All other compensation is primarily comprised of the employer's match of Craig's 401(k) plan.

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Option/ SAR Grants In Last Fiscal Year

During 2002, the Board of Directors of the Company granted options to the following directors and officers of the Company.

Name	Number of Securities Underlying Options/SARs Granted(#)(6)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Share)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
James J. Cotter(1)	975,000	88.23%	\$3.80	7/11/05	\$6,035,000	\$9,610,000
James Eric Barr(2)	20,000	1.81%	\$2.50	3/27/12	\$ 81,400	\$ 129,700
James J. Cotter, Jr.(2)	20,000	1.81%	\$2.50	3/27/12	\$ 81,400	\$ 129,700
Margaret Cotter(3)	20,000	1.81%	\$3.75	9/26/12	\$ 122,200	\$ 194,500
Gerard P. Laheney(3)	20,000	1.81%	\$3.75	9/26/12	\$ 122,200	\$ 194,500
Brett Marsh(4)	15,000	1.36%	\$3.80	7/02/12	\$ 92,800	\$ 147,800
Andrzej Matyczynski(5)	35,000	3.17%	\$3.80	7/02/12	\$ 216,600	\$ 345,000

(1) 575,000 shares vested immediately on July 11, 2002. Remaining shares will vest at 200,000 shares per year.

(2) 20,000 shares vested immediately on March 27, 2002.

(3) 20,000 shares vested immediately on September 26, 2002.

(4) 3,000 shares vested immediately on July 2, 2002. Remaining shares will vest at 3,000 shares per year.

(5) 7,000 shares vested immediately on July 2, 2002. Remaining shares will vest at 7,000 shares per year.

(6) Fiscal 2002 grants were for Reading International Inc. Class A Nonvoting Common Stock.

Aggregated Option/ SAR In Last Fiscal Year and Fiscal Year-End Option/ SAR Values

Name	Shares Acquired on Exercise(#)		Value Realized(\$)		Number of Securities Underlying Unexercised Options/SARs at FY-End Exercisable/Unexercisable		Value of Unexercised In-the-Money Options/SARs at FY-End\$(1) Exercisable/Unexercisable	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
James J. Cotter	—	—	—	—	575,000/400,000	833,580/0	\$46,000/\$32,000	\$0/\$0
James Eric Barr	—	—	—	—	20,000/0	—	\$27,600/0	—
James J. Cotter, Jr.	—	—	—	—	20,000/0	—	\$27,600/0	—
Margaret Cotter	—	—	—	—	20,000/0	35,100/0	\$2,600/0	\$0/\$0
Gerard P. Laheney	—	—	—	—	20,000/0	—	\$2,600/0	—
William Soady	—	—	—	—	20,000/0	—	\$22,400/0	—
Alfred Villaseñor, Jr.	—	—	—	—	20,000/0	—	\$22,400/0	—
Ellen Cotter	—	—	—	—	—	12,500/0	—	\$0/\$0
Brett Marsh	—	—	—	—	24,500/18,000	—	\$10,320/\$7,680	—
Andrzej Matyczynski	—	—	—	—	67,100/33,000	—	\$28,560/\$7,840	—
Robert F. Smerling	—	—	—	—	43,750/0	—	\$0/\$0	—
S. Craig Tompkins	—	—	—	—	89,950/16,000	—	\$26,880/\$17,920	—

(1) Calculated based on closing prices of \$3.88 and \$4.00 for Class A and Class B Common Stock, respectively.

Securities Authorized for Issuance Under Equity Compensation Plans

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted-average Exercise Price of Outstanding Options, Warrants, and Rights (b)		Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) (c)	
	Class A	Class B	Class A	Class B	Class A	Class B
Equity compensation plans approved by security holders	484,000	881,180	\$4.84	\$6.08	234,820(1)	234,820(1)
Equity compensation plans not approved by security holders	975,000	—	\$3.80	—	—	—
Total	1,459,000	881,180	\$4.15	\$6.08	234,820	234,820

(1) The aggregate total number of shares of Class A and Class B common stock authorized for issuance under the Company’s 1999 Stock Option Plan is 1,600,000. The presentation above reflects the fact that the options may be issued to acquire either Class A or Class B shares, up to an aggregate 1,600,000 of such shares, and the outstanding options cover, in aggregate, 1,365,180 shares of Class A and Class B common stock.

As described in the Report of the Compensation Committee set out below in these materials, On July 11, 2002 the Board of Directors granted to Mr. Cotter options to acquire 975,000 shares of Class A common stock. These options are so called non-qualified stock options, and were not granted under the Company’s 1999 Stock Option Plan. Accordingly, they have not been approved by the stockholders of the Company and are effective without any such approval on the part of stockholders. The principle terms of the option are as follows: **(i)** exercise price: \$3.80 per share, payable in cash or through surrender of shares of Class A or Class B common stock or the surrender of appreciated options to acquire shares of Class A or Class B common stock; **(ii)** exercise period: 4 years, the option expiring on July 11, 2005; **(iii)** vesting: 575,000 immediately, and 200,000 on July 11, 2003 and July 11, 2004, **(iv)** transferability: to heirs, family owned entities, and charitable trusts.

Indemnity Agreements

On June 27, 1990, the Board authorized RII to enter into indemnity agreements with its then current directors and officers. Since that time, RII’s new officers and directors have also entered into such agreements. In connection with the Consolidation of the Company with Craig and REI at the end of 2001, the stockholders of RII approved a new form of indemnity agreement. Under such agreements, RII, generally speaking, agrees to indemnify its officers and directors against all expenses, liabilities and losses incurred in connection with any threatened, pending or contemplated action, suit or proceeding, whether civil or criminal, administrative or investigative, to which any such officer or director is a party or is threatened to be made a party, in any manner, based upon, arising from, relating to or by reason of the fact that he is, was, shall be or shall have been an officer or director, employee, agent or fiduciary of RII. Each of the current directors and executive officers of RII is a party to an indemnity agreement with RII. Similar agreements also exist between RII and certain officers and directors of its subsidiaries.

Compensation of Directors

For their services as a director other than the Chairman of the Board, directors who are not officers or employees of the Company received an annual retainer of \$15,000 plus \$1,500 for each committee chairmanship, \$800 for each in-person meeting attended and \$300 for each telephonic meeting. The Chairman of the Board receives \$45,000 annually, which is included as part of his \$545,000 total annual compensation. In addition, directors who are not officers or employees of the Company receive, upon joining the Board, immediately vested options to purchase 20,000 shares of Class A Nonvoting Stock at an exercise price equal to the market price of such securities at the time of grant. Messrs. Barr and James J. Cotter, Jr. were granted

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options to purchase 20,000 shares each of the Company's Class A Nonvoting Stock on March 27, 2002 at an exercise price of \$2.50 per share. Ms. Margaret Cotter and Mr. Laheney were granted options to purchase 20,000 shares each of the Company's Class A Nonvoting Stock on September 26, 2002 at an exercise price of \$3.75 per share.

Effective January 1, 2003, a flat retainer fee of \$25,000 per year will be paid quarterly, in arrears, to the directors other than the Chairman of the Board. The Chairman of the Audit Committee will receive an additional \$2,000 per year. The Chairman will continue to receive \$45,000 per year as part of his \$545,000 total annual compensation. Ms. Margaret Cotter has agreed to serve as a director without any consideration other than her stock options.

In March 2002, Mr. Soady was paid a directors fee of \$25,000 for his work as the Chairman of the Company's Conflicts Committees, and Mr. Villaseñor was paid \$10,000 for his work as the only other member of the Conflicts Committee with respect to the Consolidation.

Compensation Committee Interlocks and Insider Participation

Messrs. Laheney, Soady and Villaseñor serve on the Company's Compensation Committee. Until September 2002, Mr. Laheney was a director of CRG. Mr. Cotter is the Chairman of the Board of RII and also served as the Chief Executive Officer of the CDL, CRG and REI prior to October 16, 2000 and subsequent to December 26, 2000 and served as a member of the Company's Compensation Committee until March 002. Mr. Cotter was the controlling stockholder of CDL, CRG and REI and is the principal stockholder of RII.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's officers, directors and persons who own more than 10% of the Company's Common Stock to file reports to ownership and changes in ownership with the SEC. The SEC rules also require such reporting persons to furnish the Company with a copy of all Section 16(a) forms they file.

Based solely on a review of the copies of the forms which the Company received and written representations from certain reporting persons, the Company believes that, during the fiscal year ended December 31, 2002, all filing requirements applicable to its reporting persons were complied with.

Item 12 — Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the shares of common stock, beneficially owned as of March 26, 2003 by **(i)** each director and nominee, **(ii)** each person known to the Company to be the beneficial owner of more

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than 5% of the Common Stock, and (iii) all directors and executive officers as a group. Except as noted, the indicated beneficial owner of the shares has sole voting power and sole investment power.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(10)			
	Class A Non-Voting		Class B Voting	
	Number of Shares	Percentage of Stock	Number of Shares	Percentage of Stock
James J. Cotter(1)(2)	6,353,660	30.2%	1,161,388	53.5%
James Eric Barr(1)(3)	20,000	*	—	—
James J. Cotter, Jr.(1)(2)(3)	20,000	*	—	—
Margaret Cotter(1)(2)(3)	20,000	*	35,100	2.6%
Gerard P. Laheney(1)(3)	20,000	*	—	—
William C. Soady(1)(3)	20,000	*	—	—
Alfred Villaseñor, Jr.(1)(3)	20,000	*	—	—
Hecco Ventures(4) 120 North Robertson Blvd. Los Angeles, CA 90048	1,565,782	7.6%	—	—
Michael Forman(5) 120 North Robertson Blvd. Los Angeles, CA 90048	1,311,233	6.4%	327,808	24.5%
Pacific Assets Management LLC/ JMB Triton Offshore Fund Ltd(6) 1999 Avenue of the Starts, #2530 Los Angeles, CA 90067	—	—	233,040	17.4%
Private Management Group(7) 20 Corporate Park, Suite 400 Irvine, CA 92606	—	—	98,150	7.4%
Lawndale Capital Management/ Diamond A Partners LP/ Andrew E. Shapiro(8) One Sansome Street, Suite 3800 San Francisco, CA 94104	—	—	99,280	7.4%
Dimensional Fund Advisors(9) 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	—	—	73,180	5.5%
All directors and Executive(10) Officers as a Group (12 persons)	6,676,600	31.2%	1,208,988	54.4%

* Less than 1%.

(1) 550 South Hope Street, Suite 1825, Los Angeles, California 90071.

(2) Mr. Cotter directly owns 4,212,878 shares of Class A common stock (inclusive of 7,500 shares held in Mr. Cotter's profit sharing plan) and 327,808 shares of Class B common stock. Mr. Cotter has currently exercisable stock options to acquire 575,000 and 833,580 shares of RII Class A Nonvoting and RII Class B Voting common stock, respectively. Mr. Cotter is also considered the beneficial owner of 1,565,782 shares of RII Class A Nonvoting common stock owned by Hecco Ventures, a general partnership ("HV"). Mr. Cotter has voting and investment power with respect to these shares and is the general partner of James J. Cotter Ltd., the general partner of HV. Mr. James J. Cotter, Jr. and Ms. Margaret Cotter are Mr. Cotter's son and daughter, serve on the Board of Directors and have options to acquire 20,000 shares of RII Class A Nonvoting common each. In addition, Margaret Cotter holds currently exercisable options to acquire 35,100 shares of the Company's Class B Voting common stock. Ellen Cotter is the daughter of Mr. Cotter, the sister of Mr. Cotter, Jr., and Margaret Cotter, the Chief Operating Officer of the Company's domestic cinemas and holds currently exercisable options to acquire 12,500 shares of the Company's Class B Voting common stock. Mr. James J. Cotter Jr. and

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Ms. Margaret Cotter are, together with their sister Ellen Cotter, the sole limited partners of the James J. Cotter Ltd.

- (3) Includes 20,000 shares of Class A Nonvoting Common Stock for each of the directors which may be acquired through the exercise of currently exercisable stock options.
- (4) Hecco Ventures (“HV”) is a California general partnership. James J. Cotter is the general partner of a limited partnership which is the general partner of HV. The other general partners of HV are Michael Forman and a subsidiary of the Decurion Corporation, a company privately owned by Michael Forman and certain members of his family. HV has granted Mr. Cotter the right to vote the shares held by it. Accordingly, Mr. Cotter has sole voting power and shared investment power.
- (5) Based on Form 3 filed April 25, 2001.
- (6) Based on Schedule 13-G filed January 17, 2002 for RII Class B Voting common stock shares. Pacific Asset Management LLC (“Pacific”) does not hold the securities as part of a group. However, Pacific serves as the investment manager to the direct beneficial owner, JMG Triton Offshore Fund, Ltd. and has the power to determine whether or when the securities will be sold.
- (7) Based on Schedule 13-G filed February 11, 2003 for RII Class B Voting common stock shares.
- (8) Based on Schedule 13-D filed March 26, 2002 for RII Class B Voting common stock which includes shares which are owned of record by Diamond A Partners, L.P (“DAP”) and by Diamond A Investors L.P (“DAI”) over which Lawndale Capital Management, Inc. (“LCM”) and Andrew E. Shapiro have shared voting and dispositive power. According to filings with the SEC, Lawndale Capital Management, Inc. is the investment advisor to DAP and DAI, which are investment limited partnerships and Mr. Shapiro is the sole manager of LCM.
- (9) Based on Schedule 13-G filed February 7, 2003 for RII Class B Voting common stock shares.
- (10) Beneficial ownership is based on 20,484,813 shares of Class A Voting and 1,336,334 shares of Class B Voting common stock outstanding as of December 31, 2002, plus all options exercisable within 60 days of year-end for such persons holding such options. Shares exercisable within 60 days of the year-end are deemed outstanding for the person holding such options but not deemed outstanding for any other person.

Item 13 — *Certain Relationships and Related Transactions*

General

On December 31, 2001, Craig Corporation (“CRG” and collectively with its corporate predecessors and wholly owned subsidiaries “Craig”), and Reading Entertainment, Inc. (“REI” and collectively with its corporate predecessors and consolidated affiliates “Old Reading”) merged with two wholly owned subsidiaries of Citadel Holding Corporation in a merger-of-equals consolidation (the “Consolidation”). As a part of the Consolidation, Citadel Holding Corporation changed its name to Reading International, Inc. (“RII” and collectively with its corporate predecessors and consolidated affiliates “Reading”). For purposes of this discussion, Citadel Holding Corporation as it existed before the Consolidation is referred to as CDL, and is referred to collectively with its then corporate predecessors and consolidated affiliates as “Citadel.” In the Consolidation, each share of CRG common stock and common preference stock was converted into the right to receive 1.17 shares of RII Class A Nonvoting Common Stock (the “RII Class A Common Stock”), and each share of REI common stock was converted into the right to receive 1.25 share of RII Class A Common Stock. The CDL Class A Nonvoting Common Stock and CDL Class B Voting Common Stock became, upon the name change of Citadel Holding Corporation to Reading International, Inc., shares of RII Class A Common Stock and RII Class B Voting Common Stock (the “RII Class B Common Stock”).

Prior to the Consolidation, Citadel, Craig and Old Reading were operated as part of a group of commonly controlled companies (the “Craig Group of Companies”). Mr. James J. Cotter was the Chairman and Chief Executive Officer of each of CDL, CRG and REI. Mr. S. Craig Tompkins was the President and a Director of CRG and the Vice Chairman of the Board of each of CDL and REI. Mr. Andrzej Matyczynski was the Chief Financial Officer of each of CDL, CRG and REI, and Mr. Robert Smerling was the President and a Director

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of REI and the head of Citadel's domestic cinema operations. Robert M. Loeffler was also a director and a member of the audit committees of each of the three companies.

Old Reading was principally engaged in two lines of business (1) the development, ownership and operation of multiplex cinemas in Australia, New Zealand and Puerto Rico, and (2) the development, ownership and operation of cinema based entertainment-themed retail centers and other real estate development activities in Australia and New Zealand. Citadel was likewise principally engaged in two lines of business (1) the development, ownership and operation of multiplex cinemas (focusing primarily on the art and upper-end film market) and "Off Broadway" style live theaters in the United States and (2) the ownership and operation of commercial real estate. Craig was principally in the business of owning interests in and providing management services to Old Reading and Citadel.

Mr. James J. Cotter, in addition to serving as the Chairman of the Board and Chief Executive Officer of each of CRG, CDL, and REI owned or otherwise had voting control over each of the companies in the Craig Group of Companies. Specifically, Mr. Cotter owned or otherwise controlled securities representing more than 50% of the voting power of CRG, which in turn owned securities representing more than 50% of the voting power of REI. Mr. Cotter, together with CRG and REI owned securities representing 49.3% of the voting power of CDL.

In part due to this overlapping ownership and control, there have been in the past a significant number of related party transactions between the members of the Craig Group of Companies, and their various affiliates. The Consolidation was intended, among other things, to address and mitigate these conflict of interest situations.

Overlapping Management

Prior to 2000, the members of the Craig Group of Companies allocated certain overhead expenses and provided various management services to one another pursuant to various cost sharing and consulting arrangements. During 2000, Old Reading moved its executive offices from Philadelphia to Los Angeles, and the members of the Craig Group of Companies reorganized and consolidated their general and administrative staffs under CRG. Consequently, substantially all of the general and administrative employees of the Craig Group of Companies were, until the Consolidation, employed directly by CRG, and receive all of their health, medical, retirement and other benefits from CRG. The general and administrative expense of the Craig Group of Companies was then periodically allocated, in accordance with the amount of time spent by these employees providing services for the respective member of the group.

Certain Transactions Between the Members of the Craig Group of Companies, and their Affiliates

Certain Entertainment Property Transactions

In 1999, Old Reading determined that, in view of its limited capital resources and the size and scope of its investments and commitments in Australia and New Zealand, it should focus on its overseas activities and dispose of its domestic entertainment assets. During this same period, Citadel was searching for hard asset investment opportunities in which to invest its cash (\$21,440,000 at June 30, 1999).

In the summer of that year, management began conversations with National Auto Credit, Inc. ("NAC"), about a potential transaction in which NAC would acquire, in partnership with Citadel, all of the domestic cinema assets of Old Reading, including Old Reading's rights to acquire the Manhattan based City Cinemas chain. In April 2000 Old Reading conveyed a 50% membership interest in Angelika Film Centers, Inc. ("AFC") to NAC in consideration of the issuance to it of certain securities and granted to NAC, in consideration of the payment by NAC to Old Reading of an option fee of \$500,000, an option to acquire the remainder of Readings domestic cinema assets. That option was subject to the right of Citadel to participate as a 50/50 partner with NAC in those assets, if Citadel were to so elect. Ultimately, NAC determined not to exercise that option, and determined instead to invest in a developmental ".com" company. Reading has resold to NAC the securities it received in consideration of the transfer of the 50% membership interest in AFC for gross proceeds of approximately \$14,702,000.

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During this same period, Citadel determined to proceed with the acquisition from Old Reading of the remainder of Old Reading's domestic entertainment assets. During 2000 and the first quarter of 2001, Reading conveyed to Citadel the following domestic entertainment assets:

1. *The City Cinemas and Liberty Theaters Transactions.* In December 1998, Old Reading entered into an agreement (the "Sutton Agreement") with Messrs. James J. Cotter and Michael Forman and certain of their affiliates (collectively referred to here in as "Sutton") to acquire the City Cinemas chain (the "City Cinemas Transaction") and Off Broadway Investments, Inc. ("Liberty Theaters")(the "Liberty Theaters Merger"). In 2000, Old Reading assigned that agreement to Citadel, and Citadel reimbursed to Old Reading the deposit Reading had made to Sutton under the Sutton Agreement. In September 2000, Citadel closed the City Cinemas Transaction and the Liberty Theaters Merger. In the City Cinemas Transaction, Citadel leased from Sutton, under a ten-year operating lease (the "Operating Lease"), four cinemas, obtained certain management rights with respect to an additional six cinemas, and purchased City Cinemas' 16.7% membership interest in AFC. Citadel also obtained certain options (referred to here collectively as the "Asset Purchase Option"), exercisable in ten years, to purchase the assets subject to the Operating Lease, including two fee interests, for \$48,000,000, and committed, in 2007, to lend Sutton up to \$28,000,000 (the "Standby Line of Credit"). Citadel also merged with Liberty Theaters, issuing CDL common stock for all of the outstanding shares of Liberty Theaters. The Liberty Theaters stock was valued at \$10,000,000 in the transaction. As a result of the City Cinemas Transaction, the management of NY Angelika, and two other domestic cinemas owned by Old Reading, was transferred from City Cinemas to Citadel.

2. *Sale of the Murray Hill Cinema.* In September 2001, Sutton received an offer to purchase the Murray Hill cinema (one of the cinemas subject to the Operating Lease and the Asset Purchase Option) for \$10,000,000. Citadel agreed to release the Murray Hill cinema from the Operating Lease and the Asset Purchase Option. As a consequence of the release of the Murray Hill cinema from the Operating Lease and the Asset Purchase Option, it was agreed that upon the closing of that sale, the rent payable under the Operating Lease would be reduced by approximately \$825,000 per year, the exercise price of the Asset Purchase Option would be decreased by \$10,000,000 from \$48,000,000 to \$38,000,000, and the Standby Line of Credit would be reduced by \$10,000,000 from \$28,000,000 to \$18,000,000. In addition, Citadel was to receive at the closing a two year option pursuant to which it could elect either (i) to receive a payment of \$500,000 in consideration of its surrender of its tenant's interest in the Murray Hill cinema, or (ii) to purchase at par a 25% interest in the combined development of the Murray Hill site and the 3,703 square foot property adjacent to the Murray Hill cinema. It is anticipated that a project of up to 111,730 square feet could be constructed upon the combined properties.

3. *Modification of the Murray Hill Transaction.* In late 2001, the sale transaction was modified, to provide for partial payment of the purchase price of the Murray Hill cinema through the delivery of a two-year purchase money promissory note (the "Murray Hill Promissory Note") in the amount of \$7,500,000, secured by the Murray Hill property. In consideration of its agreement to this modification, and to its agreement to (a) take back the Murray Hill cinema under the Operating Lease at an annual rent of approximately \$618,750, and (b) to increase the Standby Line of Credit by \$7,500,000 to \$25,500,000 in the event that Sutton is required to take back the Murray Hill property, Citadel received a license (the "License Agreement") to continue to operate the Murray Hill cinema until shortly before the payment (or prepayment) of the Murray Hill Promissory Note, for no occupancy charges other than property tax and utilities, and the right to put the Murray Hill cinema back under the Asset Purchase Option, at an exercise price of \$7,500,000. The Murray Hill cinema sale was closed in February 2002.

4. *The Domestic Cinema Transactions.* In September 2000, Citadel also acquired from Old Reading the rights to the Angelika Film Center & Café project in Dallas, Texas — an eight screen Angelika style cinema that opened in August 2001 (the "Dallas Angelika"). In this transaction, Citadel reimbursed to Old Reading its costs to date in the development, and assumed Reading's obligations under the lease. Old Reading, in turn, assigned to Citadel its interest in the lease and committed to reimburse to Citadel a portion of its investment in the Dallas Angelika if Citadel did not achieve at least a 20% return on equity during the second year of operation of the cinema. In March 2001, Old Reading sold the

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remainder of its domestic cinema assets (other than its residual 33.3% membership interest in AFC) to Citadel in consideration of the issuance by Citadel of two-year purchase money promissory note in the amount of \$1,906,000.

5. *The Royal George Theatre Complex Transaction.* In March 1999, Old Reading acquired for approximately \$3,000,000 the Royal George Theater Complex, a four auditorium fee property located in Chicago. The Royal George was acquired in a newly formed limited liability company (“RGT”), and in contemplation of the acquisition of Liberty Theaters. In June 2000, Citadel lent to RGT the funds needed to retire the purchase money note issued by RGT to acquire the complex, in consideration of the issuance to Citadel of a promissory note, bearing interest at the rate of 10.0% per annum, and in September 2000, acquired the Royal George Theatre Complex from Old Reading at approximately the same price as was paid by Reading for that complex in March 1999.

6. *Management of Live Theater Assets.* Prior to the Liberty Theaters Merger, the live theater assets of Liberty Theaters and the Royal George Theatre Complex were booked and managed by Union Square Management, Inc., a third party theater management company. Ms. Margaret Cotter, the daughter of James J. Cotter, was at that time the Senior Vice President of that company. Subsequent to the merger, the live theaters are managed as discussed below under **OBI Management Agreement**.

From time to time the members of the Craig Group of Companies, and Mr. Cotter and the other members of management, have been afforded the opportunity to invest in the plays that play or may play in the live theaters owned by the Company. These investments are monitored by Mr. Cotter, and periodically reported to the RII Conflicts Committee.

Certain Agricultural Transactions

Prior to the Consolidation, the Craig Group of Companies collectively owned approximately 60% of the equity interest in three partnerships (the “Agricultural Partnerships”) formed in 1997 to purchase approximately 1,600 acres of agricultural land in Southern California commonly known as the “Big 4 Ranch.” The property is principally improved with mature citrus groves. In order to satisfy certain federal laws relating to access to federal water supplies, the ownership of the Big 4 Ranch was taken in the Agricultural Partnerships, which are owned 40% by Citadel, 40% by Big 4 Ranch, Inc. (“BRI”) and 20% by Visalia LLC (“Visalia”).

Visalia is owned 49% by certain members of James J. Cotter’s family and 51% by Cecelia Packing (“Cecelia”) a company wholly owned by Mr. Cotter. The outside Directors of CDL felt that it was important that Mr. Cotter acquire an equity interest in the Agricultural Partnerships, since Citadel was relying principally upon his expertise and experience in making and providing executive supervision of the investment.

BRI was initially a wholly owned subsidiary of CDL, and was spun off to the stockholders of CDL immediately prior to the acquisition by the Agricultural Partnerships of Big 4 Ranch. Accordingly, Craig and Old Reading received their interests in BRI initially as a result of that spin-off. Thereafter, Craig increased its holdings in BRI through the purchase of additional BRI shares in privately negotiated transactions. Craig and Old Reading own their interests in the Agricultural Partnerships indirectly through their ownership of CDL and BRI shares. Prior to the Consolidation, Craig and Reading controlled BRI, owning 49% of the voting power of that company. In addition, Cecelia and a trust for the benefit of one of Mr. Tompkins’s children own an additional 3.2% of BRI. Historically, the officers and directors of CRG have served as the officers and directors of BRI.

Shortly before the Consolidation, Craig and Old Reading sold all of their interest in BRI to a third party for \$100, plus an option to repurchase the interest exercisable at any time on or before December 31, 2006 at an exercise price of \$100. Under applicable federal water laws, Reading would have owned more than the allowable amount of federally irrigated agricultural land, if it had retained its interest in BRI after the Consolidation. As discussed at greater length below, Reading believes that the stock of BRI is essentially valueless, since the debt owed by the Agricultural Partnerships is currently in excess of the value of its assets.

The Big 4 Ranch was farmed by Big 4 Ranch Farming, LLC (“Farming”), which is owned 80% by Citadel and 20% by Cecelia. Farming was reimbursed for all of its out-of-pocket costs by the Agricultural

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Partnerships, plus a fee equal to 5% of the gross revenues of the Agricultural Partnerships, after deducting the expenses of picking, packing and hauling. Farming, in turn, contracts with Cecelia for certain bookkeeping and administrative services, for which it paid a fee of \$6,000 per month. Farming was reimbursed for this expense from the Agricultural Partnerships. Cecelia also packed fruit for the Agricultural Partnerships, and was paid \$806,000 and \$1,146,000 for 2002 and 2001, respectively. The Craig Group of Companies provided various administrative services for the Agricultural Partnerships and BRI, for which they received no compensation.

Due to a variety of factors, principally bad weather and market conditions, the Agricultural Partnerships had lost in excess of 100% of their equity, and were being funded by loans from Reading and Visalia. As of December 31, 2001, Reading and Visalia lent \$4,840,000 and \$820,000, respectively, to the Agricultural Partnerships and in addition, guaranteed (on an 80/20 basis) certain equipment leases entered into by the Agricultural Partnerships. Following the loss by the Agricultural Partnerships of their crop due to a freeze in December 1998, Reading and Visalia funded the Agricultural Partnerships on an 80/20 basis. BRI, which has essentially no assets other than its original interest in the Agricultural Partnerships, did not have the capital resources to contribute to the ongoing funding of the Agricultural Partnerships.

Reading carried the value of its investment in the Agricultural Partnerships as \$0 since January 2000 and on July 1, 2002, the Agricultural Partnerships reconveyed the Big 4 Ranch to the original owner in consideration of release from all obligations and liabilities otherwise owed to the original owner. The Company is currently in the process of winding up its agricultural activities.

OBI Management Agreement

The Company's live theater operations are managed by OBI Management, which is wholly owned by Margaret Cotter, the daughter of James J. Cotter and a director of RII, pursuant to a Theater Management Agreement (the "Management Agreement").

The Management Agreement generally provides that the Company will pay OBI Management a combination of fixed and incentive fees which historically have equated to slightly less than 20% of the net cash flow received by the Company from its live theaters in New York. Since the fixed fees are applicable only during such periods as the New York theaters are booked, OBI Management will receive no compensation with respect to a theater at any time when it is not generating revenues for the Company. This arrangement provides an incentive to OBI Management to keep the theaters booked with the best available shows, and mitigates the negative cash flow that would result from having an empty theater. For its management services for the Royal George Theater Complex in Chicago, the Company paid OBI Management \$35,000 with respect to 2002, compared to \$20,000 paid by the Company with respect to 2001, plus in each year reimbursement of travel related expenses for OBI Management personnel with respect to travel between New York City and Chicago in connection with the management of the Complex. The Company paid OBI Management \$446,000 with respect to 2002 and \$321,000 with respect to 2001 for its management services for Liberty Theaters. By comparison, in the year immediately prior to its acquisition by the Company, Liberty Theaters paid approximately \$410,000 for management services with respect to its then three New York based cinemas.

OBI Management operates from office facilities owned by the Company on a rent-free basis, and the Company shares the cost of one administrative employee of OBI Management located at those offices. Other than these expenses and travel-related expenses for OBI Management personnel to travel to Chicago as referred to above, OBI Management is responsible for all of its costs and expenses relating to the performance of its management functions. The Management Agreement will expire on December 31, 2003, but will renew automatically for successive one-year periods unless either party gives at least six months' prior notice of intention to allow the Management Agreement to expire. The Management Agreement is terminable at any time by the Company for cause.

Prior to the time Liberty Theaters was acquired by the Company in 2000, its theaters were managed by Union Square Management, Inc., a company in which Ms. Cotter was employed, but which was owned by parties unrelated to Mr. Cotter or the Company. OBI Management took over management of the Liberty Theaters live theaters shortly before Liberty Theaters was acquired by the Company, and from the time of that

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transaction until March 13, 2003, OBI Management provided such management services on an “at will basis” and on generally the same terms, including terms related to compensation, as such services had previously been provided by Union Square Management, Inc. Accordingly, the cost of this management structure was taken into account by the Company’s then Conflicts Committee at the time it approved the acquisition of Liberty Theaters. The current Management Agreement was approved by the Company’s Audit and Conflicts Committee on March 13, 2003, and has been applied retroactively to January 1, 2002. The Management Agreement is substantially similar to Liberty Theaters’ prior arrangement with Union Square Management, Inc., except that **(i)** it has been expanded to include the management of the Royal George Theater Complex on a flat-fee basis, **(ii)** the cost of any new capital improvements to the New York theaters will be amortized over the life of those improvement consistent with Generally Accepted Accounting Principles for purposes of calculating net cash flow rather than being expensed in the year incurred, and **(iii)** in those cases where the Company assists in the financing of plays appearing in its theaters, any profits and losses to the Company resulting from such financing will be factored in by calculating theater cash flow for purposes of determining OBI Management’s incentive compensation.

Investment in Live Theater Production

During the second quarter of 2002, the Company invested approximately \$85,000 in the I Love You Productions Joint Venture for a 25% interest. Sutton Hill Capital, LLC., which is owned 50% by Mr. James J. Cotter (the Chairman of the Board and Chief Executive Officer of Reading), also made a 25% investment in the I Love You Productions Joint Venture.

Certain Family Relationships

Mr. James J. Cotter, Sr., the principal stockholder of Reading, has advised the Board of Directors that he considers his holdings in Reading to be long-term investments to be passed to his heirs. The Directors of Reading believe that it is in the best interests of these companies, and their respective stockholders, for heirs to become experienced in the operations and affairs of the Company. Accordingly, all of Mr. Cotter’s children are currently involved with the Company.

- Mr. James J. Cotter, Jr. was elected to the Board of Directors of RII on March 21, 2002, and is a former director of Gish Biomedical Inc. Mr. J. Cotter, Jr. is a graduate of the Brown University, and obtained his law and tax degrees from the New York University. He is currently in the private practice of law with the firm of Winston & Strawn, in Manhattan.
- Ms. Margaret Cotter was elected to the Board of Directors on September 27, 2002. She is a member of the Board of Directors of CRG and BRI, has served as an officer of Cecelia and Union Square Management, Inc., and is the owner and President of OBI LLC (“OBI Management”), a company that provides management services to the Company’s live theaters as discussed above under “**OBI Management Agreement.**” Ms. Margaret Cotter has an undergraduate degree from Georgetown and a juris doctorate from Georgetown Law School. She then spent four years as an assistant district attorney and felony trial prosecutor in New York prior to joining the Company.
- Ms. Ellen Cotter is the Chief Operating Officer — Domestic Cinemas. Ms. Ellen Cotter has direct or indirect ownership interests in Visalia and Hecco Ventures, a California general partnership and major RII shareholder. Ms. E. Cotter is a graduate of Smith College and holds a juris doctorate from Georgetown Law School. She was in private practice with the law firm of White & Case as a corporate attorney for four years prior to joining the Company.

Mr. James J. Cotter, Sr. is the general partner of a limited partnership which is the general partner of Hecco Ventures. Each of James J. Cotter, Jr., Margaret Cotter and Ellen Cotter are limited partners in this partnership and members of Visalia.

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Certain Miscellaneous Transactions

Reading has loaned to Mr. Smerling \$70,000 pursuant to a demand loan.

Item 14 — Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of a date within 90 days of the filing date of this Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14[c] and 15d-14[c] under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. There were no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of their most recent evaluation.

PART IV

Item 15 — Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Financial Statements

Description	Pg. No
Independent Auditors Report	49
Consolidated Balance Sheets as of December 31, 2002 and 2001	50
Consolidated Statements of operations for Each of the Three Years in the Period Ended December 31, 2002	51
Consolidated Statements of Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 2002	52
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 2002	53
Notes to Consolidated Financial Statements	54

All schedules other than those listed above are omitted because they are not applicable, not required, or the information required to be set forth herein is included in the financial statements or the notes thereto.

(b) Reports on Form 8-K

None

(c) Exhibits (Items denoted by * represent management or compensatory contract)

- 3.1 Certificate of Amendment of Restatement Articles of Incorporation of Citadel Holding Corporation (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
- 3.2 Restated By-laws of Citadel Holding Corporation, a Nevada corporation (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
- 3.3 Certificate of Amendment of Articles of Incorporation of Citadel Holding Corporation (filed as Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
- 3.4 Articles of Merger of Craig Merger Sub, Inc. with and into Craig Corporation (filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
- 3.5 Articles of Merger of Reading Merger Sub, Inc. with and into Reading Entertainment, Inc. (filed as Exhibit 3.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

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- 10.1 Tax Disaffiliation Agreement, dated as of August 4, 1994, by and between Citadel Holding Corporation and Fidelity Federal Bank (filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference).
- 10.2 Standard Office lease, dated as of July 15, 1994, by and between Citadel Realty, Inc. and Fidelity Federal Bank (filed as Exhibit 10.42 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).
- 10.3 First Amendment to Standard Office Lease, dated May 15, 1995, by and between Citadel Realty, Inc. and Fidelity Federal Bank (filed as Exhibit 10.43 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).
- 10.4 Guaranty of Payment dated May 15, 1995 by Citadel Holding Corporation in favor of Fidelity Federal Bank (filed as Exhibit 10.47 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).
- 10.5 Exchange Agreement dated September 4, 1996 among Citadel Holding Corporation, Citadel Acquisition Corp., Inc. Craig Corporation, Craig Management, Inc., Reading Entertainment, Inc., Reading Company (filed as Exhibit 10.51 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- 10.6 Asset Put and Registration Rights Agreement dated October 15, 1996 among Citadel Holding Corporation, Citadel Acquisition Corp., Inc., Reading Entertainment, Inc., and Craig Corporation (filed as Exhibit 10.52 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).
- 10.7 Articles of Incorporation of Reading Entertainment, Inc., A Nevada Corporation (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
- 10.7a Certificate of Designation of the Series A Voting Cumulative Convertible preferred stock of Reading Entertainment, Inc. (filed as Exhibit 10.7a to the Company's Annual Report on Form 10-K for the year ended December 31, 1999, and incorporated herein by reference).
- 10.8 Lease between Citadel Realty, Inc., Lessor and Disney Enterprises, Inc., Lessee dated October 1, 1996 (filed as Exhibit 10.54 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference).
- 10.9 Second Amendment to Standard Office Lease between Citadel Realty, Inc. and Fidelity Federal Bank dated October 1, 1996 (filed as Exhibit 10.55 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference).
- 10.10 Citadel 1996 Nonemployee Director Stock Option Plan (filed as Exhibit 10.57 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996, and incorporated herein by reference).
- 10.11 Reading Entertainment, Inc., Annual Report on Form 10-K for the year ended December 31, 1997 (filed as Exhibit 10.58 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.12 Stock Purchase Agreement dated as of April 11, 1997 by and between Citadel Holding Corporation and Craig Corporation (filed as Exhibit 10.56 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
- 10.13 Secured Promissory Note dated as of April 11, 1997 issued by Craig Corporation to Citadel Holding Corporation in the principal amount of \$1,998,000 (filed as Exhibit 10.60 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
- 10.14 Agreement for Purchase and Sale of Real Property between Prudential Insurance Company of America and Big 4 Farming LLC dated August 29, 1997 (filed as Exhibit 10.61 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
- 10.15 Second Amendment to Agreement of Purchase and Sale between Prudential Insurance Company of America and Big 4 Farming LLC dated November 5, 1997 (filed as Exhibit 10.62 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).
- 10.16 Partnership Agreement of Citadel Agricultural Partners No. 1 dated December 19, 1997 (filed as Exhibit 10.63 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

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- 10.17 Partnership Agreement of Citadel Agricultural Partners No. 2 dated December 19, 1997 (filed as Exhibit 10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.18 Partnership Agreement of Citadel Agricultural Partners No. 3 dated December 19, 1997 (filed as Exhibit 10.65 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.19 Farm Management Agreement dated December 26, 1997 between Citadel Agricultural Partner No. 1 and Big 4 Farming LLC (filed as Exhibit 10.67 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.20 Farm Management Agreement dated December 26, 1997 between Citadel Agricultural Partner No. 2 and Big 4 Farming LLC (filed as Exhibit 10.68 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.21 Farm Management Agreement dated December 26, 1997 between Citadel Agricultural Partner No. 3 and Big 4 Farming LLC (filed as Exhibit 10.69 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.22 Line of Credit Agreement dated December 29, 1997 between Citadel Holding Corporation and Big 4 Ranch, Inc. (filed as Exhibit 10.70 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.23 Management Services Agreement dated December 26, 1997 between Big 4 Farming LLC and Cecelia Packing (filed as Exhibit 10.71 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.24 Agricultural Loan Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agriculture Partner No. 1 (filed as Exhibit 10.72 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.25 Agricultural Loan Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agriculture Partner No. 2 (filed as Exhibit 10.73 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.26 Agricultural Loan Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agriculture Partner No. 3 (filed as Exhibit 10.74 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.27 Promissory Note dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partners No. 1 (filed as Exhibit 10.75 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.28 Promissory Note dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partners No. 2 (filed as Exhibit 10.76 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.29 Promissory Note dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partners No. 3 (filed as Exhibit 10.77 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.30 Security Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partnership No. 1 (filed as Exhibit 10.78 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.31 Security Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partnership No. 2 (filed as Exhibit 10.79 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.32 Security Agreement dated December 29, 1997 between Citadel Holding Corporation and Citadel Agricultural Partnership No. 3 (filed as Exhibit 10.80 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).
- 10.33 Administrative Services Agreement between Citadel Holding Corporation and Big 4 Ranch, Inc. dated December 29, 1997 (filed as Exhibit 10.81 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

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10.34	Reading Entertainment, Inc. Annual Report on Form 10-K for the year ended December 31, 1998 (filed as Exhibit as 10.41 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).
10.35	Reading Entertainment, Inc. Annual Report on Form 10-K for the year ended December 31, 1999 (filed by Reading Entertainment Inc. as Form 10-K for the year ended December 31, 1999 on April 14, 2000 and incorporated herein by reference).
10.36	Promissory note dated December 20, 1999 between Citadel Holding Corporation and Nationwide Life Insurance 3 (filed as Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.37*	Employment Agreement between Citadel Holding Corporation and Andrzej Matyczynski (filed as Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.38	Citadel 1999 Employee Stock Option Plan (filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).
10.39	Amendment and Plan of Merger By and Among Citadel Holding Corporation and Off-Broadway Theatres, Inc. (filed as Exhibit A to the Company's Proxy Statement and incorporated herein by reference).
10.40	Amended and Restated Lease Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 between Sutton Hill Capital, L.L.C. and Citadel Cinemas, Inc. (filed herewith).
10.41	Amended and Restated Citadel Standby Credit Facility dated as of July 28, 2000 as amended and restated as of January 29, 2002 between Sutton Hill Capital, L.L.C. and Reading International, Inc. (filed herewith).
10.42	Amended and Restated Security Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 between Sutton Hill Capital, L.L.C. and Reading International, Inc. (filed herewith).
10.43	Amended and Restated Pledge Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 between Sutton Hill Capital, L.L.C. and Reading International, Inc. (filed herewith).
10.44	Amended and Restated Intercreditor Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 between Sutton Hill Capital, L.L.C. and Reading International, Inc. and Nationwide Theatres Corp. (filed herewith).
10.45	Guaranty dated July 28, 2000 by Michael R. Forman and James J. Cotter in favor of Citadel Cinemas, Inc. and Citadel Realty, Inc. (filed herewith)
10.46	Amended and Restated Agreement with Respect to Fee Option dated as of July 28, 2000 as amended and restated as of January 29, 2002 between Sutton Hill Capital, L.L.C. and Citadel Realty, Inc. (filed herewith).
10.47	Theater Management Agreement between Liberty Theaters Inc. and OBI LLC (filed herewith).
10.48	Non-qualified Stock Option Agreement between Reading International, Inc. and James J. Cotter (filed herewith).
21	List of Subsidiaries (filed herewith).
23	Consent of Independent Auditors (filed herewith).

* These exhibits constitute the executive compensation plans and arrangements of the Company.

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.
(Registrant)

By: /s/ ANDRZEJ MATYCZYNSKI

Andrzej Matyczynski
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Date: March 28, 2003

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title(s)</u>	<u>Date</u>
<hr/> <u>/s/ JAMES J. COTTER</u> James J. Cotter	Chairman of the Board and Director and Chief Executive Officer	March 28, 2003
<hr/> <u>/s/ ERIC BARR</u> Eric Barr	Director	March 28, 2003
<hr/> <u>/s/ JAMES J. COTTER, JR.</u> James J. Cotter, Jr.	Director	March 28, 2003
<hr/> <u>/s/ MARGARET COTTER</u> Margaret Cotter	Director	March 28, 2003
<hr/> <u>/s/ GERARD P. LAHENEY</u> Gerard P. Laheney	Director	March 28, 2003
<hr/> <u>/s/ WILLIAM C. SOADY</u> William C. Soady	Director	March 28, 2003
<hr/> <u>/s/ ALFRED VILLASEÑOR JR.</u> Alfred Villaseñor, Jr.	Director	March 28, 2003

CERTIFICATIONS

Pursuant to Section 307 of the Sarbanes-Oxley Act of 2002

I, James J. Cotter, certify that:

- 1) I have reviewed this annual report on Form 10-K of Reading International Inc.;
- 2) Based on my knowledge, this annual 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 annual report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) 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 annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual 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 annual 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
March 28, 2003

CERTIFICATIONS

Pursuant to Section 307 of the Sarbanes-Oxley Act of 2002

I, Andrzej Matyczynski, certify that:

1) I have reviewed this annual report on Form 10-K of Reading International Inc.;

2) Based on my knowledge, this annual 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 annual 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 annual 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-14 and 15d-14) 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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
March 28, 2003

CERTIFICATIONS

Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the annual Report of Reading International, Inc. (the "Company") on Form 10-K for the year ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, James J. Cotter and Andrzej Matyczynski, the Chief Executive Officer and the Chief Financial Officer, respectively, of the Company, each certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES J. COTTER

James J. Cotter
Chief Executive Officer
March 28, 2003

/s/ ANDRZEJ MATYCZYNSKI

Andrzej Matyczynski
Chief Financial Officer
March 28, 2003

AMENDED AND RESTATED
LEASE AGREEMENT

Dated as of July 28, 2000
As amended and restated
As of January 29, 2002

BETWEEN

SUTTON HILL CAPITAL, L.L.C.,

as Landlord,

and

CITADEL CINEMAS, INC.,

as Tenant

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Exhibit A - Theatre Properties
Exhibit B - [Omitted]
Exhibit C - Liens and Encumbrances; Contracts
Exhibit D - Equipment
Exhibit E - Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions
Exhibit F - Form of Contract of Sale for Property and Equipment and Related Interests

Schedule 2.3(d) - Litigation
Schedule 2.3(m) - Notices of Violations of Law
Schedule 2.3(n) - Writings Regarding Structural Defects

AMENDED AND RESTATED
LEASE AGREEMENT

The Lease Agreement, dated as of July 28, 2000 (as the same may be amended, restated, modified or supplemented from time to time, this "Lease"), between Sutton Hill Capital, L.L.C., a New York limited liability company having an office at 120 North Robertson Boulevard, Los Angeles, California 90048, as landlord (together with its successors, legal representatives and assigns, the "Landlord"), and Citadel Cinemas, Inc., a Nevada corporation having an office at 550 South Hope Street, Suite 1825, Los Angeles, CA 90071, as tenant (together with its successors, legal representatives and assigns, the "Tenant") is hereby amended and restated as of this 29th day of January 2002.

W I T N E S S E T H:

WHEREAS, the Landlord owns certain leasehold interests pursuant to the Site Leases (hereinafter defined), which together comprise three (3) parcels of land located in New York City commonly known as (i) the Village East Cinemas located at 181 Second Avenue, New York, New York 10003, (ii) the Sutton Theatre located at 205 East 57th Street, New York, New York 10022, and (iii) Cinemas 1, 2 and 3 located at 1001 Third Avenue, New York, New York 10022, which properties are more fully described on Exhibit A attached hereto and incorporated herein by this reference (individually, a "Leased Site" and collectively, the "Leased Sites");

WHEREAS, the Landlord also owns, or owns a leasehold estate in, the Theatre Improvements, and owns or leases the Equipment (each as hereinafter defined), on or at such Leased Sites; and

WHEREAS, the parties wish to provide herein for the subleasing of the Leased Sites and the leasing or subleasing, as the case may be, of the Theatre Improvements and Equipment thereon and therein by the Landlord to the Tenant pursuant to the terms and provisions herein set forth.

WHEREAS, effective January 29, 2002, the Tenant and the Landlord agreed to release from the coverage of this lease that certain real property located at 160 East 34th Street, New York, New York 10022, commonly known as the Murray Hill Theater and have hereby amended this Lease to reflect the release of that property.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Landlord and the Tenant hereby agree as follows:

SECTION 1. DEFINITIONS.

1.1 Defined Terms.

Each term defined in this Section 1 shall, when used in this Lease, have the meaning indicated:

"Acquisition Cost" means thirty four million Dollars (\$34,000,000) or such other amount determined in accordance with Section 12 and paragraph (c) of Section 16, provided that the Acquisition Cost shall be subject to adjustment as provided herein.

"Acquisition Cost Adjustment" has the meaning set forth in section 12(d).

"Actual Knowledge" means, with respect to the Landlord, the information, material or other represented item is actually known by James J. Cotter, Sr., Michael R. Forman, Michael Conroy or, with respect to representations and warranties as of the date hereof, Robert Smerling.

"Additional Insureds" has the meaning set forth in paragraph (e) of Section 10 hereof.

"Additional Rent" has the meaning set forth in paragraph (b) of Section 7 hereof.

"Affected Premise" has the meaning set forth in paragraph (i) of Section 9 hereof.

"Affiliate" of any Person means any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," 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, by contract or otherwise; and the terms "controlling" and "controlled" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (a) the Landlord and its Affiliates (the "Landlord's Affiliates") shall not include Citadel, Reading, and their respective Subsidiaries; (b) Citadel, Reading, and their respective Subsidiaries (including the Tenant), on the one hand, and the Landlord and the Landlord's Affiliates, on the other hand, shall not be considered Affiliates of each other; and (c) none of Nationwide or any of its Affiliates shall be considered an Affiliate of any of Citadel, Reading, or any of their respective Subsidiaries or the Landlord or any of its Affiliates.

"Applicable Rent Amount" means (a) for any calendar month (or part thereof) in the period beginning January 29 and ending on the day prior to July 28, 2002, \$210,375, and (b) for any calendar month (or part thereof) thereafter, the multiplier (as hereinafter defined) for the lease year in which such month occurs multiplied by the Applicable Rent Amount as in effect during the prior lease year, in each case, subject to such further adjustments as are provided in this Lease; provided that, if the Borrower under the Loan Agreement gives a Notice of Borrowing (as defined in the Loan Agreement) and fails to satisfy all of the conditions to the Loan (as defined in the Loan Agreement) provided for in such Notice of Borrowing, or if such Borrower reduces the Commitment (as defined in the Loan Agreement) or at its option prepays any Loan, then the multiplier for each lease year after

the year in which such failure, reduction, or repayment occurs shall be (x) if there is no Loan then outstanding and no unused Commitment, one and (y) whenever following any such failure, reduction or repayment there is any Loan then outstanding or unused Commitment (or both), further reduced by a fraction, the numerator of which is the sum of (A) the principal amount of Loans then outstanding and (B) the amount of the available Commitment and the denominator of which is \$18,000,000. For purposes of the foregoing, (i) a "lease year" means each period beginning on the Effective Date or an anniversary thereof and ending on the day prior to the next anniversary thereof, and (ii) the "multiplier" means one plus 62% of a fraction, the numerator of which is the Consumer Price Index in effect for the month of March preceding the anniversary date in question minus the Consumer Price Index in effect for the month of March in the prior year and the denominator of which is the Consumer Price Index in effect for the month of March in the prior year, provided that (A) except as provided in the following clause (B), the multiplier for any lease year shall not be greater than 1.0372 nor less than 1.0186 and (B) the multiplier for the third lease year shall be such as would have been in effect had the multiplier for the second lease year been applied to determine the Applicable Rent Amount for the second lease year.

"Appraisal Procedure" means the following procedure whereby an independent appraiser shall be appointed by the Landlord and the Tenant to determine (i) the amount of wear and tear in excess of that attributable to normal use of the Theatre Improvements and Equipment to which the provisions of paragraph (b) of Section 14 apply, (ii) the Renewal Rental Rate of the Theatre Properties, including all Elements thereof (as then constituted), during the Renewal Term, if such determination is required under paragraph (i) of Section 12 hereof, (iii) the reduction in Basic Rent as provided in paragraph (d) of Section 15 hereof or paragraph (d) of Section 16, (iv) a deficiency in the Tenant's insurance coverage as described in paragraph (c) of Section 15 hereof, or (v) the amount of the deficiency as provided in paragraph (c) of Section 19 hereof. If the amount of such excess wear and tear, the Renewal Rental Rate, a reduction in Basic Rent or either such deficiency is required to be determined pursuant to the above mentioned sections, either Landlord or Tenant may request the appointment of an appraiser to make such determination. If no such appraiser is appointed by the Landlord and the Tenant, acting jointly, within ten (10) days of the written request of either the Landlord or the Tenant that an appraiser be appointed, either the Landlord or the Tenant may request the American Arbitration Association in New York to appoint an independent appraiser within fifteen (15) days after such request. Such appraiser shall have at least 10 years' experience in the business of appraising or leasing retail and similar space in the Borough of Manhattan, City of New York. Within ten (10) days after the appointment of the appraiser, each of the Landlord and the Tenant shall submit to the appraiser, with a copy delivered to the other, its proposal as to the amount of wear and tear in excess of that attributable to normal use, the Renewal Rental Rate, a reduction or either deficiency, as the case may be, together with any information the submitting party believes appropriate to support its proposal. The appraiser shall be directed to select, as the amount of such excess wear and tear, the Renewal Rental Rate, a reduction or either deficiency, as the case may be, in accordance with the standards set forth in paragraph (b) of Section 14, paragraph (i) of Section 12, paragraph (d) of Section 15 or Section 16 (as applicable), or paragraph (c) of Section 19, respectively, either the amount proposed by Tenant or the amount proposed by Landlord, and report such determination to Landlord and Tenant, as soon as practicable and in any case within fifteen (15)

days after the receipt or expiration of the time for such submissions. The appraiser shall not and shall have no authority to modify either proposal or make any determination other than to select one of such proposals. Upon delivery of the appraiser's report, the amount determined by the appraiser as such excess wear and tear, Renewal Rental Rate, a reduction or either deficiency, as the case may be, shall be final. The party whose proposal is not selected shall pay all fees and expenses of the appraiser and the American Arbitration Association, and each party shall pay its own expenses in connection with such proceeding.

"Assignment of Option Agreement" means the Assignment of Option Agreement between Sutton Hill Associates and the Landlord, pursuant to which the option to purchase the fee properties underlying the Sutton Theatre has been assigned to the Landlord, as the same may be amended, restated, modified or supplemented from time to time.

"Bankruptcy Event" means the occurrence of any of the following:

(a) The entry of a decree or order for relief in respect of the Landlord by a Court having jurisdiction in the premises, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Landlord or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against the Landlord of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, and the continuance of any such case unstayed and in effect for a period of sixty (60) days; or

(b) The commencement by the Landlord of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Landlord or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the failure of the Landlord generally to pay its debts as such debts become due or the taking of any action in furtherance of any of the foregoing; provided, however, that, if any of the events described in clauses (a) and (b) of this definition shall arise or occur affecting Landlord as a result of any Tenant Event, such an event (as so described) shall not constitute a Bankruptcy Event hereunder.

"Basic Rent" means, with respect to the Theatre Properties, commencing on the Effective Date:

(a)(i) for each full calendar month during the Initial Term, an amount equal to the Applicable Rent Amount for such month or such other amount determined in accordance with paragraph (d) of Section 16, and

(ii) for any partial calendar month during the Initial Term, an amount computed by multiplying the following

(A) an amount equal to the Applicable Rent Amount for such month or, if then applicable, such other amount determined in accordance with paragraph (d) of Section 16, and

(B) a fraction having a numerator equal to the number of days the Theatre Properties are under lease during such partial month and a denominator equal to the number of days in such month; and

(b)(i) for each full calendar month during the Renewal Term, an amount determined pursuant to the terms of paragraph (i) of Section 12 of this Lease or such other amount determined in accordance with paragraph (d) of Section 15 or paragraph (d) of Section 16, and

(ii) for any partial calendar month during the Renewal Term, an amount computed by multiplying the following:

(A) an amount determined pursuant to the terms of paragraph (i) of Section 12 of this Lease or, if then applicable, such other amount determined in accordance with paragraph (d) of Section 15 or paragraph (d) of Section 16, and

(B) a fraction having a numerator equal to the number of days the Theatre Properties are under lease during such partial month and a denominator equal to the number of days in such month.

"Basic Rent Payment Date" means the first day of each calendar month during the Initial Term or Renewal Term, if any, or, if such day is not a Business Day, the next succeeding Business Day.

"Business" means the business operated by the Landlord and its Affiliates at the Theatre Properties prior to the date hereof.

"Business Day" means any day other than a Saturday, Sunday or other day on which banking institutions in the State of New York are authorized by law to close.

"Business Sale" means the sale by the Parent (whether by sale of one or more Subsidiaries, sale of assets, merger involving one or more Subsidiaries or otherwise) of all or substantially all of

its United States (excluding Puerto Rico) movie theatre business, including sale of its interest in the Theatre Properties or the direct or indirect ownership interest in the Tenant.

"Capital Expenditures" means all expenditures of the Tenant (other than expenditures made with the proceeds of casualty insurance or condemnation awards) for fixed or capital assets made with respect to any Theatre Property or Element thereof which, in accordance with GAAP, would be classified as capital expenditures.

"Casualty Payment Date" has the meaning set forth in paragraph (a) of Section 15 hereof.

"Citadel" means Citadel Holding Corporation, a Nevada corporation (an Affiliate of the Tenant), now known as Reading International, Inc. and its successors.

"Code" means the Internal Revenue Code of 1986, as heretofore and hereafter amended from time to time, or any successor code as in effect from time to time.

"Commercial Mediation Rules" means the Commercial Mediation Rules of the American Arbitration Association, as in effect from time to time.

"Consent" has the meaning set forth in paragraph (a) of Section 29 hereof.

"Constructed Improvements" has the meaning set forth in paragraph (i) of Section 9 hereof.

"Consumer Price Index" means the Consumer Price Index for all Urban Consumer Wage and Clerical Workers based upon the New York-Northern New Jersey-Long Island area for All Items, published by the United States Department of Labor, Bureau of Labor Statistics, or a successor substitute index, and if in any year the 1982-84 average of one hundred (100) is no longer used as the basis of calculation, then, for the purposes of this Section, the Consumer Price Index for such year shall be recalculated as though such 1982-84 average of one hundred (100) were still the basis of calculation of the Consumer Price Index for such year. In the event such Consumer Price Index (or a successor substitute index) is not available, a reliable government or other non-partisan publication evaluating the information theretofore used in determining the Consumer Price Index shall be used to reflect the increase in the cost of living for the same area.

"Contaminant" means any pollutant, substance, hazardous substance, radioactive substance, toxic substance, hazardous waste, medical waste, radioactive waste, special waste, petroleum or petroleum-derived substance or waste, asbestos, PCBs, or any hazardous or toxic constituent thereof defined in or regulated under Environmental Requirements.

"Contract" shall mean any contract, agreement, indenture, loan or credit agreement, receivable sales or financing agreement, capital note, mortgage, security agreement, bond or note (or any guarantee of any of the foregoing).

"Deposit Amount" shall mean the amount of one million Dollars (\$1,000,000) deposited by Reading, which has assigned its rights therein to Citadel, on behalf of Tenant with Landlord or an Affiliate.

"Dollars" or "\$" shall mean the lawful currency of the United States of America.

"Element" of a Theatre Property means any of (or any combination of) the Leased Site, Theatre Improvements or Equipment at or relating to or comprising a portion of a Theatre Property.

"Effective Date" means July 28, 2000.

"Environmental Damages" means all claims, judgments, damages (including punitive damages), losses, penalties, fines, interest, fees, liabilities (including strict liability), taxes, obligations, encumbrances, liens, costs and expenses (including, without limitation, costs and expenses of investigation and defense of any claim, whether or not such claim is ultimately defeated, and of any good faith settlement or judgment), of whatever kind or nature, contingent or otherwise, matured or unmatured, foreseeable or unforeseeable, including, without limitation, reasonable attorneys' fees and disbursements and consultants' fees, any of which are incurred at any time as a result of the existence of Contaminants at any location or noncompliance with Environmental Requirements, including, without limitation:

(a) Damages for personal injury or threatened personal injury (including sickness, disease or death), or injury or threatened injury to property or natural resources, foreseeable or unforeseeable, including, without limitation, the cost of demolition and rebuilding of any improvements on real property;

(b) Reasonable fees incurred for the services of attorneys, consultants, contractors, doctors, experts, laboratories and all other reasonable costs incurred in connection with any damages as described in subparagraph (a) of this definition, and the investigation or remediation of Contaminants or the suspected presence of Contaminants or the violation or threatened violation of Environmental Requirements, including, but not limited to, the preparation of any feasibility studies or reports or the performance of any investigation, cleanup, treatment, remediation, removal, response, abatement, containment, closure, storage, disposal, transport, restoration or monitoring work required by any federal, state, local or foreign governmental agency or political subdivision, or otherwise expended in connection with such conditions, and including, without limitation, any reasonable attorneys' fees, costs and expenses incurred in enforcing this Lease or collecting any sums due hereunder or thereunder; and

(c) Liability to any third person or Governmental Authority to indemnify such person or Governmental Authority for costs expended in connection with the items referenced in subparagraphs (a) and (b) of this definition.

"Environmental Matters" means any matter, fact or situation relating to or arising from (a) any violation or alleged violation of an Environmental Requirement, (b) any release or threatened release of any Contaminant on, under or from the Property or Equipment or the presence of any Contaminant which has come to be located on, from or under a Theatre Property or Element thereof from another location, or (c) any injury to human health or safety or the environment by reason of the matters described in clauses (a) and (b).

"Environmental Event" has the meaning set forth in paragraph (e) of Section 2.2 hereof.

"Environmental Requirements" means all federal, state, local and foreign laws, statutes, codes, ordinances, rules, regulations, directives, binding policies, permits or orders relating to or addressing the environment or human health, including, but not limited to, any law, statute, code, ordinance, rule, regulation, directive, binding policy, permit, authorization or order.

"Equipment" means all personal property located at or used primarily in connection with any of the Theatre Properties and all related appliances, appurtenances, accessions, furnishings, materials and parts leased by the Landlord to the Tenant as provided herein, including, without limitation, the property described in Exhibit D attached hereto and made a part hereof, and including all replacements and subsequent replacements of such related appliances, appurtenances, accessions, furnishings, materials and parts, but not including inventory and supplies.

"Event of Default" has the meaning set forth in Section 18 hereof.

"Event of Loss" means, with respect to any Theatre Property, the Taking of all or a substantial portion of the Theatre Property for an indefinite period or a period in excess of 180 days by any Governmental Authority such that the remainder is not sufficient to permit operation of such Theatre Property on a commercially feasible basis. A loss of a "substantial portion" of a Theatre Property shall be deemed to occur if, in the reasonable judgment of the Landlord and the Tenant, after such event, (i) the Tenant will not be able to perform its obligations under this Lease or (ii) a material diminution in the value, utility or remaining economic useful life of such Theatre Property has occurred.

"Exercise Notice" has the meaning set forth in Section 12(b) hereof.

"Fee Option Agreement" means the agreement, dated as of July 28, 2000, between Fee Sub and the Landlord as amended and restated as of January 29, 2002, as the same may be amended, modified, supplemented or restated from time to time.

"Fee Property(ies)" means any and all parcels of land together with all buildings and other improvements (including, without limitation, the attachments, appliances, equipment, machinery and other affixed property which would constitute "fixtures" under Section 9-313(1)(a) of the Uniform Commercial Code) now or hereafter located on such parcels of land subleased hereunder and all

respective easements, rights and appurtenances relating to such parcels of land, buildings and improvements.

"Fee Sub" means Citadel Realty, Inc., a Nevada corporation, and its successors and assigns.

"Financing Agreement" means each credit agreement, loan agreement and each other agreement or arrangement which has been or hereafter is entered into between the Landlord and a lender or lenders to the Landlord (or a note or notes made and delivered by the Landlord) related to the financing of any Theatre Property or otherwise secured by one or more Theatre Properties or Elements thereof or a Lien on the equity interests in Landlord, as any of the same may be amended, restated, modified or supplemented from time to time and shall include, without limitation, the Nationwide Agreement.

"Funding Date" means the date on which

(a) the Commitment (as defined in the Loan Agreement) has been fully funded; and

(b) (i) none of James J. Cotter, Michael R. Forman, or their respective successors or assigns shall have been required to provide a guaranty as provided in Section 2.8(b)(v) of the Loan Agreement, or (ii) any obligations of the Lender or its Affiliates for which they have given any such guaranty shall have been repaid in full, or (iii) all such guaranties shall have been released by the parties holding the obligations so guaranteed.

"GAAP" means generally accepted accounting principles in the United States, applied on a consistent basis.

"Governmental Action" has the meaning set forth in paragraph (h) of Section 2.1 hereof.

"Governmental Authority" means any agency, department, court or other administrative, legislative or regulatory authority of any federal, state, local or foreign governmental body.

"Indebtedness" means for any Person, without duplication (a) all indebtedness or other obligations of such Person for borrowed money and all indebtedness of such Person with respect to any other items (other than income taxes payable, deferred taxes, deferred credits and accounts payable), which would, in accordance with GAAP, be classified as a liability on the balance sheet of such Person, (b) all obligations of such Person to pay the deferred purchase price of property or services, including any such obligations created under or arising out of any conditional sale or other title retention agreement, (c) all obligations of such Person (contingent or otherwise) under reimbursement or similar agreements with respect to the issuance of letters of credit, (d) all indebtedness or other obligations of such Person under or in respect of any swap, cap, collar or other financial hedging arrangement, (e) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c) or (d) above, the payment or collection of which such Person has

guaranteed (except by reason of endorsement for collection in the ordinary course of business) or in respect of which such Person is liable, contingently or otherwise, including, without limitation, liable by way of agreement to purchase products or securities, to provide funds for payment, to maintain working capital or other balance sheet conditions or otherwise to assure a creditor against loss, and (f) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c), (d), or (e) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or becomes liable for the payment of such indebtedness or obligations.

"Indemnified Person" has the meaning set forth in paragraph (c) of Section 11 hereof.

"Indemnifying Person" has the meaning set forth in paragraph (c) of Section 11 hereof.

"Initial Term" has the meaning set forth in paragraph (a) of Section 6 hereof.

"Institutional Lender" means a savings and loan association, a savings bank, a commercial bank or trust company or an insurance company organized under the laws of the United States or any state thereof or organized under the laws of any other jurisdiction and licensed or registered to do business in the United States or any state thereof or a federal, state or municipal employees' welfare pension or retirement fund or system, provided that, in any such case, such lender is subject to or submits to service of process within the State of New York, has total assets of at least \$1 billion and is acting in its own interest and capacity or as a fiduciary or trustee for any of the following; a real estate investment trust sponsored by an entity which otherwise qualifies as an institutional lender or one which is publicly traded on a recognized securities exchange, an educational, major religious or charitable institution, a so-called "REMIC" or mortgage trust, or a trustee acting for the benefit of the holders of debt securities issued in transactions registered under the Securities Act of 1933 (as amended), or exempt from such registrations pursuant to Rule 144A thereunder, or an investment banking firm or other similar financial institution; provided, however, that no Institutional Lender shall be an Affiliate of Tenant. For purposes of this Lease, an Institutional Lender may comprise two or more entities qualifying under this definition.

"Insurance Requirements" means all insurance required to be obtained with respect to the Theatre Properties pursuant to Section 10 hereof and all terms of any insurance policy covering or applicable to the Theatre Properties, all requirements of the issuer of any such policy, all statutory requirements and all orders, rules, regulations and other requirements of any Governmental Authority related to insurance applicable to the Theatre Properties.

"Landlord" means Sutton Hill Capital, L.L.C. or any successor or successors to all of its rights and obligations as Landlord hereunder and, for purposes of Section 11(a) hereof, shall include any partnership (general or limited), corporation, limited liability company, trust, individual or other entity which computes its liability for income or other taxes on a consolidated basis with the

Landlord or the income of which for purposes of such taxes is, or may be, determined or affected directly or indirectly by the income of the Landlord or its successor or successors.

"Landlord Act" means an event or occurrence resulting from the gross negligence or willful misconduct of the Landlord or any of its Affiliates or the agents, officers, directors, employees or contractors of Landlord or any such Affiliate, except that the failure of the Landlord or any such Affiliate to exercise any of its rights or remedies hereunder or under any Other Lease Document or to enforce or seek to enforce any of the provisions hereof shall not constitute gross negligence or willful misconduct.

"Landlord Environmental Obligation" means an Environmental Event which occurred during the two-year period ending on the date hereof, of which Landlord had Actual Knowledge prior to the date hereof and which has not been disclosed on Schedule 2.3(m) hereof.

"Landlord Indemnified Person" has the meaning set forth in paragraph (a) of Section 11 hereof.

"Landlord Legal Requirement Obligation" means a Legal Requirement Event which occurred during the two-year period ending on the date hereof, of which Landlord had Actual Knowledge prior to the date hereof and which has not been disclosed on Schedule 2.3(m) hereof.

"Landlord Permitted Lien" means any Lien of the type described in clause (b) (other than a Landlord Legal Requirement Obligation), (c), (d), (g), (h), (i) or (j) of the definition of "Permitted Lien" in this Section 1.1 (including in the case of Liens described in clauses (h), (i) and (j), Liens securing increases in the amount outstanding or encompassing additional property interests of Landlord and its Affiliates) so long as, in the cases of Liens described in clauses (h), (i) and (j), the rights of the Tenant hereunder, including the Purchase Option at the Acquisition Cost (subject to the terms hereof), and the rights of FeeSub pursuant to the Fee Option Agreement (subject to the terms thereof), are recognized by the holder of such Lien, such other and additional matters affecting Landlord's interests in the Theatre Properties as may be approved in writing by Tenant, extensions of any of the foregoing and Liens arising from a Tenant Event.

"Lease Guaranty" means the lease guaranty agreement, dated as of the date hereof, by and between Citadel and the Landlord, as the same may be amended, restated, modified or supplemented from time to time.

"Lease Term" means the Initial Term plus the Renewal Term, if exercised.

"Lease Termination Date" means, for all the Theatre Properties, either (i) the last day of the Initial Term (if the Lease has not been renewed pursuant to the terms of paragraph (i) of Section 12 hereof), or (ii) if the Lease has been renewed pursuant to the terms of paragraph (i) of Section 12 hereof, the last day of the Renewal Term, except that the Lease Termination Date as to any Theatre Property may be determined pursuant to Article 15 hereof.

"Leased Site" means Landlord's interest under any Site Lease.

"Legal Requirement Event" has the meaning set forth in clause (i) of paragraph (d) of Section 8 hereof.

"Legal Requirements" means all laws, judgments, decrees, ordinances and regulations and any other governmental rules, orders and determinations and all requirements having the force of law, now or hereinafter enacted, made or issued, whether or not presently contemplated, (including without limitation the Americans with Disabilities Act, 42 U.S.C. Sections 12181 et seq., and local and state laws of similar impact or effect and rules, regulations and (to the extent Tenant receives notice and a copy thereof) orders issued under any thereof) and all existing recorded agreements, covenants, conditions and restrictions (or any such of which Tenant has notice), applicable to any Theatre Property and/or the construction, ownership, operation or use thereof, including, without limitation, compliance with all requirements of labor laws and Environmental Requirements, compliance with which is required at any time from the date hereof through the Lease Termination Date (or thereafter as herein set forth), if any, whether or not such compliance shall require structural, unforeseen or extraordinary changes to a Theatre Property or the operation, occupancy or use thereof.

"License of Intangibles" means that certain License of Intangibles dated as of the date hereof between the Landlord and the Tenant, as the same may be amended, restated, modified or supplemented from time to time.

"Lien" means any security interest, mortgage, pledge, hypothecation, assignment, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Loan Agreement" means the Citadel Standby Credit Facility, dated the date hereof, between Landlord, as "Borrower" thereunder, and Citadel, as "Lender" thereunder.

"Losses" has the meaning set forth in paragraph (a) of Section 11 hereof.

"Material Adverse Landlord Effect" means a material adverse effect on the rights or interest of the Tenant under this Lease or any Site Lease resulting solely from an action or omission of Landlord, or an event or condition relating to Landlord, excluding any action (including the initiation of legal proceedings) to enforce the provisions of this Lease against the Tenant.

"Material Adverse Property Effect" means a material adverse effect on (a) the operation, maintenance, leasing, ownership, use or value of a Theatre Property or material Elements thereof,

(b) the business, assets, properties, financial condition or operations of the Tenant, or (c) the rights or interests of the Landlord under this Lease or the landlord's interest under any Site Lease.

"Minimum Net Worth Requirement" shall be satisfied with respect to any Person at any date if the net worth (as determined in accordance with GAAP) of such Person, as of the end of the fiscal year of such Person ending on or immediately prior to such date, shall exceed \$100,000,000, as evidenced by financial statements audited by a nationally recognized independent accounting firm.

"Nationwide" means Nationwide Theatres Corp., a California corporation, and its successors and assigns.

"Nationwide Agreement" means the agreements, documents and instruments evidencing or securing the Nationwide Indebtedness, as any thereof may be amended, restated, modified or supplemented from time to time.

"Notice of Termination" has the meaning set forth in paragraph (a) of Section 19 hereof.

"Option Fee" means the amount of five million Dollars (\$5,000,000).

"Other Lease Documents" means the License of Intangibles and the Sub-Management Agreement.

"Parcel" or "Parcel of Property" means the real estate underlying a specific Leased Site or Sites.

"Parent" shall mean Citadel, so long as Citadel or an Affiliate is the Tenant hereunder, and, if neither Citadel nor an Affiliate of Citadel is the Tenant hereunder, either any parent entity or other Affiliate of the Tenant which has guaranteed the obligations of Tenant hereunder or, if there is no such parent entity, then Tenant.

"Payment Account" means such account designated by Landlord from time to time as the "Payment Account" for purposes of the Lease.

"Permitted Assigns" means parties to whom the interest of the Tenant hereunder may be transferred and assigned as described in Section 17 hereof, including the transferee or successor to the interest of Tenant as a result of a Permitted Sale (including for this purpose a subletting).

"Permitted Contest" has the meaning set forth in paragraph (a) of Section 23 hereof.

"Permitted Investments" means the following investments: (a) direct or guaranteed obligations of the United States of America or agencies thereof backed by the full faith and credit of the United States of America, (b) certificates of deposit and bankers' acceptances which mature within one year from the date of purchase and which are issued by a bank organized or doing

business under the laws of the United States of America or one of the states thereof whose long-term debt obligations are at the time of purchase rated "AA" or higher by S&P or the equivalent by Moody's, (c) repurchase agreements with such banks, fully secured by direct obligations of the United States of America or agencies thereof backed by the full faith and credit of the United States of America, (d) commercial paper issued by a corporation which at the time of purchase is rated "A-1" or higher by S&P or "P-1" by Moody's, and (e) shares in money market funds whose investments are limited to securities described in clauses (a) to (d).

"Permitted Liens" means the following Liens and other matters affecting the title of any Parcel of Property, Theatre Improvements or Unit of Equipment: (a) Liens securing the payment of taxes, assessments and other governmental charges or levies which are either not delinquent or, if delinquent, are being contested by the Tenant in good faith as a Permitted Contest; (b) existing and future Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions, easements, rights-of-way, licenses, reservations, covenants, conditions, waivers, or restrictions on the use of any Theatre Property, (c) encroachments or irregularities of title none of which materially impairs the intended use or value of the affected Theatre Property for its intended purpose; (d) the Liens created pursuant to the Nationwide Agreement; (e) leases and licenses in effect with respect to any Theatre Property which are permitted by this Lease; (f) mechanics' and materialmen's liens incurred in good faith relating to and securing obligations not exceeding an aggregate amount of \$50,000 per Theatre Property prior to the Funding Date, or \$100,000 per Theatre Property from and after the Funding Date, and which in either case are the subject of a Permitted Contest; (g) exceptions to the title of any Theatre Property as set forth in the title insurance policy delivered to the Tenant hereunder or in connection herewith; (h) Liens in favor of the lender under any Financing Agreement; (i) existing Liens listed on Exhibit C attached hereto; (j) extensions, renewals and replacements of Liens described in paragraphs (d), (h) and (i) hereof provided that such extension, renewal or replacement Lien is limited to the property covered by the Lien so extended, renewed or replaced and does not secure any Indebtedness or amount that is in excess of that secured immediately prior to such extension or renewal; (k) any of the Liens granted by, or arising from actions of, the Landlord; and (l) such other or additional matters as may be approved in writing by the Landlord, such approval not to be unreasonably withheld.

"Permitted Sale" means any transfer of the estate of Tenant to all or a material portion of the Theatre Properties to a direct or indirect Affiliate of Tenant, or subletting of all or substantially all of a Theatre Property or Equipment for all or substantially all the remaining Lease Term or as otherwise provided in Section 17 hereof.

"Person" means any individual, corporation, partnership, limited liability company, private limited company, joint venture, association, joint-stock company, trust, unincorporated organization of government or any agency or political subdivision thereof.

"Pledgee" means each Person to which any part of the Landlord's interest under this Lease or in any Parcel of Property, Theatre Improvement or Unit of Equipment shall at the time have been pledged by the Landlord in accordance with Section 24 of this Lease.

"Properly Contested" (including grammatical alternatives thereof) means (a) in the case of any Indebtedness of the Tenant (including any Taxes) that is not paid as and when due or payable by reason of the Tenants' bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such Indebtedness is being contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) if the Indebtedness results from, or is determined by the entry, rendition or issuance against the Tenant or any of its assets of, a judgment, writ, order or decree, execution on such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (iii) if such contest is abandoned, settled or determined adversely (in whole or in part) to Tenant, Tenant forthwith pays such Indebtedness and all penalties, interest and other amounts due in connection therewith; and (b) in the case of any other obligation of Tenant, (i) compliance with or performance of such obligation is being contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) the lack of performance or compliance therewith will not have a Material Adverse Property Effect or compliance therewith or performance thereof has been stayed or permissibly deferred; (iii) there is no material risk of criminal liability against the Landlord, the Tenant or the applicable Site Landlord for such failure of performance or compliance; (iv) such lack of performance or compliance therewith will not constitute a default under the applicable Site Lease; and (v) if such contest is abandoned, settled or determined adversely to Tenant, Tenant thereafter promptly and with reasonable diligence effects such required compliance or performance.

"Purchase Option" has the meaning set forth in paragraph (a) of Section 12 hereof.

"Purchase Option Closing Date" means the date set in accordance with paragraph (b) of Section 12 for the consummation of the purchase of the Purchased Assets pursuant to the Tenant's exercise of the Purchase Option.

"Purchased Assets" has the meaning set forth in paragraph (a) of Section 12 hereof.

"Reading" means Reading Entertainment, Inc., a Nevada corporation, now known as Reading Holdings, Inc. and its successors.

"Reimbursement Rate" means 11.25% per annum.

"Release" means the release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, leaching or migrating into the indoor or outdoor environment of any Contaminant through or in the air, soil, surface water, groundwater, or any structure.

"Remedial Action" means actions required or otherwise undertaken by a Governmental Authority, or which are appropriate as a matter of prudent business practice and commercial reasonableness, to (a) in the case of any Environmental Event, (i) clean up, remove, treat or in any other way address Contaminants in the indoor or outdoor environment; (ii) prevent the Release or threat of Release or minimize the further Release of Contaminants; or (iii) investigate and determine

if a remedial response is needed, and to design such a response and post-remedial investigation, monitoring, operation, maintenance and care and (b) in the case of any other Legal Requirement, investigate and cure (or Properly Contest and, if unsuccessful, cure) the applicable condition, or comply therewith (including following a Proper Contest).

"Renewal Rental Rate" has the meaning set forth in paragraph (h) of Section 12 hereof.

"Renewal Term" has the meaning set forth in paragraph (b) of Section 6 hereof.

"Securities Acts" means the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and the rules and regulations under each thereof.

"Site Landlord" means the landlord under any Site Lease, as in existence at any time.

"Site Leases" means each of:

(a) that certain Indenture of Lease dated as of January 31, 1987 between Senyar Holding Company, as landlord, and M-Square Theaters, Inc., as tenant, covering premises at 181-189 Second Avenue, New York, New York 10003, containing the Village East Theatre, as amended by that certain First Amendment to Lease, dated as of June 15, 1989, between Senyar Holding Company and M-Square Theaters, Inc., and the letter regarding notices, dated December 20, 1993 from Senyar Holding Company to M-Square Theatres, Inc.;

(b) the ground lease dated February 9, 1961 between Andrew C. Mayer, et al., as landlord, and Turtle Bay Theatre Corporation, as tenant, covering premises at 1001, 1003, 1005 and 1007 Third Avenue, New York, New York 10022, containing Cinemas 1, 2 and 3, the tenant's interest therein having been assigned to (i) Sutcin Holding Corp. pursuant to that Assignment & Assumption of Lease dated December 31, 1984 between Cinema 5 Ltd., as successor in liquidation to Turtle Bay Theatre Corporation, and Sutcin Holding Corp., and (ii) Sutton Hill Associates pursuant to that Agreement of Purchase and Sale and related Assignment of Lease, each dated July 3, 1986 between Sutcin Holding Corp. and Sutton Hill Associates; and

(c) that certain Ground Lease dated as of August 16, 1985, between Sutcin Holding Corp., as landlord, and Sutton Hill Associates, as tenant, covering the premises at 205 East 57th Street, New York, New York 10022, containing the Sutton Theatre, as amended by (i) the First Addendum to Ground Lease, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, (ii) the Second Addendum to Ground Lease, dated as of January 1, 1995, between Sutcin Holding Corp. and Sutton Hill Associates, (iii) the Third Addendum to Ground Lease, dated as of July 1, 1996, between Nationwide (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, (iv) the Fourth Addendum to Ground Lease, dated July 28, 2000, between Nationwide and

Sutton Hill Associates; and (v) the Fifth Addendum to Ground Lease, dated as of January 29, 2002 between Nationwide and Sutton Hill Associates.

the tenant's interest in each of the foregoing Site Leases having been assigned to Landlord pursuant to the Site Lease Assignment.

"Site Lease Assignment" means the assignment of the Site Leases, dated July 28, 2000, between Sutton Hill Associates and Landlord.

"Sub-Management Agreement" means the Sub-Management Agreement, dated as of the date hereof, between the Landlord and the Tenant, as the same may be amended, restated, modified and supplemented from time to time.

"Subsidiary" of any Person shall mean any corporation, partnership, limited liability company, joint venture, trust or estate of which (or in which) more than 50% of

(a) the outstanding capital stock having voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency),

(b) the interest in the capital or profits of such partnership or joint venture, or

(c) the beneficial interest of such trust or estate is at the time directly or indirectly owned by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's Subsidiaries.

"Suitable Replacement" means a Person to become Tenant hereunder, or an Affiliate (including a Subsidiary) of which will become Tenant hereunder provided such Person will execute and deliver a Lease Guaranty for the liabilities and obligations of such Affiliate as tenant hereunder, who or which has, on or about the date information about such Person is to be provided to the Landlord pursuant to Section 17 hereof, a net worth no less than one hundred fifty million dollars (\$150,000,000) and management and operating experience (both in terms of personnel and business operating history) in the Business (including in a major metropolitan area in the United States) comparable to Reading as of the date hereof or otherwise reasonably acceptable to Landlord; provided, that Reading shall in all events be a Suitable Replacement.

"Sutton Option" means the right of Sutton Hill Associates to purchase the fee interest underlying the Sutton Theatre, leased to the Landlord pursuant to one of the Site Leases, on the terms and subject to the conditions set forth in the Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, made and entered into as of August 16, 1985 by and between Sutcin Holding Corp. and Sutton Hill Associates, as amended by the First Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated as of January 1, 1992, between

Sutcin Holding Corp. and Sutton Hill Associates, the Second Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated as July 1, 1996, between Nationwide Theaters Corp. (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, the Third Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated as of July 28, 2000 between Nationwide and Sutton Hill Associates, and the Fourth Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated January 29, 2002, copies of all of which are attached as Exhibit E hereto, and which has been assigned to the Landlord pursuant to the terms of the Assignment of Option Agreement.

"Taking" or "Taken" has the meaning set forth in paragraph (a) of Section 16 hereof.

"Taking Payment Date" has the meaning set forth in paragraph (c) of Section 16 hereof.

"Taking Proceeds" has the meaning set forth in paragraph (c) of Section 16 hereof.

"Tenant" has the meaning set forth in the first paragraph of this Lease.

"Tenant Event" shall mean an event arising from or attributable to an action or inaction of, or a condition or event relating to, Tenant or any of its Affiliates (or the agents, officers, directors or employees of the Tenant or any such Affiliate), or initiated by Tenant or any of its Affiliates (or any such Person), unless such action, inaction, or event was or resulted from an action by Tenant or any of its Affiliates to enforce any rights or remedies under the Lease or any other Contract or Applicable Law so long as such action so to enforce was initiated in good faith.

"Tenant Indemnified Person" has the meaning set forth in paragraph (b) of Section 11 hereof.

"Theatre Improvements" means all buildings and other improvements (including, without limitation, the attachments, appliances, equipment, machinery and other affixed property which would constitute "fixtures" under Section 9-313(1)(a) of the Uniform Commercial Code) now or hereafter located on a Parcel of Property.

"Theatre Properties" means the interest of the Landlord in the Leased Sites, the Theatre Improvements and the Equipment, and a "Theatre Property" means the cumulative interest of Landlord in any one of the Theatre Properties; provided, that such terms shall also refer to the physical location of the applicable Parcel or Parcels, and the Improvements and Equipment located thereon, in connection with covenants, indemnities, and similar matters relating to activities at, on, over, or under or involving such Parcel or Parcels.

"Threshold Amount" has the meaning set forth in paragraph (c) of Section 11 hereof.

"Unit", when referring to the personal property leased under this Lease, means a particular item of Equipment, as the context requires.

1.2 Other Definitional Provisions.

(a All terms defined in this Lease shall have their defined meanings when used in any certificate or other document made or delivered pursuant hereto.

(b The words "hereof", "herein" and "hereunder" and words of similar import when used in this Lease shall refer to this agreement as a whole and not to any particular provision of this Lease, and section, subsection, paragraph, schedule and exhibit references are to this Lease unless otherwise specified. The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. REPRESENTATIONS, WARRANTIES AND CERTAIN COVENANTS.

2.1 Representations and Warranties of the Tenant. The Tenant represents and warrants to the Landlord that, as of the date hereof:

(a Corporate Matters. The Tenant (i) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Nevada, (ii) has full power, authority and legal right to own and operate its properties and to conduct its business as presently conducted and to execute, deliver and perform its obligations under this Lease and the Other Lease Documents, and (iii) is or will be timely duly qualified to do business as a foreign corporation in good standing in the State of New York.

(b Binding Agreement. Each of this Lease and each Other Lease Document has been duly authorized, executed and delivered by the Tenant and, assuming the due authorization, execution and delivery thereof by the Landlord, constitutes a legal, valid and binding obligation of the Tenant, enforceable according to its terms, except as the enforceability of this Lease and each such Other Lease Document may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or laws affecting creditors' rights generally and by general principles of equity.

(c Compliance with Other Instruments. The execution, delivery and performance by the Tenant of this Lease and the Other Lease Documents will not result in any violation of any term of the certificate of incorporation or the by-laws of the Tenant, do not require stockholder approval or the approval or consent of any trustee or holders of Indebtedness of the Tenant except such as have been obtained prior to the date hereof and will not conflict with or result in a breach of any terms or provisions of, or constitute a default under, any Lien, or result in the creation or imposition of any Lien (other than a Permitted Lien), upon any property or assets of the Tenant under any indenture, mortgage or other agreement or instrument to which the Tenant is a party or by which it or any of its property is bound, or any existing applicable law, rule, regulation, license, judgment, order or decree of any government, governmental body or court having jurisdiction over the Tenant or any of its activities or properties.

(d) Litigation. There is no action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal now pending or, to Tenant's knowledge, threatened in writing against or affecting the Tenant or any Affiliate which questions the enforceability of this Lease or the Other Lease Documents.

(e) Financial Statements. The Tenant has furnished to the Landlord copies of Citadel's Annual Report on Form 10-K for the year ended December 31, 2001 and Quarterly Report on Form 10-Q for the period ended March 31, 2002. The financial statements contained in such documents fairly present the financial position, results of operations and consolidated statements of cash flows of Citadel as of the dates and for the periods indicated therein in all material respects and have been prepared in accordance with GAAP, and there has been no material adverse change in Citadel's business or financial results since the end of the period covered by the latest financial statements included in such reports, except as may be disclosed in such reports.

(f) Brokerage. There are no claims for brokerage commissions or finder's fees for persons engaged by the Tenant or any Affiliate in connection with this Lease. Neither the Tenant nor any Affiliate has dealt with any agent or broker in connection with this Lease or the Theatre Properties and the Lease was not brought about or procured through the use, negotiation or instrumentality of any agent or broker acting on behalf of Tenant or any Affiliate.

(g) Condition of Theatre Improvements and Equipment. Except as expressly set forth herein, neither the Landlord nor any Affiliate, nor anyone acting on behalf of any such party, has made any representation or warranty of any kind whatsoever, express or implied, as to the safety, title, condition, quality, quantity, fitness for use, merchantability, conformity to specification, or any other characteristic, of any of the Leased Sites, the Theatre Improvements or the Equipment, and the Tenant has entered into this Lease on the basis of its own judgment and accepts the Theatre Properties, including each Element thereof, "as is" and in the condition existing on the Effective Date.

(h) Governmental Consents. There are no consents, permits, licenses, orders, authorizations, approvals, waivers, extensions or variances of, or notices to or registrations or filings with (each a "Governmental Action") any Governmental Authority which are or will be required to be obtained by the Tenant or any Affiliate in connection with the valid execution, delivery and performance of this Lease or the Other Lease Documents except such Governmental Actions (A) as have been duly obtained, given or accomplished, with true copies thereof delivered to the Landlord, or (B) as may be required by applicable law not now in effect.

(i) Status of Tenant. All of the Tenant's common stock is owned beneficially and of record by Citadel or a direct or indirect wholly-owned subsidiary of Citadel.

2.2 Certain Covenants of Tenant. Tenant covenants to and with Landlord during the Lease Term and until the indefeasible payment of all amounts owing hereunder:

(a Corporate Existence. The Tenant or its assigns will at all times be (i) a validly existing corporation or other business entity in good standing under the laws of its jurisdiction of organization and (ii) if required, duly qualified to do business in good standing in the State of New York.

(b Delivery of Information. The Tenant shall deliver to the Landlord (i) promptly upon their becoming available, and in any event not more than 120 days after the end of each fiscal year of Tenant, copies of Tenant's respective annual financial statement and promptly upon their becoming available, and in any event not more than 60 days after the end of each fiscal quarter of Tenant (other than the last fiscal quarter of each year), copies of Tenant's quarterly unaudited financial statements, prepared in accordance with GAAP, and (ii) promptly upon request, such other information with respect to the Tenant's properties, assets, or litigation as the Landlord shall reasonably request; provided that financial statements of Parent may be supplied in lieu of the financial statements of Tenant.

(c Capital Expenditures. Tenant will not make any Capital Expenditures with respect to any Theatre Improvements or Equipment other than Capital Expenditures that will not have a Material Adverse Property Effect.

(d Liens. The Tenant will not create, incur, assume or permit to exist any Lien on any Theatre Property or Element thereof, except Permitted Liens.

(e Environmental Event.

(i The Tenant shall promptly, but in any case within five (5) Business Days of the Tenant becoming aware of such event, notify the Landlord if, after the Effective Date, (A) any environmental event has occurred or any environmental condition is discovered in, on, beneath, from or involving any Parcel, Theatre Improvements or Equipment (including, but not limited to, the presence (in quantities in excess of legally permissible amounts), emission or release of Contaminants or the violations of any applicable Environmental Requirements) that could reasonably be expected to result in penalties or other liabilities (including costs to alleviate or remediate) in excess of \$100,000, or (B) the Tenant has received notification that it, any Parcel, Theatre Improvements or Equipment is the subject of a proceeding that could reasonably be expected to result in any ordered Remedial Action or other liability related to an environmental event or condition, the cost of which liability is reasonably expected to exceed \$100,000 (each of the events or occurrences described in clause (A) or (B), regardless of the amount of penalty, liability or cost to remediate, an "Environmental Event").

(ii Following the receipt of a notice pursuant to subparagraph (i) above, unless such Environmental Event is a Landlord Environmental Obligation, Landlord in its sole discretion may require the Tenant to conduct, or cause to be conducted, an

environmental audit of the affected Parcel, Theatre Improvements or Equipment, the scope of which audit shall be limited to confirming the magnitude and anticipated cost of the liability resulting from the Environmental Event, and to provide a copy of an environmental consultant's report on its audit to the Landlord.

(iii In any case, if an Environmental Event arises during the Lease Term or (regardless of when it arose) is otherwise not exclusively a Landlord Environmental Obligation, the Tenant shall immediately initiate, or cause to be initiated at no cost to the Landlord, such actions as may be necessary to comply in all material respects with all applicable Environmental Requirements and to alleviate any significant risk to human health or the environment if the same arises from a condition on or in respect of the affected Parcel, Theatre Improvements or Equipment, whether existing prior to, on or after the date of this Lease. Once the Tenant commences such actions, the Tenant shall thereafter diligently and expeditiously proceed to comply materially and in a timely manner with all Environmental Requirements and to eliminate any significant risk to human health or the environment and shall, at the request of the Landlord, during the Lease Term give periodic progress reports on Tenant's compliance efforts and actions.

(iv If an Environmental Event is a Landlord Environmental Obligation, the Tenant shall have no responsibility to cure or remediate such Environmental Event. If an Environmental Event is a Landlord Environmental Obligation, Tenant shall notify Landlord that such Environmental Event has occurred or exists and Tenant, in its discretion, but in any case at the sole expense of the Landlord, may initiate or require the Landlord to initiate and otherwise take the actions described in paragraph (iii) of this Section 2.2(e), in the same manner as would have been applicable to the Tenant had such Environmental Event not been a Landlord Environmental Obligation; provided, however, that the Tenant shall not initiate any action described in this sentence (except in cases of imminent danger to persons or property) unless the Tenant has notified the Landlord that an Environmental Event has occurred which is a Landlord Environmental Obligation and the Landlord has failed to advise the Tenant within thirty days following receipt of such notice of the Landlord's planned response thereto, which may include Properly Contesting such claim (and has failed after reasonable notice to proceed with reasonable diligence in implementing such response), or has advised the Tenant that Landlord does not intend to respond thereto. Whether or not Landlord otherwise responds to the Tenant's notice or the Event in question, Landlord reserves the right and option to contest that such Event is in fact a Landlord's Environmental Obligation hereunder.

(f Site Leases. The Tenant agrees to pay or cause to be paid to each Site Landlord, on or before the first Business Day of each calendar month throughout the Lease Term, all fixed or base rent to be due under the respective Site Leases for such calendar month and to pay as and when due and payable pursuant thereto all additional rent and other charges payable pursuant to the respective Site Leases (excluding only amounts (i) payable to the extent resulting from a Landlord Act as lessee thereunder or the breach by Landlord of any obligation thereunder which was

not the result of a Tenant Event, or (ii) which relates to a period prior to commencement of the Lease Term and which has not been assumed by or become the obligation of Tenant pursuant hereto). If Tenant attempts to make payment directly to a Site Landlord and such payment is rejected because Tenant is not such Site Landlord's tenant, Tenant shall provide funds to Landlord to enable it to pay, and Landlord agrees that, upon receipt of such funds (and provided funds owing to it are also paid), it shall pay, sums due to the applicable Site Landlord.

(g) Payment of Taxes. The Tenant agrees to pay or cause to be paid, on or within thirty (30) Business Days after the Effective Date, all New York City and New York State real estate transfer taxes, imposed by reason of the execution and delivery of this Lease, the creation or granting of the estate demised hereby or the recording hereof or of a memorandum hereof, and to provide to Landlord, promptly following Landlord's written request therefor, reasonable evidence of the payment of such taxes.

2.3 Landlord Representations and Warranties. The Landlord represents and warrants to the Tenant that, as of the date hereof:

(a) Corporate Matters. The Landlord (i) has been duly organized and is validly existing as a limited liability company in good standing under the laws of the State of New York, and (ii) has full power, authority and legal right to own and operate its properties and to conduct its business as presently conducted and to execute, deliver and perform its obligations under this Lease and those of the Other Lease Documents to which it is a party.

(b) Binding Agreement. Each of this Lease and those of the Other Lease Documents to which it is a party has been duly authorized, executed and delivered by the Landlord and, assuming the due authorization, execution and delivery thereof by the Tenant, constitutes a legal, valid and binding obligation of the Landlord, enforceable according to its terms, except as the enforceability of this Lease and each such Other Lease Document may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and by general principles of equity.

(c) Compliance with Other Instruments. The execution, delivery and performance by the Landlord of this Lease and those of the Other Lease Documents to which it is a party will not result in any violation of any term of the certificate of formation or operating agreement of the Landlord, do not require approval of the members of Landlord or the approval or consent of any trustee or holders of Indebtedness of the Landlord except such as have been obtained prior to the date hereof and will not conflict with or result in a breach of any terms or provisions of, or constitute a default under, or result in the creation or imposition of, any Lien (other than a Landlord Permitted Lien) upon any property or assets of Landlord under any indenture, mortgage or other agreement or instrument to which the Landlord is a party or by which it or any of its property is bound (including, without limitation, the Site Leases), or, to the Landlord's Actual Knowledge, any existing applicable law, rule, regulation, license, judgment, order or decree of any government, governmental body or court having jurisdiction over the Landlord or any of its activities or properties. Landlord has

delivered to Tenant copies of any consents obtained from any Site Landlord or other Person in connection with the execution and delivery by Landlord or any of its Affiliates, as applicable, of this Lease and the Other Lease Documents.

(d) Litigation. Except as listed on Schedule 2.3(d) hereto, to the Actual Knowledge of the Landlord, neither the Landlord nor any Affiliate of the Landlord has received written notice of (i) any action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal now pending or, to the Landlord's Actual Knowledge, threatened in writing against or affecting the Landlord or any Affiliate or any rights of the Landlord which question the enforceability of this Lease or the Other Lease Documents or which, if adversely determined, could reasonably be expected to have a Material Adverse Landlord Effect or (ii) any action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal pending or, to the Landlord's Actual Knowledge, threatened in writing against the Landlord or its Affiliates by Nationwide or any of its Affiliates or, as of the date of this Lease, any other Person that, if adversely determined against the Landlord or any of its Affiliates, could be reasonably expected to question the validity of this Lease or any of the Other Lease Documents to which Landlord or any of its Affiliates, as the case may be, is (or may become) a party.

(e) Brokerage. There are no claims for brokerage commissions or finder's fees for persons engaged by the Landlord or any Affiliate in connection with this Lease. Neither the Landlord nor any Affiliate has dealt with any agent or broker in connection with this Lease and this Lease was not brought about or procured through the use, negotiation or instrumentality of any agent or broker acting on behalf of the Landlord or any Affiliate.

(f) Status of Landlord. The only member of the Landlord is Sutton Hill Associates, its successors and assigns.

(g) Site Leases. The Site Leases consist of the documents identified in the definition of "Site Leases". Landlord has made available to Citadel and Tenant true and complete copies of the Site Leases. The Site Leases have not been amended or modified except as set forth in the documents identified in the definition of "Site Leases". There are no options to purchase or rights of first refusal or offer or similar rights relating to any of the Theatre Properties other than the Sutton Option. Landlord is the holder of the tenant's or lessee's interest under each Site Lease, which has been validly transferred to Tenant pursuant to the Site Lease Assignment, and is in possession of the property demised under each Site Lease and, to the Actual Knowledge of Landlord, no other Person has any interest as tenant or lessee in or to said Site Lease or any rights to possession or occupancy of any portion of the property demised under any Site Lease except as described on Exhibit C hereto. There are no security deposits under any of the Site Leases. Landlord's interest in each Site Lease is not subject to any Lien except as set forth in Exhibit C. Each of the Site Leases is in full force and effect. Landlord (or a predecessor), as tenant under the Site Leases, has substantially performed all of its material covenants and material obligations thereunder. Neither Landlord nor any Affiliate has received or delivered any written notice under any of the Site Leases

of any default or breach, and Landlord has no Actual Knowledge of any material breach or default of any of the Site Leases, which in either case remains uncured.

(h) Sutton Option. The Sutton Option is evidenced by the documents identified in the definition of "Sutton Option." Landlord has made available to Citadel and Tenant true and complete copies of such documents. The Sutton Option has not been amended or modified except as set forth in such documents. Landlord is the holder of the right to exercise the Sutton Option, which has been validly transferred to Landlord pursuant to the Assignment of Option Agreement. Landlord's interest in the Sutton Option is not subject to any Lien except as set forth in Exhibit C. The Sutton Option is in full force and effect in accordance with its terms.

(i) Equipment. Landlord has good title to all of the Equipment except for equipment described on Exhibit C as leased by Landlord, subject to no Lien other than as set forth on Exhibit C. As to any Equipment leased by Landlord, Landlord has made available to Tenant a true and complete copy of each document listed on Exhibit C hereto as comprising the applicable lease, and such list is complete. Landlord (or a predecessor) has substantially performed all of its material covenants and material obligations under the documents set forth on Exhibit C. Neither Landlord nor any Affiliate has received or delivered any written notice under any of such documents of any default or breach, and Landlord has no Actual Knowledge of any material breach or default of any thereof, which in either case remains uncured.

(j) Nature of the Landlord's Business. The Landlord has not engaged in any business other than as contemplated by this Lease.

(k) Other Contracts. To the Actual Knowledge of the Landlord, except for the Site Leases, leases of Equipment and other Contracts disclosed on Exhibit C hereto, the Sutton Option, agreements with the Tenant's Affiliates, and other Contracts none of which involves payments in excess of \$25,000 now committed to be made thereunder or which are cancelable without penalty on thirty (30) days notice, there are no Contracts, oral or written, express or implied, to which Landlord or any Affiliate is a party which (i) relate to the Theatre Properties or (ii) are necessary for the operation of the Theatre Properties in substantially the manner as they have been operated by Landlord and its Affiliates.

(l) Taxes. The Landlord has filed, or caused to be filed, all required tax returns with respect to Taxes, or has filed for extensions of time for the filing thereof, and has paid all applicable Taxes other than Taxes not yet due or which may be paid hereafter without penalty, except for (a) filings or payments as to which the failure to file would not have a Material Adverse Landlord Effect, (b) Taxes which are being Properly Contested by the Landlord, and (c) Taxes which are required to be paid or discharged by the Tenant or any of its Affiliates under the terms of this Lease or any of the Other Lease Documents. On or before the date when finally determined to be due, Landlord has filed or caused to be filed all tax returns which are required to be filed by it, and has paid all taxes shown to be due and payable on said returns or on any assessments made against it

or any of its assets and properties and has paid all other taxes, fees or other charges imposed on it by any Governmental Authority.

(m) Compliance with Laws. To the Actual Knowledge of the Landlord, neither the Landlord nor any Affiliate of the Landlord has, within the two year period ending on July 28, 2000, received written notification that it or any Theatre Property (or Material Element of any thereof) is not in material compliance with the requirements of all Applicable Laws or alleging a violation of Applicable Law, nor during such period have there been any proceedings (including meetings between the persons listed in the definition of Actual Knowledge and representatives of government agencies) or material correspondence concerning any such notification received prior to such two-year period, except those (i) the non-compliance with which would not, either singly or in the aggregate, reasonably be expected to result in a Material Adverse Landlord Effect or (ii) which have been substantially cured or (iii) which have been listed on Schedule 2.3(m) hereof, true and complete copies of which notifications or correspondence have been delivered to the Tenant or descriptions of which meetings and, if not delivered as aforesaid, notifications and correspondence are set forth on said Schedule 2.3(m).

(n) Theatre Improvements. To the Actual Knowledge of the Landlord, neither the Landlord nor any Affiliate of the Landlord has, within the two-year period ending on July 28, 2000, received any written report, written notice (including from any Governmental Authority) or other written materials disclosing or alleging material structural defects in any of the buildings or other material fixtures and improvements comprising part of the Theatre Improvements, except as disclosed on Schedule 2.3(n) hereof; and a true and complete copy of all such reports, notices and other materials so disclosed either have been delivered to the Tenant or made available for its review.

2.4 Certain Covenants of Landlord. The Landlord covenants to the Tenant during the Lease Term (except that paragraph (b) shall only apply during the Initial Term):

(a) Corporate Existence. Landlord will at all times be (i) a validly existing corporation or other business entity in good standing under the laws of its jurisdiction of organization and (ii) if required, duly qualified to do business in good standing in the State of New York.

(b) Liens. The Landlord will not create, incur, assume or permit to exist any Lien on any of the Theatre Property, Theatre Improvements or Unit of Equipment, except Landlord Permitted Liens.

(c) Site Leases. The Landlord will promptly deliver to Tenant any notices Landlord receives under any Site Lease or any other communication from or on behalf of any Site Landlord. Landlord will deliver to any Site Landlord any notice reasonably requested by Tenant, provided such notice does not adversely affect Landlord's rights under the respective Site Lease. To the extent any obligation of Landlord under any Site Lease, by reason of the nature of such obligation, cannot be delegated to Tenant, Landlord (at the expense of Tenant) shall comply with such obligation. Landlord shall not take any action which causes a default or breach under any of the

Site Leases, but neither the failure by Landlord to elect to perform any obligation of Tenant hereunder nor the enforcement or lack of enforcement by Landlord of its rights and remedies pursuant to this Lease shall constitute a violation of this covenant or entitle Tenant to any rights or claims, regardless of the consequence. Landlord shall not enter into any modification, supplement, or other instrument of, to or with respect to any Site Lease (except as may be specifically required by the terms of a Site Lease (although Landlord will endeavor to provide Tenant notice of any such required modification thereof or supplement thereto) and except that, during the Renewal Term, Landlord may enter into any such instrument if the terms thereof do not materially affect the rights or obligations of the parties to the respective Site Lease during the Renewal Term). During the Term, Landlord shall exercise any renewal options under a Site Lease on a timely basis to the extent relating to a term thereunder which includes a part of the Term hereof.

(d) Notices. If the Landlord shall receive any written notice from a Governmental Authority or other Person (other than the Tenant) which relates to the leasing, operation of or at, or use of any Theatre Property or Element thereof during the Lease Term, Landlord shall promptly deliver a copy of such notice to Tenant.

(e) Payment of Taxes and Other Obligations. The Landlord agrees to pay or cause to be paid, on or before the date which is the date when payment thereof is finally due, all sales taxes, transfer taxes, transfer gains taxes and all other similar taxes arising from the execution and delivery of this Lease and the Other Lease Documents, except for the amounts to be paid by Tenant as provided in subparagraph (g) of Section 2.2 hereof. The Landlord shall pay all of its general administrative expenses, including expenses in administering this Lease, except where the Tenant is specifically obligated to reimburse such expenses by this Lease.

SECTION 3. LEASE OF THEATRE PROPERTIES.

Subject to the terms and conditions hereof, from and after July 28, 2000 ("Effective Date") and during the Lease Term, the Landlord does hereby lease the Theatre Properties to the Tenant and the rights and obligations of the Landlord and the Tenant shall be governed by this Lease.

SECTION 4. RESERVED.

SECTION 5. OBLIGATIONS.

(a) Except as provided in paragraph (b) of this Section 5 or in Section 7 of this Lease:

(i) The obligations of the Tenant to pay all amounts payable pursuant to this Lease (including specifically and without limitation amounts payable pursuant to Sections 7 and 12 hereof) shall be absolute and unconditional under any and all circumstances of any character (including, without limitation, the circumstances set forth in

clauses A through H below), and such amounts shall be paid without, and Tenant hereby waives, notice, demand, defense, setoff, deduction or counterclaim and without abatement, suspension, deferment, diminution or reduction of any kind whatsoever, except as herein expressly otherwise provided. The obligation of the Tenant to lease and pay Basic Rent and Additional Rent and any other amounts due hereunder for the Theatre Properties pursuant to this Lease is without any warranty or representation, express or implied, as to any matter whatsoever on the part of the Landlord or any Affiliate, or anyone acting on behalf of any of them.

(ii EXCEPT AS SPECIFICALLY PROVIDED HEREIN OR IN ANY OTHER LEASE DOCUMENT, NEITHER THE LANDLORD NOR ANY AFFILIATE, NOR ANYONE ACTING ON BEHALF OF ANY OF THEM, MAKES ANY REPRESENTATION OR WARRANTY OF ANY KIND WHATSOEVER, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, AS TO THE SAFETY, TITLE, CONDITION, QUALITY, QUANTITY, FITNESS FOR USE, MERCHANTABILITY, CONFORMITY TO SPECIFICATION, OR ANY OTHER CHARACTERISTIC, OF ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR AS TO WHETHER ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR THE OWNERSHIP, USE, OCCUPANCY OR POSSESSION THEREOF COMPLIES WITH ANY LAWS, RULES, REGULATIONS OR REQUIREMENTS OF ANY KIND OR COMPLIES WITH ANY SITE LEASE OR OTHER AGREEMENT, LEASE DOCUMENT OR INSTRUMENT APPLICABLE TO ANY THEREOF.

(iii EXCEPT AS SPECIFICALLY PROVIDED HEREIN OR IN ANY OTHER LEASE DOCUMENT, AS BETWEEN THE TENANT AND THE LANDLORD, ANY ASSIGNEE OR ANY INDEMNIFIED PERSON, THE TENANT ASSUMES ALL RISKS, INCLUDING, WITHOUT LIMITATION, ANY RELATING TO:

(A) THE SAFETY, TITLE, CONDITION, QUALITY, FITNESS FOR USE, MERCHANTABILITY, CONFORMITY TO SPECIFICATION, OR ANY OTHER QUALITY OR CHARACTERISTIC OF ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, LATENT OR NOT;

(B) EXCEPT AS OTHERWISE SET FORTH IN THIS LEASE, ANY SET-OFF, COUNTERCLAIM, RECOUPMENT, ABATEMENT, DEFENSE OR OTHER RIGHT WHICH THE TENANT MAY HAVE AGAINST THE LANDLORD OR ANY INDEMNIFIED PERSON FOR ANY REASON WHATSOEVER ARISING OUT OF THIS OR ANY OTHER TRANSACTION OR MATTER;

(C) ANY DEFECT IN TITLE OR OWNERSHIP OF ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR ANY TITLE ENCUMBRANCE NOW OR HEREAFTER EXISTING WITH RESPECT TO ANY OF THE FOREGOING;

(D) ANY FAILURE OR DELAY IN DELIVERY OF ANY UTILITY SERVICE OR ANY LOSS, THEFT OR DESTRUCTION OF, OR DAMAGE TO, IN WHOLE OR IN PART, ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR CESSATION OF THE USE OR POSSESSION OF ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, BY THE TENANT FOR ANY REASON WHATSOEVER AND OF WHATEVER DURATION, OR ANY CONDEMNATION, CONFISCATION, REQUISITION, SEIZURE, PURCHASE, TAKING OR FORFEITURE, IN WHOLE OR IN PART, OF ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT;

(E) ANY INABILITY OR ILLEGALITY WITH RESPECT TO THE USE, OWNERSHIP, OCCUPANCY OR POSSESSION OF ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, BY THE TENANT;

(F) ANY INSOLVENCY, BANKRUPTCY, REORGANIZATION OR SIMILAR PROCEEDING BY OR AGAINST THE TENANT OR THE LANDLORD;

(G) ANY FAILURE TO OBTAIN, OR EXPIRATION, SUSPENSION OR OTHER TERMINATION OF, OR INTERRUPTION TO, ANY REQUIRED LICENSES, PERMITS, CONSENTS, AUTHORIZATIONS, APPROVALS OR OTHER LEGAL REQUIREMENTS; OR

(H) ANY OTHER CIRCUMSTANCE OR HAPPENING WHATSOEVER, WHETHER OR NOT SIMILAR TO ANY OF THE FOREGOING,

IN EACH CASE UNLESS, AND THEN ONLY TO THE EXTENT, CAUSED BY A LANDLORD ACT (EXCLUDING, HOWEVER, ANY SUCH ACT OF AN AGENT, OFFICER, DIRECTOR, EMPLOYEE OR CONTRACTOR OF LANDLORD OR ANY OF ITS AFFILIATES IF SUCH PERSON IS ALSO AN AGENT, OFFICER, DIRECTOR, EMPLOYEE OR CONTRACTOR OF TENANT OR ANY OF ITS AFFILIATES, PROVIDED, HOWEVER, THAT JAMES J. COTTER SHALL NOT BE CONSIDERED AN AGENT, OFFICER, DIRECTOR OR EMPLOYEE OF TENANT WHEN ACTING IN

HIS CAPACITY AS OPERATING MANAGER OF, OR PARTNER IN THE MEMBER OF, LANDLORD).

THE TENANT HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHTS WHICH IT MAY NOW HAVE OR WHICH AT ANY TIME HEREAFTER MAY BE CONFERRED UPON IT, BY STATUTE OR OTHERWISE, TO TERMINATE, CANCEL, QUIT, RESCIND OR SURRENDER THIS LEASE EXCEPT IN ACCORDANCE WITH THE EXPRESS TERMS HEREOF.

(b) The Tenant may offset, against its obligations to pay Basic Rent or the Acquisition Cost if Tenant shall exercise the Purchase Option, any amounts actually paid by Tenant which represent sums then due and owing by Landlord under a Financing Agreement or (to the extent payable solely by Landlord and not the obligation of Tenant pursuant to the terms hereof) any Site Lease, regardless of any assignment of this Lease or any such other instrument by Landlord; provided that, with respect to payments due under the Nationwide Agreement, the Tenant will not make any such payments to Nationwide unless the Tenant has received written notice from Nationwide that such payment has not been made; provided, further, that (i) the Tenant may request in writing that Nationwide confirm that payment has been made by the Landlord to Nationwide, the absence of a response within ten (10) Business Days following such request being deemed written notice that such payment was not made, and (ii) after the second such failure by the Landlord to make payment to Nationwide during the Initial Term, the Tenant shall not be obligated to await receipt of notice (or deemed notice) that payment had not been made, or expiration of the applicable grace or cure period, before it is authorized at its election to pay Nationwide as aforesaid. Tenant may exercise this right by notice to Landlord at the time any such payment by Tenant is due and from time to time; provided, however, that Tenant shall have provided to Landlord not less than five (5) Business Days' prior written notice of Tenant's intention to exercise its rights pursuant to this paragraph (b), delineating in such notice the amount(s), origin of, and obligations against which such claim or right is asserted and shall promptly after exercising such right provide to the Landlord reasonable evidence of the amount paid and the recipient thereof.

(c) The Landlord and the Tenant hereby declare that it is their mutual intent that the relationship between the Landlord and the Tenant under this Lease shall be that of landlord and tenant only. Title to and ownership of the Theatre Properties, including Landlord's interest in each Element of any thereof, shall at all times remain in the Landlord and at no time become vested in the Tenant except in accordance with the express provisions of this Lease. The Tenant does not hereby acquire any right, equity, title or interest in or to any Theatre Property or Element thereof except pursuant to the express terms hereof. Each of the Landlord and the Tenant agrees that it will not file any Federal, state or local income tax returns during the term of this Lease that are inconsistent with the intention of the Landlord and the Tenant expressed in this paragraph (c) of this Section 5.

SECTION 6. INITIAL TERM; RENEWAL TERM.

(a) The "Initial Term" shall commence on the Effective Date and shall continue until May 31, 2010, unless terminated earlier pursuant to the express provisions of this Lease.

(b) In the event that this Lease is renewed pursuant to the terms of Section 12 hereof, the "Renewal Term" shall commence on the day following the last day of the Initial Term and shall continue for one hundred twenty (120) calendar months, unless terminated earlier pursuant to the express provisions of this Lease.

SECTION 7. RENT AND OTHER PAYMENTS.

(a) The Tenant hereby agrees to pay the Landlord on each Basic Rent Payment Date, in immediately available funds, as provided in paragraph (d) of this Section 7, Basic Rent for the calendar month (or part thereof) in which such Basic Rent Payment Date falls. If the Effective Date of the Initial Term or the first day of the Renewal Term occurs on a day other than the first day of a calendar month, or if the expiration date of the Lease Term occurs on a day other than the last day of the calendar month, then the Basic Rent for the fractional month will be prorated as provided in the definition thereof.

(b) The Tenant hereby agrees to pay as additional rent ("Additional Rent"), at such time or times as is required pursuant to the terms of this Lease, all amounts (other than Basic Rent) payable hereunder, including, without limitation, all amounts payable by Tenant to any Indemnified Person pursuant to Section 11 hereof or to any Site Landlord.

(c) If Tenant fails to pay any amount due to a Site Landlord as required of Tenant under paragraph (f) of Section 2.2 hereof or fails to pay an installment of Basic Rent within five (5) days following the applicable Basic Rent Payment Date, then without prejudice to the full exercise by the Landlord of its rights under Sections 18, 19 and 22 hereof, the Tenant at Landlord's option shall pay to the Landlord, on demand, to the extent legally enforceable, an amount computed by multiplying (A) all sums not paid by the Tenant to the Landlord as provided in this Lease, or to such Site Landlord, on or before such payments are due (including Basic Rent), by (B) three (3%) percent. This administrative charge is intended to compensate the Landlord for its additional administrative costs only which result from the Tenant's failure to pay such amounts on or before the respective dates such payments are due and for Landlord's efforts in billing Tenant and arranging to credit sums collected from Tenant to the party entitled thereto (including the landlord under Site Leases), and has been agreed upon by the Landlord and the Tenant, after negotiation, as a reasonable estimate of the additional administrative costs that will be incurred by the Landlord as a result of the Tenant's failure. The actual cost in each instance is extremely difficult, if not impossible, to determine. This late payment charge will constitute liquidated damages with respect to such administrative costs and will be paid to the Landlord together with such unpaid amounts. The payment of this late payment charge will not constitute a waiver by the Landlord of any default by the Tenant under this Lease.

(d) Basic Rent and Additional Rent and any other amount payable by the Tenant to (i) the Landlord shall be paid such that immediately available funds in the full amount due are available on the date due, to the account of the Landlord designated as the Payment Account or (ii) if to any other Person, then as the instrument providing for such payment may direct.

(e) Notwithstanding the foregoing, to the extent any amount is payable by Tenant to Landlord on any date and, on such date, any amount is payable or past due by Landlord under a Financing Agreement, the Tenant may, subject to compliance with the provisions of Section 5(b) hereof, pay the amount so due to the lender under such Financing Agreement, and any such payment shall be deemed made on behalf of Landlord and effective as a payment of Basic Rent hereunder to the same extent as if such payment had been made to Landlord. Tenant shall pay any balance to Landlord as otherwise provided herein.

SECTION 8. RESTRICTED USE; COMPLIANCE WITH LAWS.

(a) So long as no Event of Default shall have occurred and be continuing, the Tenant may use the Theatre Properties during the Initial Term or Renewal Term, if any, for the operation of motion picture theaters and related uses consistent with the manner of use by Landlord and its Affiliates prior to the date hereof (or, in the case of the Village East Theatre Property, live theatre productions) or such other use as is permitted in accordance with Section 9 hereof. Notwithstanding any other provision of this Lease to the contrary, the Tenant will not do or permit any act or thing which would or likely could, in any material respect, violate the Site Lease applicable to the affected Theatre Property or impair, other than normal wear and tear arising out of the proper and normal use thereof, the value or usefulness of the Theatre Properties or any of them or any material Element of any of them.

(b) The Tenant shall promptly and duly execute, deliver, file and record, at the Tenant's expense, all such documents, statements, filings and registrations, and take such further action, as the Landlord or any Pledgee shall from time to time reasonably request (including installation of such signs or other markings as shall be required by any applicable Legal Requirement) in each case in order to establish, perfect and maintain the Landlord's title to and interest in the Theatre Properties and in each Element thereof, and any Pledgee's interest in this Lease or any Theatre Property or Element thereof as against the Tenant or any third party in any applicable jurisdiction. Equipment, machinery, apparatus, fixtures, structures and installations and other items of personal property may be substituted for portions of the Theatre Improvements and Equipment if (subject to the terms of paragraph (i) of Section 9 hereof) such substitution is consistent with prudent business practices and could not reasonably be expected to adversely affect the Tenant's ability to perform its obligations under this Lease nor result in a Material Adverse Property Effect. As equipment, machinery, apparatus, fixtures, structures and installations are added to, or substituted for, any Element of a Theatre Property, title to such substitute equipment, machinery, apparatus, fixtures, structures and installations shall automatically be transferred to and vested in the Landlord and such equipment, machinery, apparatus, fixtures, structures and installations shall become a part of the Theatre Property and shall be subject to this Lease and title to the existing equipment,

machinery, apparatus, fixtures, structures and installations which are being substituted for shall be released by the Landlord to the Tenant.

The Tenant may, after notice to the Landlord and at the Tenant's own cost and expense, change the place of principal location of any Equipment; provided, that prior notice shall not be required in the case of Equipment used for transportation, but in such event the Tenant shall notify the Landlord of the change of the principal location of such transportation Equipment not later than thirty (30) days after such change is made; and provided, further, that no such notice is required for the change of location of Equipment from one Theatre Property to another. Notwithstanding the foregoing, no change of location shall be undertaken if the Landlord reasonably believes that its ownership of such Equipment or any Landlord Permitted Lien then in existence would be adversely affected or that any Legal Requirements would be violated (other than any Legal Requirements, the non-compliance with which, individually or in the aggregate, (A) will not place the Landlord in any danger of civil liability for which the Landlord is not adequately bonded against or indemnified (the Tenant's obligations under Section 11 of this Lease shall be deemed to be adequate indemnification if no Event of Default exists and if such civil liability is reasonably likely to be less than \$50,000 per Theatre Property or Unit of Equipment or \$100,000 in the aggregate prior to the Funding Date, or \$500,000 per Theatre Property or Unit of Equipment and \$1,000,000 in the aggregate from and after the Funding Date) or subject the Landlord or any Site Landlord to any criminal liability as a result of a failure to comply therewith and (B) will not result in a material diminution in the fair market value of any Theatre Improvements or Unit of Equipment). Tenant will return to its original location any Equipment moved from a Theatre Property if the Site Landlord of the Theatre Property from which the Equipment was removed asserts in writing that such removal constitutes a default under its Site Lease. At the request of the Landlord made in conjunction with the creation or extension of a Landlord Permitted Lien in favor of a lender under any Financing Agreement, the Tenant shall advise the Landlord in writing where all Equipment leased hereunder as of the date of request is principally located; provided that, absent an Event of Default hereunder, Landlord shall not make such request more frequently than once in any 24 consecutive months of the Term.

(c) The Tenant shall use every precaution consistent with prudent business practices to prevent loss or damage to each Theatre Property, the Theatre Improvements and each material Unit of Equipment and to prevent injury to third persons or property of third persons. The Tenant shall cooperate fully with the Landlord and any Additional Insured and all insurance companies providing insurance pursuant to Section 10 hereof in the investigation and defense of any claims or suits arising from the ownership, operation, occupancy or use of any Theatre Improvements or Unit of Equipment, or ownership, use or occupancy of any Parcel of Property; provided, that nothing contained in this paragraph (c) shall be construed as imposing on the Landlord any duty to investigate or defend against any such claim or suit. The Tenant shall comply and shall cause all Persons using or operating any Unit of Equipment or Theatre Improvements or using or occupying any Parcel of Property or Theatre Improvements to comply with all Insurance Requirements and Legal Requirements applicable to such Parcel of Property, Theatre Improvements and Unit of Equipment and to the acquiring, titling, registering, leasing, insuring, using, occupying, operating and disposing of any Parcel of Property, Theatre Improvements or Unit of Equipment, and the

licensing of operators thereof, except that Tenant may, if it Properly Contests compliance with a Legal Requirement, defer compliance therewith so long as such noncompliance, individually or in the aggregate, (A) will not place the Landlord in any danger of civil liability for which the Landlord is not adequately bonded against or indemnified (the Tenant's obligations under Section 11 of this Lease shall be deemed to be adequate indemnification if no Event of Default exists and if such civil liability is reasonably likely to be less than \$50,000 per Parcel of Property, Theatre Improvements or Unit of Equipment and \$100,000 in the aggregate prior to the Funding Date or \$500,000 per Parcel of Property, Theatre Improvements or Unit of Equipment and \$1,000,000 in the aggregate from and after the Funding Date) or subject the Landlord or any Site Landlord to any criminal liability as a result of a failure to comply therewith, and (B) will not result in a material diminution in the fair market value of any Parcel of Property, Theatre Improvements or Unit of Equipment. Notwithstanding the foregoing exception in the final clauses of the preceding sentence, the Tenant will be obligated to comply with any Legal Requirement compliance with which is otherwise the obligation of the Tenant hereunder if a Site Landlord asserts in writing that such non-compliance constitutes a default under its Site Lease.

(d) (i) The Tenant shall promptly, but in any case within five (5) Business Days of the Tenant becoming aware of such event, notify the Landlord if, after the Effective Date, (A) any event has occurred or any condition (other than an Environmental Event) is discovered in, on, beneath or involving any Theatre Improvements or Equipment that could reasonably be expected to result in penalties or other liabilities (including costs to alleviate or remediate) in excess of \$100,000, or (B) the Tenant has received notification that it, a Theatre Property or any Element thereof is the subject of a proceeding (other than an Environmental Event) that could reasonably be expected to result in any ordered Remedial Action or other liability related to such Legal Requirement, the cost of which liability is reasonably expected to exceed \$100,000 (each of the events or occurrences described in clause (A) or (B), regardless of the amount of penalty, liability or cost to remediate, a "Legal Requirement Event").

(ii) Following the receipt of a notice pursuant to subparagraph (i) above, unless such Legal Requirement Event is a Landlord Legal Requirement Obligation, Landlord in its sole discretion may require the Tenant to conduct, or cause to be conducted, an investigation of the affected Theatre Improvements or Equipment, the scope of which investigation shall be limited to confirming the magnitude and anticipated cost of the liability resulting from the Legal Requirement Event, and to provide a copy of such investigation to the Landlord.

(iii) In any case, if a Legal Requirement Event arises during the Lease Term or (regardless of when it arose) is otherwise not exclusively a Landlord Legal Requirement Obligation, the Tenant shall immediately initiate, or cause to be initiated at no cost to the Landlord, such actions as may be necessary to comply in all material respects with all applicable Legal Requirements and to alleviate any significant risk to human health or property if the same arises from a condition on or in respect of the Theatre Improvements or Equipment or any part thereof, whether existing prior to, on or after the date of this Lease.

Once the Tenant commences such actions, the Tenant shall thereafter diligently and expeditiously proceed to comply materially and in a timely manner with all Legal Requirements and to eliminate any significant risk to human health or property and shall, at the request of the Landlord, during the Lease Term give periodic progress reports on Tenant's compliance efforts and actions.

(iv) If a Legal Requirement Event is a Landlord Legal Requirement Obligation, the Tenant shall have no responsibility to cure such Legal Requirement Event. If a Legal Requirement Event is a Landlord Legal Requirement Obligation, Tenant shall notify Landlord that such Legal Requirement Event has occurred or exists and Tenant, in its discretion, but in any case at the sole expense of the Landlord, may initiate or require the Landlord to initiate and otherwise take the actions described in subparagraph (iii) of this Section 8(d), in the same manner as would have been applicable to the Tenant had such Legal Requirement Event not been a Landlord Legal Requirement Obligation; provided, however, that the Tenant shall not initiate any action described in this sentence (except in cases of imminent danger to persons or property) unless the Tenant has notified the Landlord that a Legal Requirement Event has occurred which is a Landlord Legal Requirement Obligation and the Landlord has failed to advise the Tenant within thirty days following receipt of such notice of the Landlord's planned response thereto, which may include Properly Contesting such claim (or has failed after reasonable notice to proceed with reasonable diligence in implementing such response), or has advised the Tenant that Landlord does not intend to respond thereto. Whether or not Landlord otherwise responds to the Tenant's notice or the Event in question, Landlord reserves the right and option to contest that such Event is in fact a Landlord's Legal Requirement Obligation hereunder.

(v) The provisions of this paragraph (d) shall not apply with respect to Environmental Events covered by paragraph (e) of Section 2.2 hereof.

(e) The Landlord or any authorized representative (including representatives of or on behalf of any Pledgee) may during reasonable business hours, upon reasonable notice and subject to such safety precautions as the Tenant may reasonably impose, from time to time inspect any Theatre Improvements or material Units of Equipment therein and deeds, registration certificates, certificates of title and related documents covering the Theatre Properties and Elements thereof wherever the same may be located, but the Landlord shall have no duty to make any such inspection. The Landlord may recover from the Tenant as Additional Rent the reasonable costs and expenses associated with any such inspection which are incurred following the occurrence and during the continuation of any Event of Default.

(f) The Tenant shall not, without the prior written consent of the Landlord, permit, or suffer to exist, any Lien on any Theatre Property or any Element thereof, including mechanics' liens, other than Permitted Liens or those Liens placed thereon by, or arising from, the Landlord's own actions or which are subject to a Permitted Contest. Nothing contained in this Lease shall be construed as constituting the consent or request of the Landlord, express or implied, to or for

the performance by any contractor, laborer, materialman or vendor of any labor or services or for the furnishing of any materials for any construction, alteration, addition, repair or demolition of or to such Parcel or Theatre Improvements or any part thereof. Notice is hereby given that the Landlord will not be liable for any labor, services or materials furnished or to be furnished to the Tenant, or to anyone holding any such Theatre Property or any Element thereof through or under the Tenant, and that no mechanics' or other liens for any such labor, services or materials shall attach to or affect the interest of the Landlord in and to any such Theatre Property.

(g) If any Lien of any kind or charge of any kind or any judgment, decree or order of any court or other Governmental Authority (including, without limitation, any state or local tax lien affecting any Theatre Property or Element thereof), whether or not valid, shall be entered which shall constitute a Lien on the affected Theatre Property or Element which is not a Permitted Lien or the subject of a Permitted Contest, the Tenant shall, upon obtaining knowledge thereof or upon receipt of notice to that effect from the Landlord, promptly take such action as may be necessary to cause the removal of such Lien.

(h) The Tenant shall comply with all Legal Requirements pursuant to which it is necessary that a Unit of Equipment or any component thereof be labeled to provide notice of the Landlord's or any Pledgee's interest in such Unit of Equipment.

(i) Notwithstanding anything to the contrary herein or in any Other Lease Document, Tenant and every successor and assignee of Tenant is hereby given the right in addition to any other rights herein granted, without Landlord's prior written consent, to mortgage its interest in this Lease as to all, but not less than all, of the Theatre Properties, under one or more leasehold mortgages for the benefit of an Institutional Lender and/or under one or more purchase money leasehold mortgages in connection with any Permitted Sale of such interest, and assign this Lease, as collateral security for such leasehold mortgages, upon the condition that all rights acquired under such leasehold mortgages shall be subject and subordinate to all of the provisions of this Lease, and to all rights and interests of Landlord herein and in and to the Theatre Properties. If Tenant and/or Tenant's successors and assignees shall mortgage this leasehold, and if the holder of any of such leasehold mortgages shall send to Landlord a true copy of such holder's mortgage, together with written notice specifying the name and address of the mortgagee and the pertinent recording data with respect to such mortgage, Landlord agrees that so long as such leasehold mortgage shall remain unsatisfied of record or until written notice of satisfaction is given by the holder to Landlord, the following provisions shall apply (in respect of such mortgage and of any other mortgages which also comply with the above):

(i) There shall be no cancellation or surrender of the Lease or modification hereof by joint action of Landlord and Tenant without the prior consent in writing of the leasehold mortgagee.

(ii) Landlord shall, upon serving Tenant with any notice of a default, send a copy of such notice to the holder of such leasehold mortgage, and no such notice shall be

effective or duly given for purposes of this Lease unless and until a copy thereof is sent to such holder, setting forth the information required by the last sentence of this paragraph, and then such notice shall be effective from the date sent. The leasehold mortgagee shall thereupon have the same period, after such notice was sent, to remedy or cause to be remedied the defaults complained of as Tenant has hereunder for such default, and Landlord shall accept such performance by or at the instigation of such leasehold mortgagee as if the same had been done by Tenant. Each notice of default given by Landlord will state the amounts of Basic Rent and Additional Rent and other payments herein provided for then in default.

(iii) Anything herein contained to the contrary notwithstanding, if any default shall occur which, pursuant to any provision of this Lease, entitles Landlord to terminate this Lease, and if, before the expiration of the thirtieth (30th) day following the date Landlord's notice terminating this Lease shall have been properly sent or delivered to such leasehold mortgagee in the manner provided for notices herein, such leasehold mortgagee or its nominee or designee shall have paid to Landlord (for payment by Landlord to other parties then owed such sum if not owing to Landlord) all Basic Rent and Additional Rent and other payments herein provided for and then in default (except any payment due in respect of accelerated rent or liquidated damages), and shall have notified Landlord that such leasehold mortgagee agrees to comply or to commence the work of complying with all of the other requirements of this Lease, if any are then in default, and shall prosecute the same to completion with reasonable diligence, and shall continue to pay all Basic Rent and Additional Rent due and payable hereunder and otherwise to comply (or cause to be complied with) all other obligations of Tenant hereunder which are reasonably susceptible of being complied with by a leasehold mortgagee prior to its acquisition or sale of Tenant's interest hereunder, then in such event Landlord shall not be entitled to terminate this Lease and any notice of termination theretofore given shall be void and of no effect.

(iv) If Landlord shall elect to terminate this Lease by reason of any default of Tenant, the leasehold mortgagee or its nominee or designee shall not only have the right to nullify any notice of termination by agreeing to cure such default as aforesaid, but shall also have the separate right to postpone and extend the specified date for the termination of this Lease as fixed by Landlord in its notice of termination for a period of not more than 60 days, provided that such leasehold mortgagee shall together with such notice cure all existing monetary defaults (except any payment due in respect of accelerated rent or liquidated damages) and prosecute with reasonable diligence the curing of any other defaults which are reasonably susceptible of being cured by the leasehold mortgagee prior to its acquisition or sale of Tenant's interest herein and meanwhile pay or cause to be paid the Basic Rent and any Additional Rent as and when the same become due and otherwise comply (or cause to be complied with) all other obligations of Tenant hereunder which are reasonably susceptible of being complied with by a leasehold mortgagee prior to its acquisition or sale of Tenant's interest hereunder; provided, further, that the leasehold mortgagee or its nominee or designee shall forthwith take steps to acquire or sell Tenant's interest in this Lease by foreclosure of

the leasehold mortgage or otherwise and shall prosecute the same to completion with reasonable diligence. If at the end of said 60-day period the leasehold mortgagee or its nominee or designee shall be actively engaged in steps to acquire or sell Tenant's interest herein and shall have provided to Landlord notice of such mortgagee's actions, and paid all Basic Rent and Additional Rent as aforesaid, together with such notice, the specified date for termination of this Lease shall be further extended for such period as shall be reasonably necessary to complete such steps with reasonable diligence, and in the case of the cure of non-monetary defaults, such additional time subsequent to the completion of such steps to acquire or sell Tenant's interest herein as shall be reasonably necessary to accomplish same with reasonable diligence provided that the mortgagee shall otherwise comply with all other provisions of this Lease. If Tenant's interest is acquired or sold as aforesaid by foreclosure of the leasehold mortgage or otherwise during said 60-day period as same may be extended as aforesaid, the intended termination of this Lease by Landlord under the aforesaid notice will be automatically nullified and this Lease will continue as if said notice of termination had never been given. Notwithstanding any provision hereof, there shall be no extension of the Lease Term.

(v) In the event of termination of this Lease on account of any default by Tenant or on account of any other matter or occurrence whatsoever, Landlord will promptly notify the leasehold mortgagee of such termination and the amount of the sums then due to Landlord under this Lease (except any payment due in respect of accelerated rent or liquidated damages), and Landlord will enter into a new lease of the Theatre Properties with the leasehold mortgagee or its nominee or designee for the remainder of the Lease Term, effective as of the date of such termination, at the Basic Rent and Additional Rent and upon the terms, provisions, covenants and agreements as herein contained and subject only to the rights, if any, of any parties then in possession of any Element of the Theatre Properties, provided:

(A) Said leasehold mortgagee or its nominee or designee shall make written request upon Landlord for such new lease within 30 days after the leasehold mortgagee receives the notice from Landlord of such termination and such written request is accompanied by said leasehold mortgagee's payment of all sums then due to Landlord under this Lease (except any payment due in respect of accelerated rent or liquidated damages).

(B) Said leasehold mortgagee or its nominee or designee shall agree in writing to perform and observe all covenants herein contained on Tenant's part to be performed as applied to such leasehold mortgagee or its nominee or designee and shall further remedy any other conditions which Tenant under the terminated lease was obligated to perform.

(C) The leasehold mortgagee or its nominee or designee as tenant under such new lease shall have the same right, title and interest in and to the Theatre Properties as Tenant had under the terminated lease.

If more than one leasehold mortgagee makes written request upon Landlord in accordance with the provisions hereof for a new lease, the new lease shall be delivered pursuant to the request of the leasehold mortgagee whose leasehold mortgage is prior in lien among those who made the request, and the written request of any leasehold mortgagee whose leasehold mortgage is subordinate in lien shall be void and of no force or effect.

(vi) The leasehold mortgagee shall be given written notice of any arbitration or other proceedings by or between the parties hereto, and shall have the right to intervene therein and be made a party to any arbitration or other proceedings, and the parties hereto do hereby consent to such intervention. In any event, the leasehold mortgagee shall receive notice of, and a copy of, any award or decision made in said arbitration or other proceedings, whether the leasehold mortgagee intervened or became a party or elected not to do either.

(vii) Nothing in this paragraph (i) shall relieve, affect, limit or impair in any way Tenant's obligations pursuant to Section 11 hereof.

(viii) Any provision of this paragraph (i) of Section 8 to the contrary notwithstanding, Landlord provides no assurance that, during the pendency of any proceedings or other actions in respect of a default by Tenant under this Lease or in respect of a default by Tenant under any such leasehold mortgage, Landlord will perform, and Tenant acknowledges that Landlord has no obligation to perform, any of the obligations under the Site Leases which, pursuant to the terms of this Lease, are to be performed by Tenant, except that Landlord will apply monies received from or on behalf of Tenant or a leasehold mortgagee to pay sums due to a Site Landlord for the intended purpose (provided that sums due Landlord hereunder are also paid as and when due as aforesaid).

SECTION 9. MAINTENANCE, IMPROVEMENT, REPAIR AND DEVELOPMENT OF THEATRE IMPROVEMENTS AND EQUIPMENT.

(a) Upon the request of the Tenant, the Landlord will, so long as no Event of Default shall have occurred and be continuing, make available to the Tenant any and all rights the Landlord may have under any vendor's or manufacturer's warranties or undertakings with respect to any Theatre Improvements or Equipment. The Tenant shall not violate the terms of and shall preserve and keep in effect any such warranty and undertaking.

(b) The Tenant shall pay all costs, expenses, fees and charges (including, without limitation, charges of any community or condominium regime to which any Parcel of Property is subject) incurred in connection with the ownership, use, operation or occupancy of any Parcel of

Property or Theatre Improvements during the Lease Term or the ownership, use or operation during the Lease Term of any Unit of Equipment or Theatre Improvements. The Tenant shall at all times during the Lease Term operate and maintain the Theatre Improvements and the Equipment in accordance with prudent industry standards for similarly situated theatre operations (including, in the case of the Village East Theatre Property, live theatre) in Manhattan. Except as otherwise provided in Section 15 or 16 hereof, the Tenant shall at all times during the Lease Term, at its own expense, and subject to reasonable wear and tear, maintain the Theatre Improvements and the Equipment in good and safe operating order, repair, condition and appearance. The foregoing undertaking to maintain the Theatre Improvements and Equipment in good repair shall apply regardless of the cause necessitating repair and regardless of whether the Tenant has possession thereof, and as between the Landlord and the Tenant all risks of damage to the Theatre Properties during the Lease Term are assumed by the Tenant. With respect to any Theatre Improvements and Equipment, the undertaking to maintain in good and safe repair shall include, without limitation, all interior and exterior repairs and replacements, whether structural or nonstructural, foreseen or unforeseen, ordinary or extraordinary and all common area maintenance including, without limitation, removal of dirt, snow, ice, rubbish and other obstructions and maintenance of sidewalks and landscaping. Notwithstanding the foregoing, the obligation to repair shall not include any obligation to take any action which a Site Landlord is required to take pursuant to the applicable Site Lease. The Tenant hereby agrees to defend, indemnify and hold harmless the Landlord and any Pledgee, each Site Landlord and its mortgagee(s) from and against all costs, expenses, claims, losses, damages, fines or penalties, including reasonable counsel fees, arising out of or due to the Tenant's failure to fulfill its obligations under this paragraph (b).

(c) With respect to any Parcel of Property, Theatre Improvements or Unit of Equipment, during the Lease Term the Tenant shall pay (except to the extent a Site Landlord is required to pay the same pursuant to the respective Site Lease, and except as provided in paragraph (e) of Section 2.4 hereof) the following (collectively, "Taxes"): (i) all taxes, assessments, levies, fees, water and sewer rents and charges, and all other governmental charges, general and special, ordinary and extraordinary, foreseen and unforeseen, which are, at any time, imposed or levied upon or assessed against (A) any such Element or the Parcel or Theatre Improvements or Equipment of which such Element is a part, (B) any Basic Rent, any Additional Rent or any other sum payable hereunder or (C) this Lease, the leasehold estate hereby created, or which arises in respect of the ownership, operation, occupancy, possession or use of any such Element, Parcel, Theatre Improvements or Equipment, including without limitation Equipment leases and contracts; (ii) all gross receipts or similar taxes (i.e., taxes based upon gross income which fail to take into account all customary deductions (e.g., ordinary operating expenses, depreciation and interest) relating to any such Element) imposed or levied upon, assessed against or measured by any Basic Rent, or any Additional Rent or other sum payable hereunder; (iii) all sales, value added, use and similar taxes at any time levied, assessed or payable on account of the acquisition, leasing or use of any such Element, Parcel or Theatre Improvements of which any such Element forms a part; and (iv) all charges of utilities and communications services serving any such Element, Parcel or Theatre Improvements of which any such Element forms a part. The Tenant shall not be required to pay any franchise, estate, inheritance, transfer, income or similar tax of the Landlord (other than any tax

referred to in clause (ii) above) unless such tax is imposed, levied or assessed in substitution for any other tax, assessment, charge or levy which the Tenant is required to pay pursuant to this paragraph (c); provided, however, that, if, at any time during the term of this Lease, the method of taxation shall be altered such that, in lieu of or as a substitute for any item included above as Taxes to be paid by Tenant (including in lieu of increases in any such Taxes), there shall be levied, assessed or imposed on the Landlord a capital levy or other tax directly on the rents received from any such Element, Parcel or Theatre Improvements of which any such Element forms a part, or upon the value of any such Element or any present or any future improvement or improvements on any such Element or the Parcel or Theatre Improvements of which such Element is a part, then all such substitute taxes, assessments, levies or charges, or the part thereof so measured or based, shall be included in Taxes to be paid by the Tenant, but only to the extent that such taxes would be payable if the property affected were the only property of the Landlord or (to the extent so required pursuant to the applicable Site Lease) the applicable Site Landlord, as the case may be, and the Tenant shall pay and discharge the same as herein provided. The Tenant will furnish to the Landlord, promptly after demand therefor, proof of payment of all items referred to above which are payable by the Tenant. If any such assessments may legally be paid in installments, the Tenant may pay such assessment in installments; in such event, the Tenant shall be liable only for installments which become due and payable during the Lease Term. Taxes for the first and last year of the Lease Term shall be prorated between Landlord and Tenant. Tenant shall have the right to Properly Contest all Taxes by appropriate legal proceedings, or in such other manner as may be reasonably suitable (and, if legal proceedings are instituted, Tenant shall conduct such proceedings promptly, with counsel of its choice, at Tenant's sole cost and expense, in its name, or, if necessary, in the name of Landlord, and Landlord shall execute all documents necessary to accomplish the foregoing). If at any time there shall be any rebates or refunds of Taxes paid by Tenant pursuant to the provisions of this Lease, such rebates or refunds shall belong to Tenant, subject to proration with respect to rebates or refunds relating to the year in which the Lease Term commences or ends. Any refunds received by Landlord relating to any tax year which encompasses any portion of the Lease Term shall be deemed trust funds and shall be promptly paid over to Tenant, subject to proration with respect to rebates or refunds relating to the year in which the Lease Term commences or ends. The provisions of this Section shall survive the expiration of the term of this Lease.

(d) The Tenant may make alterations to any Equipment without the prior consent of the Landlord, provided that such alterations do not impair the value or utility of such Equipment. Any improvements or additions to any Equipment shall, as and when made or performed, become and remain the property of the Landlord.

(e) So long as no Event of Default shall have occurred and be continuing, the Tenant may, at its expense, make additions to and alterations to any Parcel of Property or Theatre Improvements; provided, that upon completion of such additions or alterations (i) neither the fair market value of the affected Theatre Improvements or Parcel shall be lessened thereby nor the condition of such affected Theatre Improvements or Parcel impaired below the value, utility or condition thereof immediately prior to such action (assuming such affected Theatre Improvements or Parcel was then of a condition and repair required to be maintained pursuant to paragraph (b) of this

Section 9), (ii) such additions or alterations shall not result in a change of use of such affected Theatre Improvements or Parcel (except as permitted by paragraph (i) of this Section 9), (iii) such work shall be completed in good and workmanlike manner and in compliance with all applicable Legal Requirements and Insurance Requirements and (iv) no exterior walls of any building or other improvement constituting a part of the affected Theatre Improvements shall be demolished unless the Tenant has made adequate provision according to nationally recognized sound and prudent engineering and architectural standards to preserve and maintain the structural integrity of the affected Theatre Improvements and for the restoration of such Theatre Improvements to a structurally sound architectural whole. Any and all such additions and alterations shall be and remain part of the affected Theatre Improvements and shall be subject to this Lease. Notwithstanding anything contained herein to the contrary, the Tenant shall not perform any addition or alteration to any Theatre Improvements, including Equipment therein, which would have an estimated cost in excess of \$250,000 in the aggregate for any Theatre Property prior to the Funding Date or \$500,000 in the aggregate for any Theatre Property from and after the Funding Date, without the Landlord's prior written consent, not to be unreasonably withheld or delayed in any event, except that no such consent shall be required for (x) any additions or alterations to upgrade seating or sound, projection, computer, or concessions equipment or any other alterations or (y) for any addition or alteration undertaken after the Funding Date in accordance with the procedures set forth in Section 9(f) below as if the Theatre Property in question were the "Affected Premises" described therein.

(f) In the event the Tenant decides in its sole discretion to develop any of the Parcels of Property (such Parcels of Property chosen for development to be hereinafter referred to as the "Affected Premises"), whether for purposes provided in or other than that contemplated in Paragraph (a) of Section 8, the Tenant shall comply with all of the following conditions set forth in this paragraph (f) of this Section 9 (as well as applicable requirements of the affected Site Lease) before the Tenant begins construction of the improvements on the Affected Premises (the "Constructed Improvements"), and before any building materials are delivered to the Affected Premises by the Tenant or under the Tenant's authority:

(i) Plans and Specifications. (x) Insofar as it is the intention of the Landlord and the Tenant that all improvements within the Affected Premises be constructed, installed, erected, operated and maintained so that the Constructed Improvements shall be aesthetically and architecturally harmonious, all Constructed Improvements within the Affected Premises, including initial construction and any major alterations, additions, exterior remodeling or reconstruction of any Constructed Improvements following the initial construction thereof, shall be performed only in accordance with approved plans for such work as provided herein.

(y) Prior to the commencement of the construction and/or installation of any Constructed Improvements whatsoever on the Affected Premises or any part thereof by the Tenant, the Tenant shall deliver to the Landlord detailed plans through and including construction drawings (the "Plans") of scaled elevations, exterior design concepts, material selection and color for the exterior surfaces of the proposed Constructed Improvements

(which Plans shall include a grading plan and/or a utility plan, to the extent applicable). The Landlord shall in writing either approve or disapprove the Plans within twenty (20) days of the receipt thereof, such approval not to be unreasonably withheld. If the Landlord fails to approve or disapprove the Plans in accordance with the terms of this Lease within such twenty (20) day period, the Plans shall be deemed approved. Upon submission of any disapproval, the Landlord shall inform the Tenant in writing in reasonable detail (the "Plan Disapproval Notice") of the reasons for disapproval and the required changes to the Plans.

If there is a dispute between the Landlord and the Tenant regarding acceptable, revised Plans, and such dispute cannot be settled by the Landlord and the Tenant through good faith negotiation, the parties agree to submit such dispute to mediation in New York under the Commercial Mediation Rules, or, alternatively, to submit such dispute to such mediator or mediation counsel as to which the parties may otherwise agree and with each party to share equally the costs of said mediation, before resort to arbitration, litigation or other dispute resolution procedure.

(ii) Construction Contracts. With respect to any Constructed Improvements which the Tenant may elect to construct, the Tenant shall submit to the Landlord, for its prior approval, not to be unreasonably withheld or delayed, the name of and information regarding the proposed contractor for such work and a copy of the final construction contracts relating thereto, which submission shall occur prior to the commencement of any significant construction work pursuant to any such construction contracts.

(iii) Builder's Risk and Other Insurance. Prior to commencing construction of any of the Constructed Improvements, the Tenant shall have obtained (and delivered insurance certificates therefor to the Landlord) all insurance coverage required under Section 10 of this Lease, including course of construction insurance coverage for all risk of loss, which shall be maintained at one hundred percent (100%) of the completed value based on the insurable portion of the work including materials at the project site, stored off the project site, or in transit. The Tenant shall include the interests of the Landlord, the applicable Site Landlord, their respective mortgagees, and subcontractors in the work and shall insure against the perils of physical loss or damage. Nothing in this subparagraph (iii), however, shall be construed to relieve the Tenant of full responsibility for loss of or damage to materials not yet incorporated in the work or the Tenant's or its contractors' tools and equipment used to perform the work, whether on the project site or elsewhere, or to relieve the Tenant of any other responsibility under this Lease. Without limiting any other obligations of Tenant set forth in Section 11 hereof, if the Landlord is damaged by the failure of the Tenant to purchase or maintain such insurance, the Tenant shall bear all losses attributable thereto and indemnify the Landlord therefrom.

(iv) Construction of Constructed Improvements. All Constructed Improvements shall be constructed in a good and workmanlike manner using materials of

good quality and in substantial compliance with the Plans, and shall materially comply with all applicable Legal Requirements.

(v) Completion of Constructed Improvements and Other Work; Quality and Compliance with Legal Requirements. The Tenant covenants and agrees that the Constructed Improvements to be constructed on the Affected Premises, and all other construction thereon, when undertaken, while in progress and as completed: (i) will comply with all Legal Requirements, including, without limitation, all laws and ordinances necessary to permit the development and completion of the Constructed Improvements; (ii) will be entirely on the Affected Premises and will not encroach upon the land of others (unless pursuant to rights, in writing or by prescription, to so encroach); (iii) will be wholly within any enforceable building restriction lines, however established, and will not violate any enforceable use restriction or any applicable easement, license, covenant, condition or restriction of record; and (iv) will comply in all material respects with the Plans approved for such Constructed Improvements and all provisions of this Lease. All work performed on the Affected Premises pursuant to this Lease, or authorized by this Lease, shall be done in a good and workmanlike manner.

(vi) Construction Cost. The Tenant shall bear all of the costs of developing the Affected Premises and constructing the Constructed Improvements.

(vii) Mechanic's, Materialman's, Contractor's, or Subcontractor's Liens. The Tenant shall provide the Landlord with not less than twenty (20) days' prior written notice of the commencement of any major alterations on the Affected Premises and the Landlord shall have the right to enter upon the Affected Premises to post customary notices of non-responsibility with respect thereto. Subject to the Tenant's right to Properly Contest as hereinafter provided, at all times during the Lease Term, the Tenant shall keep the Affected Premises, including all Theatre Improvements and Equipment now or hereafter comprising or located on the Affected Premises, free and clear of all Liens, other than Permitted Liens or those Liens placed thereon by, or arising from, the Landlord's own actions.

(viii) Ownership of Constructed Improvements. Notwithstanding anything that is or appears to be to the contrary herein, any and all Constructed Improvements erected on the Affected Premises as permitted by this Lease, as well as any and all alterations or additions thereto or any other Improvements or fixtures on the Affected Premises, shall be owned by the Tenant until the expiration of the Lease Term or sooner termination of this Lease. Upon the expiration or sooner termination of this Lease, all Constructed Improvements and all alterations, additions or improvements thereto that are made to or placed on the Affected Premises by the Tenant or any other person (other than trade fixtures and items of personal property) shall be considered part of the real property of the Affected Premises and shall remain on the Affected Premises and become at no cost to the Landlord the property of the Landlord (or the Site Landlord, as applicable). Except as otherwise

expressly provided in this Lease, any non-disturbance agreement approved by the Landlord, any easement approved by the Landlord, or any written instrument executed by the Landlord which expressly states that the Landlord is waiving its rights to receive such Constructed Improvements free and clear of all other claims, said Constructed Improvements shall become the property of the Landlord (or the Site Landlord, as applicable) free and clear of any and all rights to possession and all claims to or against them by the Tenant or any third person or entity, but nothing herein shall obligate Landlord to execute and deliver any such agreement, easement or instrument.

(ix) Right of Access. The Landlord and its authorized representatives shall have the right during normal construction hours, upon not less than twenty-four (24) hours' oral or written notice to the Tenant (except that in the case of an emergency, the existence of which shall be determined by the Landlord in its reasonable discretion, no advance notice shall be required) to enter upon the Affected Premises without charges or fees for the purpose of inspecting the work being performed in constructing the Constructed Improvements in a manner so as to cause minimal interference with the work being performed; provided, however, that upon the Tenant's request, the Landlord and such authorized representatives shall present and identify themselves at the Tenant's construction office, be accompanied by a representative of the Tenant while on the Affected Premises and obey the Tenant's or the contractor's safety rules and regulations.

(x) Governmental Consents. If requested by the Landlord in writing, the Tenant covenants and agrees to deliver to the Landlord from time to time promptly upon request conformed copies (and certified copies of all recorded instruments) of any consents, permits, licenses, orders, authorizations, approvals, waivers, extensions or variances of, or notices to or registrations or filings with any Governmental Authority which are or will be required in connection with the construction, alteration or reconstruction or use for their intended purposes following completion of the Constructed Improvements in accordance with the terms of this paragraph (f) of this Section 9. In no event shall the Tenant commence the construction, alteration or reconstruction of the Constructed Improvements until such time as the Tenant shall have obtained all such necessary consents, permits, licenses, orders, authorizations, approvals, waivers, extensions or variances of, or notices or registrations or filings for the entirety of the contemplated work (excluding those which are obtainable during commencement of such work or on its completion, provided that, as to these, Tenant will obtain or make them as and when required during such work or upon completion, as the case may be).

(xi) Cooperation. Subject to the provisions of this paragraph (f) of this Section 9, Landlord shall reasonably cooperate with Tenant, at the sole cost and expense of Tenant, in the development of any Affected Premises.

(g) The Tenant has obtained or will obtain prior to the time required and shall maintain in full force and effect all operating licenses, if any, relating to each Theatre Property and Element thereof which are required for the operation thereof for the purposes permitted in this Lease.

SECTION 10. INSURANCE.

(a) Public Liability Insurance. The Tenant will carry at its own cost and expense public liability insurance relating to the Theatre Properties on an occurrence basis (i) in amounts which are not less than the public liability insurance applicable to similar properties owned, leased or held by the corporations engaged in the same or a similar business, similarly situated in Manhattan; provided, that in no event shall the minimum single limit of such insurance be less than \$10,000,000 per occurrence, (ii) of the types usually carried by Persons engaged in the same or a similar business, similarly situated in Manhattan, and owning or operating similar properties and which cover risks of the kind customarily insured against by such Persons, and (iii) which are maintained in effect with insurers of recognized responsibility rated "Very Good" or better by Best's Key Rating Guide. The insurance required by this paragraph (a) may be subject to such deductibles and the Tenant may self-insure with respect to the required coverage only to the extent approved in writing by the Landlord; provided, that no such approval shall be required for up to \$100,000 of deductible or self-insurance so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

(b) Insurance Against Loss or Damage to Equipment. The Tenant will maintain in effect with insurers of recognized responsibility rated "Very Good" or better by Best's Key Rating Guide, at its own expense, all-risk physical damage insurance with respect to all Equipment, which is of the type usually carried by Persons engaged in the same or similar business, similarly situated with Parent, and owning or operating similar equipment and which cover risk of the kind customarily insured against by such Persons, and in the amount of the insurable value thereof. The insurance required by this paragraph (b) may be subject to such deductibles and the Tenant may self-insure with respect to the required coverage only to the extent approved by the Landlord; provided, that no such approval shall be required for up to \$100,000 of deductibles or self-insurance so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

(c) Business Interruption Insurance. The Tenant will maintain, at its expense, business interruption insurance covering 90% of continuing normal operating expenses excluding ordinary or non-continuing payroll but including lease obligations with respect to the Theatre Properties, arising from loss required to be insured by clause (d)(i) of this Section 10. The maximum deductible shall be no greater than \$100,000 per occurrence so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times. Such insurance shall also (i) insure for a period of 12 months that portion of fixed expenses and lease obligations not earned arising from an insured loss or occurrence with respect to the Theatre Properties, and (ii) include extraordinary expenses incurred after an insured loss to make temporary repairs and expedite the permanent repair of the damaged

property in excess of the business interruption loss even if such expense does not reduce the business interruption loss in an amount not less than \$100,000, so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

(d) Insurance with respect to the Theatre Properties. The Tenant will maintain, at its expense, or cause to be maintained at no expense to Landlord, insurance of the following character, on each Theatre Property:

(i) All risk insurance or its equivalent (excluding flood and earthquake coverage) coverage against losses by fire and lightning and other risks for the full insurable replacement value of each Theatre Property, with agreed amount endorsement or endorsements providing equivalent protection, including loss by windstorm, hail, explosion, riot (including riot attending a strike), civil commotion, aircraft, vehicles, smoke damage, and vandalism and malicious mischief, in amounts not less than the full insurable replacement value of all buildings and other improvements on each Theatre Property. The term "full insurable replacement value" as used herein means the actual replacement cost, including coverage for up to at least 10% of the direct physical loss for the costs of debris removal, but excluding the cost of constructing foundation and footings, to the extent Tenant can document such amounts.

(ii) Workers' compensation insurance as required by the laws of the states where each Theatre Property is located.

(iii) Explosion insurance in respect of any boilers and similar apparatus located on each Parcel in the minimum amount of \$250,000 or in such greater amounts as are then customary for property similar in use to each Parcel.

(iv) Such other insurance, in such amounts and against such risks, as is customarily maintained by operators of similar properties for businesses similar to that conducted by the Tenant.

(v) Liquor liability insurance with respect to any Theatre Property if required pursuant to the applicable Site Lease or if any alcoholic beverage is offered for sale or served at such Theatre Property.

(vi) Compliance with laws coverage.

The insurance required under this paragraph (d) shall be maintained in effect with insurers of recognized responsibility rated "Very Good" or better by Best's Key Rating Guide and licensed to do business in the States where each Theatre Property is located. Such insurance may provide for such deductibles and the Tenant may self-insure with respect to the required coverage only to the extent approved in writing by the Landlord; provided, that no such approval shall be required for up to \$100,000 of deductibles or self-insurance, so

long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

Insurance claims by reason of damage or destruction affecting any Theatre Property shall be adjusted by the Tenant, subject to the approval of the Landlord, which approval the Landlord agrees not to unreasonably withhold or delay.

(e) Additional Insureds; Notice. Any policy of insurance carried in accordance with this Section 10 and any policy taken out in substitution or replacement for any such policy (i) shall name the Landlord, each Site Landlord and the mortgagee of Landlord and each Site Landlord (so long as Tenant has been provided written notice as to the name and other required information relating to any such mortgagee), as additional insureds (the "Additional Insureds"), as their respective interests may appear (but without imposing upon any such Person any obligation imposed on the insured, including, without limitation, the liability to pay the premium for any such policy), (ii) with respect to insurance carried in accordance with the preceding paragraphs (b), (d)(i), (d)(iv) and (d)(v), shall name as loss payee, as their interests may appear, the Landlord, or as otherwise may be specifically required pursuant to a Site Lease or the Landlord's or any Site Landlord's mortgage, (iii) with respect to insurance carried in accordance with the preceding paragraphs (b) and (d), shall provide that as against the Landlord and all other Additional Insureds the insurers shall waive any rights of subrogation and (iv) shall provide that, if the insurers cancel such insurance for any reason whatsoever, such cancellation shall not be effective as to the Landlord and all other Additional Insureds for thirty (30) days after receipt by such parties of written notice by such insurers of such cancellation. Each liability policy (A) shall be primary without right of contribution from any other insurance which is carried by the Landlord with respect to its interest as such in a Theatre Property or Element thereof and (B) shall expressly provide that all of the provisions thereof, except the limits of liability, shall operate in the same manner as if there were a separate policy covering each insured.

(f) Intentionally omitted.

(g) Application of Insurance Proceeds. As between the Landlord and the Tenant, and subject to the provisions of the applicable Site Lease, the insurance proceeds of any property damage loss to any Element of a Theatre Property will be held in an escrow account, with an escrow agent and under terms reasonably acceptable to Landlord and Tenant and applied in payment (or to reimburse the Tenant) for repairs or replacement in accordance with the terms of paragraph (b) of Section 15 hereof; provided, however, that in the event that any insurance payments received pursuant to this paragraph (g) are less than \$1,000,000 prior to the Funding Date and \$2,000,000 thereafter, such payments shall be paid to the Tenant to be applied to repair or replace in accordance with Section 15 hereof. The Tenant shall be entitled (i) to receive the amounts so deposited against certificates, lien waivers, invoices or bills reasonably satisfactory to the Landlord, delivered to the Landlord from time to time as such work or repair progresses, and (ii) to direct the investment of the amounts so deposited as provided in paragraph (h) of this Section 10. To the extent that the cost of such work or repair shall exceed the amount of the proceeds, the Tenant shall make adequate provisions for the payment thereof, which provisions shall be reasonably acceptable to the Landlord

and such sums provided by the Tenant will be applied prior to insurance proceeds. So long as the Lease Term has not expired or if the Purchase Option is exercised, any moneys remaining in the aforesaid account or unused by the Tenant for repairs after final payment in full for repairs has been made shall be paid to Landlord; provided, however, that, during the Initial Term, any such moneys shall be treated as "Taking Proceeds," to be applied or with the consequence as provided in paragraphs (c)(ii) and (d)(i) of Section 16 hereof.

(h) Investment. Any amounts deposited into escrow pursuant to paragraph (g) of this Section 10 shall be invested, at the Tenant's instruction, in any Permitted Investments. Any interest earned on the investments of such funds shall be deposited in escrow and be a part of the fund for disposition as provided in paragraph (g) above. The Landlord shall not be liable for any loss resulting from the liquidation of each and every such investment and the Tenant shall bear the risk of such loss, if any.

(i) Application in Default. Any amount referred to in paragraph (g) or (h) of this Section 10 which is payable to the Tenant shall not be payable to the Tenant or, if it has been previously paid to the Tenant, shall not be retained by the Tenant, if at the time of such payment an Event of Default shall have occurred and be continuing. In such event, all such amounts shall be paid to and held by the Landlord as security for the obligations of the Tenant hereunder or, at the Landlord's option, applied by the Landlord toward payment of any of such obligations of the Tenant at the time due hereunder as the Landlord may elect. At such time as there shall not be continuing any Event of Default or at the closing of the Purchase Option (whether or not there then exists an Event of Default other than an Event of Default described in Section 18(f)), all such amounts at the time held by the Landlord in excess of the amount, if any, which the Landlord shall have elected to apply as above provided shall be paid to the Tenant. If the Lease Term shall terminate or expire when sums are held pursuant to paragraph (g) or (h), such sums shall be paid over to the Landlord free of claim thereto or rights therein of the Tenant.

(j) Certificates, etc. On or before the Effective Date, and annually on or before the anniversary of the date of this Lease upon the request of the Landlord, the Tenant will furnish to the Landlord certificates of an independent insurance broker reasonably satisfactory to the Landlord or other evidence reasonably acceptable to the Landlord certifying that the insurance then carried and maintained with respect to each Theatre Property complies with the terms hereof. The Tenant will not operate in violation of any policy or negate or limit coverages.

(k) Use or Operation of Theatre Properties. The Tenant covenants that it will not use or operate any Unit of Equipment or use or occupy any Theatre Property or permit the use or occupancy of any Theatre Property or the use or operation of any Unit of Equipment at a time when the insurance required by this Section 10 is not in force with respect to such Theatre Property or Unit of Equipment.

(l) Prosecution of Claims. With respect to any insurance maintained by Tenant, the Tenant may, so long as no Event of Default shall have occurred and be continuing, at its own cost

and expense, prosecute any claim against any insurer or contest any settlement proposed by any insurer, and the Tenant may, so long as no Event of Default shall have occurred and be continuing, bring any such prosecution or contest in the name of the Landlord, the Tenant, or both, and the Landlord will join therein at the Tenant's request; provided that the Tenant shall indemnify the Landlord against any losses, costs or expenses (including reasonable attorneys' fees) which the Landlord may incur in connection with such prosecution or contest whether or not it is at the request of the Tenant. During the continuance of an Event of Default, the Landlord may prosecute or contest such claim as aforesaid, in its name or in the name of the Tenant, as the Landlord may determine, but in any event at the cost and expense of the Tenant.

(m) Reports. The Tenant will advise the Landlord promptly of any default in the payment of any premium and of any other act or omission on the part of the Tenant which may invalidate or render unenforceable, in whole or in part, any insurance being maintained by the Tenant pursuant to the terms of this Section 10.

(n) Failure to Maintain Insurance. In the event the Tenant fails to maintain the full insurance coverage required by this Section 10, the Landlord, upon 30 days' prior notice (unless the aforementioned insurance would lapse within such period, in which event notice should be given as soon as reasonably possible and shall run for a shorter notice period as applicable) to the Tenant of any such failure, may (but shall not be obligated to) take out the required policies of insurance and pay the premiums on the same. The Tenant shall be obligated to reimburse all sums expended by the Landlord (with interest at the Reimbursement Rate from the date incurred by Landlord to the date repaid by Tenant) in connection with the Landlord's expenditures on insurance made pursuant to this Section 10(n).

(o) No Duty of Landlord to Verify or Review. No provision of this Section 10, or any provision of this Lease, shall impose on the Landlord any duty or obligation to verify the existence or adequacy of the insurance coverage maintained by the Tenant, nor shall the Landlord be responsible for any representations or warranties made by or on behalf of the Tenant to any insurance company or underwriter. Any failure on the part of the Landlord to pursue or obtain the evidence of insurance required by this Lease from the Tenant and/or failure of the Landlord to point out any non-compliance of such evidence of insurance shall not constitute a waiver of any of the insurance requirements in this Lease or render the Landlord liable to the Tenant or others by reason of the Tenant's non-compliance.

(p) Insurance under Site Leases. Notwithstanding anything contained herein to the contrary, the Tenant shall be obligated to maintain insurance with respect to any Theatre Property of the type and in amounts not less than that required under the applicable Site Lease. To the extent any of the provisions of a Site Lease concerning insurance, or insurance proceeds or the application thereof, require greater coverage than, or are otherwise inconsistent with, the provisions of this Lease, the provisions of the Site Lease shall control as to the applicable Theatre Property and the parties shall be relieved of any inconsistent obligations hereunder; provided, however, that the fact

that a Site Lease may mandate lesser amounts or fewer types of coverage shall not be considered an inconsistency and in such event the provisions of this Lease shall control.

(q) Insurance by Parent. Any insurance to be provided by Tenant hereunder may be provided by blanket or umbrella policies of Parent or any of its Affiliates covering the property to be insured hereunder and other property of Parent or any of its Affiliates provided that the coverage with respect to the Theatre Properties shall not be reduced or otherwise affected thereby and the protections afforded thereby shall be determined as if the Theatre Properties were the only properties thereunder.

SECTION 11. INDEMNITIES.

(a) Indemnification. The Tenant shall, and hereby does, indemnify, defend, protect and hold harmless Landlord, any Pledgee, each Site Landlord, any mortgagee of a Leased Site or of the Site Landlord's interest therein, and any successor or successors and each Affiliate of each of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants (each of the foregoing a "Landlord Indemnified Person") from and against all liabilities (including, without limitation, Environmental Damages and strict liability in tort), losses, obligations, claims (including, without limitation, Environmental Damages and strict liability in tort and claims for commissions and other compensation made by any agent or agents or any broker or brokers), damages (including, without limitation, consequential damages), penalties, causes of actions, suits, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) and judgments of any nature ("Losses") relating to or arising out of:

(i) The assertion of any claim or demand based upon any infringement or alleged infringement of any patent or other right, by or in respect of any Theatre Improvements or Unit of Equipment; provided, however, that upon request of the Tenant, the Landlord will make available to the Tenant the rights under any similar indemnification arising from any manufacturer's or vendor's warranties or undertakings with respect to any Theatre Improvements or Unit of Equipment;

(ii) Any failure or delay of Tenant in paying any Taxes required to be paid by Tenant pursuant to paragraph (c) of Section 9 hereof;

(iii) Any violation, breach or default by the Tenant of this Lease or any Site Lease to the extent of obligations of Tenant thereunder as herein described, or any violation or alleged violation by the Tenant of any contracts or agreements to which the Tenant is a party or by which it is bound or of any laws, rules, regulations, orders, writs, injunctions, decrees, consents, approvals, exemptions, authorizations, licenses and withholdings of objection, of any Governmental Authority and all other Legal Requirements with respect to the Theatre Properties and Elements thereof;

(iv) (A) The use or occupancy of the Theatre Properties or any Element of any thereof by the Tenant or any Person claiming under the Tenant; (B) any activity, work, or thing done or permitted by the Tenant in or about any Theatre Improvements or Equipment; (C) any acts, omissions, or negligence of the Tenant, or any Person claiming under the Tenant, or the employees, agents, contractors, invitees or visitors of the Tenant or any such Person; (D) any breach, violation, or nonperformance by the Tenant, or any Person claiming under the Tenant, or the employees, agents, contractors, invitees, or visitors of the Tenant or any such Person, of any term, covenant or provision of this Lease, any Site Lease to the extent the performance of obligations thereunder has become an obligation of the Tenant pursuant to the terms hereof or any law, ordinance or governmental requirement of any kind; or (E) any injury or damage to the Person, property, or business of the Tenant, its employees, agents, contractors, invitees, visitors or any other Person entering upon any Theatre Improvements, including without limitation any and all of the foregoing arising from and after the date the membership interest in Landlord is foreclosed upon or otherwise transferred, whether or not this Lease is then in effect;

(v) Liabilities or obligations of the Tenant or any Affiliate of the Tenant to the extent based on facts, activities, omissions or circumstances existing or occurring as of, from or after the Effective Date, including without limitation liabilities or obligations to customers, suppliers, employees and agents, or otherwise arising from operation of the Business from and after the Effective Date or otherwise assumed by the Tenant or made the responsibility of the Tenant pursuant to the terms of this Lease;

(vi) The loss of a Site Lease based on acts or omissions of Tenant in violation of such Site Lease; or

(vii) To the extent arising from or relating to this Lease or the other elements of the transactions entered into between Landlord or any of its Affiliates, on the one hand, and Tenant or any of its Affiliates, on the other hand, on or as of the date hereof: (A) insufficient or inadequate disclosure by Tenant or any of its Affiliates under any Applicable Law relating to proxies, (B) failure by Tenant or any of its Affiliates to follow proper procedures and other matters relating to the fact that the Tenant is owned by a Person the shares of which are traded publicly or (C) alleged breaches of fiduciary duty by Tenant or any of its Affiliates or the existence of conflict of interest; provided, however, that, with respect to claims or liability arising under clause (C), Tenant shall not be obligated to indemnify Landlord to the extent the claimant has been successful in such claim on the merits; provided, further, that the Tenant shall have no obligations for indemnity under this clause (vii) with respect to actual losses or damages ultimately and finally determined and adjudged to be payable to the extent based on a breach by the Landlord of its obligations hereunder or for which Messrs. Michael R. Forman and James J. Cotter are obligated to indemnify Citadel pursuant to Section 8.12 of a certain Merger Agreement, dated July 28, 2000, among Citadel, a wholly-owned subsidiary of Citadel, Off Broadway Investments, Inc., and Messrs. Cotter and Forman; provided, that Tenant shall not be obligated to indemnify any Landlord

Indemnified Person against Losses to the extent Landlord is responsible to indemnify the Tenant Indemnified Persons as provided in paragraph (b) of this Section 11 with respect to the matter from which such Losses arose.

(b) The Landlord shall, and hereby does, indemnify, defend, protect and hold harmless the Tenant, Parent, any successor or successors to either of them, and any Affiliate of each of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants (each of the foregoing a "Tenant Indemnified Person") from and against all Losses relating to or arising out of:

(i) Liabilities or obligations of Landlord or any Affiliate of Landlord to the extent based on facts, activities, omissions or circumstances existing prior to the Effective Date, including without limitation liabilities or obligations to customers, suppliers, employees, and agents, arising from the operation of the Business prior to the Effective Date, except, subject to paragraph (ii) of this Section 11(b), for liabilities expressly assumed by Tenant by this Lease or for which Tenant is responsible pursuant to the terms hereof or thereof;

(ii) Any breach of any representation or warranty made by Landlord under this Lease;

(iii) Any breach of any covenant or agreement of Landlord or any Affiliate under this Lease or, except to the extent assumed by the Tenant hereunder or the responsibility of the Tenant pursuant to the terms hereof, under a Site Lease, to the extent causing a Material Adverse Landlord Effect; or

(iv) Taxes, assessments, levies, fees, water and sewer rents and charges, and all other governmental charges, general and special, ordinary and extraordinary, foreseen and unforeseen, which are or would be the obligation of Landlord pursuant to a Site Lease and which is not pursuant to the terms hereof assumed by or the responsibility of the Tenant.

(c) A party from whom indemnification is due (the "Indemnifying Person") shall forthwith upon demand reimburse any Landlord Indemnified Person or Tenant Indemnified Person, as the case may be (such Person being the "Indemnified Person"), for any sum or sums expended with respect to any of the foregoing or, upon request from any Indemnified Person, shall pay such amounts directly; provided, however, that a claim for indemnification against the Landlord based on a matter covered by clause (ii) of paragraph (b) of this Section 11 shall be subject to the limitations that (i) the total sum of all claims for indemnity for all such matters shall exceed \$480,000 in the aggregate (the "Threshold Amount") before an Indemnified Person shall be entitled to indemnification with respect to such matters, and then the Indemnified Person shall be entitled to indemnification only for claims which exceed \$480,000, (ii) the aggregate liability of the Landlord with respect to such claims shall be \$4,560,000, and (iii) any claim for indemnity with respect to such matters shall be made not later than one year from the Effective Date. Any amount payable to

any Indemnified Person or on behalf of any Indemnified Person pursuant to this Section 11 shall be paid promptly upon receipt of a written demand therefor from such Indemnified Person accompanied by a written statement describing in reasonable detail the claims which are the subject of and basis for such indemnity and the computation of the amount so payable and to whom. Any payment made to or on behalf of any Indemnified Person pursuant to this Section 11 shall be increased to such amount as will, after taking into account all taxes imposed with respect to the accrual and receipt (or deemed receipt) of such payment (as the same may be increased pursuant to this sentence), equal the amount of the payment, reduced by the amount of any savings in such taxes actually realized by the Indemnified Person as a result of the payment or accrual of the amounts in respect of which the payment to or on behalf of the Indemnified Person hereunder is made. To the extent that an Indemnifying Person in fact indemnifies any Indemnified Person under the indemnity provisions of this Lease, such Indemnifying Person shall be subrogated to such Indemnified Person's rights in the affected transaction and shall have a right to determine the settlement of such indemnified claims therein.

(d) The indemnities contained in this Section 11 shall not be affected by the expiration or other termination of this Lease, any Other Lease Document, any Site Lease, or the Film Licensing Agreements, and shall continue with respect to Losses relating to events or occurrences which happen, or claims, suits or causes of action which are asserted following such expiration or other termination if based on events or occurrences which predate (in whole or in part) such expiration or other termination or as otherwise provided herein.

(e) Notwithstanding any provisions of this Section 11 to the contrary, (i) the Tenant shall not be obligated to indemnify and hold harmless any Landlord Indemnified Person against any claims and liabilities to the extent arising from a Landlord Act, and (ii) the Landlord shall not be obligated to indemnify and hold harmless any Tenant Indemnified Person against any claims and liabilities to the extent arising from the negligence or willful misconduct of any Tenant Indemnified Person.

(f) In the event any claim, action, proceeding or suit (a "Third Party Claim") is brought against an Indemnified Person with respect to which indemnification may be sought under this Section 11, such Indemnified Person shall promptly, and in any case within thirty (30) days after receipt by such Indemnified Person of written notice of such Third Party Claim, notify the Indemnifying Person from whom indemnification may be sought of such Third Party Claim, the amount thereof, and the basis or alleged basis therefor. The Indemnifying Person shall assume the defense thereof, including the employment at its expense of counsel; provided, that the Indemnifying Person shall not have the obligation to assume such defense to the extent that such Indemnified Person shall have delivered to the Indemnifying Person a written notice waiving the benefits of the indemnification of such Indemnified Person provided herein in connection with such Third Party Claim. In the event that (i) such Third Party Claim threatens to restrain or adversely affect the conduct of the business of the Indemnified Person, excluding the business of the Landlord's ownership of the Theatre Properties (but not including operations thereon by Landlord or any of its Affiliates at any time when Tenant or a permitted successor or assign is not operating its business

therein) or (ii) based on the written opinion of independent counsel to the Indemnified Person, which opinion will be supplied to the Indemnifying Person, such Indemnified Person shall have reasonably concluded that there are defenses available to such Indemnified Person which conflict with those available to the Indemnifying Person, the Indemnifying Person shall not have the obligation to assume the defense of any such action on behalf of the Indemnified Person if such Indemnified Person chooses to defend such action, but all reasonable costs, expenses and attorneys' fees incurred by the Indemnified Person in defending such action shall be borne by the Indemnifying Person. Notwithstanding the assumption of the defense of any Third Party Claim by the Indemnifying Person pursuant to this paragraph, any Indemnified Person shall have the right to employ separate counsel and to participate in its defense, but, except as set forth in the immediately preceding sentence, the fees and expenses of such counsel shall be borne by the Indemnified Person. Any decision by an Indemnified Person to employ its own counsel rather than counsel selected by the Indemnifying Person (whether or not at the Indemnifying Person's expense) shall in no way affect any rights of such Indemnified Person otherwise arising under this Lease.

(g) The Tenant hereby acknowledges and confirms that the indemnification obligations of the Tenant set forth in this Section 11 shall include, without limitation, all Environmental Damages not subject to paragraph (b) or paragraph (e) of this Section 11 arising from the action or inaction of the Tenant or arising during the Lease Term with respect to the Theatre Properties or prior thereto to the extent not constituting a Landlord Environmental Obligation, and such indemnification obligation shall not be limited in any way by the passage of time or the occurrence of any event. The obligations of the parties under this Section 11 shall survive termination or expiration of this Lease, including by reason of the exercise of the Purchase Option pursuant to Section 12 hereof.

(h) Notwithstanding anything contained in this Lease to the contrary:

(i) In no event shall any Indemnifying Party be liable to any Indemnified Party for special, indirect or consequential damages or loss of profits.

(ii) If any claim for indemnification hereunder is or may be the subject of insurance or other right to indemnification or contribution from any third party, the Indemnified Parties promptly shall notify each applicable insurance carrier of any such claim and related Loss and tender defense thereof to such insurance carrier, and shall notify each potential third party indemnitor or contributor that may be liable for all or any portion of such claim and related Loss. The Indemnified Parties shall cooperate with each such insurance carrier, and shall pursue diligently all rights against and cooperate with each such third party indemnitor or contributor.

(iii) Any liability for indemnification under this Section 11 shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one representation, warranty, covenant or agreement.

(iv) The Tenant shall provide to the Landlord from time to time notice of any claim based on a matter covered by clause (ii) of paragraph (b) which the Tenant believes would be required to be covered by the Landlord pursuant to this Section 11 but for the fact that the aggregate of Tenant claims with respect to such matters has not reached the Threshold Amount and shall upon the Landlord's request provide reasonable details in writing to support such belief. If the Tenant shall, either at its option or in response to a Landlord request, provide in writing the details, including the amount, of any such claim and including specific reference to this subparagraph of the Lease and the time limit within which the Landlord must respond or be precluded from contesting the Tenant's claim, the Landlord shall have sixty (60) days to challenge the Tenant's assertion that such claim makes up a part of the Threshold Amount or the amount thereof.

(v) A failure by an Indemnified Party to give timely notice of a third party claim will not affect the rights or obligations of any party hereunder except and only to the extent that, as a result of such failure, any party entitled to receive such notice was deprived of its right to recover any payment under its applicable insurance coverage or was otherwise adversely affected or damaged as a result of such failure to give timely notice.

SECTION 12. TENANT'S RIGHTS OF PURCHASE AND RENEWAL.

(a) So long as there is no Event of Default of the type described in clause (f) of Section 18 hereof, the Tenant shall have the right (the "Purchase Option"), subject to the terms of this Section 12, to purchase all, but not less than all, of the Theatre Properties, including all Elements thereof as then constituted, and all of the Landlord's right, title and interest in, to and under the Site Leases (the "Purchased Assets"), for an amount equal to the Acquisition Cost.

(b) Tenant may exercise the Purchase Option to purchase the Purchased Assets on and as of the last day of the Initial Term by giving Landlord at least one hundred eighty (180) days' written notice (the "Exercise Notice") but any such Exercise Notice delivered prior to June 1, 2009 shall be ineffective.

(c) Within five (5) Business Days after the Tenant gives notice of exercise of the Purchase Option, the Landlord and the Tenant shall execute and acknowledge in duplicate a contract of sale in the form attached to this Lease as Exhibit F. The Landlord and the Tenant shall cooperate and use commercially reasonable efforts to make all filings with, and obtain all consents and approvals of, all Governmental Authorities and other parties necessary in connection with the transfer of the Purchased Assets contemplated by this Section 12.

(d) If, other than as a result of a default by Tenant or an Affiliate under the Sub-Management Agreement, the Sub-Management Agreement is terminated prior to the end of the Initial Term (including by reason of the expiration of its term as it may be extended or renewed), then:

(i) the Acquisition Cost shall be reduced by an amount (the "Acquisition Cost Adjustment") equal to \$200,000 multiplied by the number of calendar months (including partial months) in the period from the date of termination of the Sub-Management Agreement to the date on which the Initial Term is scheduled to end, divided by 12; and

(ii) the Basic Rent, for each period after the date of such termination, will be adjusted in the manner provided in Section 16(d) as if such termination was an Event of Loss, the date of such termination was the Taking Payment Date, and the Acquisition Cost Adjustment was the Taking Proceeds.

(e) If the Tenant exercises the Purchase Option, then, on the Purchase Option Closing Date:

(i) The Tenant shall pay to the Landlord (A) the Acquisition Cost, (B) all Basic Rent payable to the Purchase Option Closing Date, (C) any Additional Rent owing to the Purchase Option Closing Date, (D) any amounts payable by Tenant pursuant to Section 11 hereof, and (E) any other amounts owing by Tenant hereunder. The Tenant shall pay such amounts in cash or certified funds, as the Landlord shall determine in its sole discretion; provided, that the Tenant may pay any of such amounts to any lender to Landlord, or any Person holding or asserting a Lien on any of the Purchased Assets which Lien or asserted Lien arose from any act or omission of the Landlord or any Affiliate (and not by reason of a Tenant Event), if and to the extent the Tenant reasonably determines such payment is necessary to enable the Tenant to obtain title to the Purchased Assets free and clear of Liens (other than Landlord Permitted Liens except those relating to Financing Agreements) and claims; provided, however, that nothing herein shall obligate the Landlord to cause any such Lien to be removed or cured if arising from a Tenant Event or to enforce any provision hereof or exercise any rights or remedies against the Tenant.

(ii) The Landlord shall transfer to the Tenant title to the Purchased Assets by a bill of sale, quitclaim deed or such other conveyance instrument or instruments as the Tenant may reasonably require to convey all the Purchased Assets, which bill of sale, quitclaim deed or other conveyance instrument shall otherwise be reasonably satisfactory to the Landlord and the Tenant. The transfer of the Landlord's interest in all the Theatre Properties and all of the Landlord's right, title and interest in, to and under the Site Leases shall be on an as-is, non-installment sale basis, without warranty by, or recourse to, the Landlord, except that such title shall be free of any Liens (other than Landlord Permitted Liens except those relating to Financing Agreements); provided, however, that nothing herein shall obligate the Landlord to cause any such Lien to be removed or cured if arising from a Tenant Event or to enforce any provision hereof or exercise any rights or remedies against the Tenant.

(f) If this Lease expires or is terminated by Landlord in any manner or for any reason whatsoever, the Purchase Option shall cease and said Option shall be void; provided, however, that this shall not limit Tenant's rights to recover damages for a breach of this Lease by Landlord, which shall include, as applicable, damages for loss of the Purchase Option (subject to the limitation that Landlord shall have no liability for lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damage (in tort, contract or otherwise)). The Purchase Option is not assignable separate from this Lease (to the extent assignable) and the Landlord shall not be obligated to convey hereunder to any party other than the Tenant, except that the Purchase Option shall be exercisable by a permitted mortgagee of Tenant.

(g) In consideration of the Purchase Option, on or before the Effective Date, the Tenant shall pay to the Landlord an amount equal to the excess of the Option Fee over the Deposit Amount. If the Tenant does not exercise the Purchase Option, the Landlord shall be entitled to keep the Option Fee. If the Tenant exercises the Purchase Option, the Acquisition Cost shall be reduced by an amount equal to the Option Fee.

(h) So long as no Event of Default has occurred and is continuing, the Tenant shall have the right, upon at least one hundred eighty (180) days' written notice to the Landlord prior to the expiration of the Initial Term, to renew the lease of all, but not less than all, of the Theatre Properties, including each Element thereof as then constituted, as a whole on the same terms and conditions of the Initial Term, except those terms and conditions conferred in paragraph (f) of Section 9 and in paragraph (a) and this paragraph (h) of this Section 12, for the Renewal Term of ten (10) years, commencing on the day following the last day of the Initial Term, at a Basic Rent determined in accordance with the provisions of paragraphs (i) and (j) of this Section 12 (the "Renewal Rental Rate").

(i) The Renewal Rental Rate of the Theatre Properties for each full calendar month of the first year of the Renewal Term shall be an amount equal to the greater of (i) the Basic Rent as it would be had the Initial Term included such year and (ii) the sum of (A) (x) if the Landlord exercises its option to acquire the fee interest in the underlying real estate comprising the Sutton Theatre, a fair market rental value of such underlying real estate based on the highest and best use of said real estate, or (y) if the Landlord does not exercise such option to acquire the underlying real estate comprising the Sutton Theatre, the lesser of (1) [two-thirds??] of the Fair Market Rental Value (as such amount is determined pursuant to the Site Lease for such Theatre) and (2) such Fair Market Rental Value less \$25,000 and (B) a fair market rental value of the leasehold interests in the Village East Cinemas and the Cinemas 1, 2 and 3 based on the highest and best use of such applicable leasehold estate (subject to limitations as to use set forth in the applicable Site Lease with respect to the portion (if any) of the Renewal Term to which such limitations apply), as shall be agreed upon by the Landlord and the Tenant or, if they are unable to agree, pursuant to the Appraisal Procedure. Each year thereafter during the Renewal Term, the Basic Rent shall be increased as determined pursuant to the terms of paragraph (j) hereof. If the provisions of clause (A)(y) are applicable, then the Tenant hereunder shall act for and in the name of the Landlord hereunder (but at

the expense of the Tenant hereunder) in determining the Fair Market Rental Value for purposes of the Site Lease for the Sutton Theatre.

(j) The Basic Rent per month for any year during the Renewal Term shall be increased annually by the percentage increase (if any) in the Consumer Price Index for the month which is two months preceding the month in which occurs the first anniversary of the commencement of the Renewal Term, and each subsequent anniversary date thereof, over the Consumer Price Index for the corresponding month in the preceding year, provided, however, that in no event shall the percentage increase in any year during the Renewal Term exceed the average annual Consumer Price Index increase (similarly calculated) over last three years of Initial Term.

(k) Landlord hereby notifies Tenant that, if Tenant exercises the Purchase Option, the Theatre Properties may be sold pursuant to the like kind exchange provisions of the Code. Tenant agrees to execute at the closing of the purchase of the Theatre Properties pursuant to the Purchase Option (the "Closing") all reasonable and customary documents necessary to accomplish the sale under the like kind exchange rules as prepared by Landlord's attorney, provided that Tenant shall not be required to execute any document that would or might (i) require Tenant to incur any cost or expense; (ii) require Tenant to take title to any property other than the Theatre Properties; or (iii) require Tenant to incur any liability, whether current, accrued or contingent. Landlord shall be responsible for all costs of such documentation and guarantees that no terms or conditions in this Lease shall change due to the execution of the like kind exchange documents, nor shall Closing be delayed thereby. As aforesaid, Tenant will not be required to purchase any property (other than the Theatre Properties), but may be required to pay the Acquisition Cost (or some portion thereof, as the Landlord may direct prior to the Closing) into an escrow fund established for the purpose of the like kind exchange. Landlord shall defend, indemnify and save Tenant harmless from any loss, expense, claims or damages in connection with Tenant executing any such documents. The provisions of this Section 12(k) shall survive Closing.

(l) Compliance by the Tenant with each and all of the time periods set forth in this Section 12 shall be "of the essence."

SECTION 13. UTILITY SERVICES.

(a) During the Lease Term, the Tenant shall pay, or cause to be paid, and shall indemnify, defend and hold the Landlord and the Theatre Properties harmless from all charges for, and the Tenant shall make all required provision for the supplying and proper functioning of, all water, sewage, gas, heat, air conditioning, light, power, steam, telephone service and all other services and utilities used, rendered or supplied to, on or in the Theatre Improvements or Equipment, except to the extent the same are the responsibility of any Site Landlord under a Site Lease.

(b) The Landlord shall not be required to furnish to the Tenant, or any other occupant of any Theatre Property or user of any Theatre Improvements or Unit of Equipment during

the Lease Term, any water, sewage, gas, heat, air conditioning, light, power, steam, telephone or any other utilities, equipment, labor, materials or services of any kind whatsoever.

SECTION 14. LEASE EXPIRATION.

(a) Upon the expiration of the Lease Term, if the Purchase Option is not exercised, the Tenant shall surrender all the Theatre Properties under this Lease to the Landlord as required under this Lease.

(b) If, as of the expiration or sooner termination of the Lease Term (and provided the Tenant has either not exercised the Purchase Option or failed to close pursuant thereto), obligations of the Tenant hereunder are not fully performed to the extent performance thereof was due on or before such date of expiration or sooner termination or the performance of obligations of the Tenant hereunder is incomplete or unfinished, the Tenant shall remain liable hereunder to the Landlord for the extent of the damages Landlord may suffer or incur as a result of such non-performance or incomplete or unfinished performance, including fees, costs and expenses of the Landlord (including reasonable fees and expenses of attorneys and other professionals) in performing any such obligations or completing or finishing such performance and in enforcing claims hereunder; provided, however, that the Landlord shall not perform any such obligation which can be performed by the payment of a sum certain only except following the failure of the Tenant to pay such amount within five (5) Business Days following written notice from the Landlord to the Tenant of Landlord's intention to pay such amount.

(c) If the Purchase Option had not been exercised properly or Tenant had failed to close thereunder at the expiration of the Initial Term, the Tenant shall, on the last day of the Lease Term, surrender the Theatre Properties to the Landlord and pay to the Landlord the amount by which the residual value of the Theatre Improvements and the Equipment has been reduced by wear and tear in excess of that attributable to normal and proper use (the amount of such excess wear and tear to be such amount as the Landlord and the Tenant agree, or if no agreement is reached, the amount determined pursuant to the Appraisal Procedure), and all other amounts owing by the Tenant hereunder. Upon such termination, the Tenant shall have no further right, claim or interest in any Element of any Theatre Property.

(d) If the Purchase Option had not been exercised properly or Tenant had failed to close thereunder at the expiration of the Initial Term, on or prior to the last day of the Lease Term, the Tenant shall pay to the Landlord (i) all Basic Rent payable, (ii) any Additional Rent owing, (iii) any amounts payable pursuant to Section 11 hereof, and (iv) all other amounts owing hereunder. Upon payment by the Tenant to the Landlord of all amounts owing pursuant to the terms of this Lease and delivery of the Theatre Properties under this Lease to the Landlord, this Lease shall terminate, except to the extent provided in Section 11 hereof and elsewhere herein. Nothing contained in this Section 14 shall permit the Tenant to make any payments due Landlord under this Lease at times other than as set forth elsewhere in the Lease.

(e) Subject to the provisions hereof, upon termination of this Lease under circumstances in which the Theatre Properties are to be returned to the Landlord, the Tenant shall surrender the Theatre Properties to the Landlord or a designee of the Landlord at the location where such Theatre Properties are located and the Equipment in the Theatre Property where utilized or at such location as the Landlord and the Tenant may agree and, if they are unable to agree, at such location as the Landlord may reasonably direct.

(f) Upon the surrender of the Theatre Properties, the Tenant shall deliver to the Landlord or its designee all logs, manuals, inspection data, books and records which are applicable to the Theatre Properties which are necessary to operate the Theatre Improvements and Equipment and which are in accordance with sound industry practice customarily retained (or that the Tenant actually did retain) or are required by law to be retained with respect to similar property and equipment, including, without limitation, all software and manuals applicable to all Theatre Improvements and Equipment and all design plans, know-how, records and information used by the Tenant during operation of the Theatre Improvements and Equipment. The Tenant may retain a copy of any of the foregoing.

SECTION 15. LOSS OF OR DAMAGE TO THEATRE IMPROVEMENTS OR EQUIPMENT.

(a) The Tenant hereby assumes all risk of loss of or damage to the Theatre Improvements and Equipment during the Lease Term, however caused. No loss of or damage to any Theatre Improvements or Equipment shall impair any obligation of the Tenant under this Lease, which shall continue in full force and effect, including with respect to any lost or damaged Theatre Improvements or Equipment, except as otherwise provided in this Section 15 or in Section 16 hereof.

(b) In the event of damage of any kind whatsoever to any Theatre Improvements or Equipment, the Tenant, at its own cost and expense, shall either (i) place the same in good and safe operating order, repair, condition and appearance in material compliance with applicable Legal Requirements and for use as permitted in accordance with this Lease, or (ii) in the case of damage to any Equipment, replace such Equipment with equipment of a similar like and kind, and of a value not less than the Equipment being replaced (assuming that the replaced Equipment had been maintained in accordance with the provisions hereof), subject to the provisions of paragraph (c) hereof with respect to certain occurrences during the Renewal Term. If the Tenant shall replace any such Equipment, the Landlord and the Tenant shall amend, among other things, the description of such Equipment on Exhibit D. The provisions of paragraph (f) of Section 9 hereof shall be applicable with respect to any repairs to any Theatre Improvements undertaken by the Tenant pursuant to this paragraph (b) of this Section 15 as if the affected Theatre Property to be repaired were the "Affected Premises" thereunder; provided, however, that (x) no consent or approval of Landlord, as to plans or any other matters referred to in such paragraph (f) of said Section 9, shall be required if the cost to repair is less than \$1,000,000 prior to the Funding Date or \$2,000,000 thereafter, (y) any such consent required shall not be unreasonably withheld, and (z) the provisions of clause (viii) of said paragraph (f) shall not be applicable and all such repaired property shall from

inception be owned by the Landlord, subject to the other provisions of this Lease. The Tenant's right to any proceeds paid under any insurance policy or policies required under Section 10 of this Lease with respect to any such damage to any Theatre Improvements or Equipment which has been so placed by the Tenant in good operating order, repair, condition and appearance or replaced is otherwise governed by paragraph (g) of Section 10 hereof.

(c) In the event of damage of any kind whatsoever to any Theatre Improvements or Equipment during the Renewal Term which results in the loss of a substantial portion of the affected property (a "substantial portion" being determined in the manner set forth in the definition of "Event of Loss"), the Tenant shall promptly notify the Landlord in writing of such event, and the Tenant, at its option, may elect not to repair or replace such Theatre Improvements or Equipment, or any part thereof, as provided in paragraph (b) of this Section 15. If the Tenant makes such an election, then (i) on the Basic Rent Payment Date designated by the Tenant (the "Casualty Payment Date"), which shall be a date within ninety (90) days following such event but not later than the last day of the Lease Term, the Tenant shall pay to the Landlord the sum of the amount of insurance proceeds received by Tenant with respect to the Theatre Improvements or Equipment, or part thereof, which Tenant elected not to repair or replace plus the amount of the deductible provided for in the insurance maintained by the Tenant plus any co-insurance deduction or offset plus, if Landlord advises Tenant that Landlord believes Tenant had not maintained sufficient insurance to provide for the cost to replace the applicable Theatre Improvements and Equipment in good and safe operating order, repair, condition and appearance in compliance with applicable Legal Requirements, the amount of the deficiency in insurance agreed to by Landlord and Tenant or, if they are unable to so agree, the amount determined by the Appraisal Procedure, and (ii) if such event resulted in the loss of a substantial portion of a Theatre Property, on the Casualty Payment Date, (A) the Lease Term shall terminate as to the affected Theatre Property, and Additional Rent shall not thereafter be payable with respect to such affected Theatre Property (but Additional Rent accrued to the Casualty Payment Date shall be paid), (B) the Lease Term shall continue as to the unaffected Theatre Properties, and (C) the Basic Rent payable and any Additional Rent and other amounts owing thereafter hereunder shall be adjusted in accordance with paragraph (d) below.

(d) If the Basic Rent or any other amounts are to be adjusted pursuant to paragraph (c) of this Section 15, the Basic Rent, for each month in the lease year in which the Casualty Payment Date occurs, shall be reduced by an amount agreed to by the Landlord and the Tenant or determined by the Appraisal Procedure (prorated, in the case of any partial month), taking account of the method for determining the Basic Rent during the Renewal Term as described in paragraph (i) of Section 12 hereof, and any other adjustments shall be determined in a like manner; and the Basic Rent as so adjusted shall be further adjusted for any subsequent lease year as provided in Section 12(j).

SECTION 16. CONDEMNATION AND DEDICATION OF THEATRE PROPERTY;
EASEMENTS.

(a) If the use, occupancy or title to all or a substantial portion of any Theatre Property is taken, requisitioned or sold in, by or on account of actual or threatened eminent domain or confiscation or similar proceedings or other action by any Governmental Authority (such events collectively referred to as a "Taking"), then the Tenant shall promptly notify the Landlord in writing of such event and the Lease Term shall terminate as provided in paragraph (c) of Section 16 hereof with respect to such Theatre Property. Upon receipt of proceeds from any award or sale made in connection with such Taking, so long as no Event of Default has occurred and is continuing, the Landlord shall remit to the Tenant the net amount of such proceeds remaining after reimbursement for all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by the Landlord in connection with the negotiation and settlement of any proceedings related to such Taking up to the amount required to pay for in full such replacement property and equipment, any excess to be retained by Landlord; provided, however, that, if such Taking occurs during the Initial Term, such excess shall be treated as Taking Proceeds and applied as described in clause (ii) of paragraph (c) of this Section 16 and Basic Rent thereafter due shall be recalculated as described in paragraph (d) of this Section 16. Otherwise such sum shall be paid to and shall belong to Landlord, and the Tenant shall have no claim thereto, by reason of this Lease or otherwise.

(b) If less than a substantial portion of a Theatre Property is subject to a Taking, then this Lease shall continue in effect as to the portion of such Theatre Property not taken and any net proceeds, so long as no Event of Default has occurred and is continuing, shall be paid to the Tenant for the restoration of the Theatre Improvements and Equipment in accordance with paragraph (g) of Section 10 and paragraph (b) of Section 15.

(c) If an Event of Loss with respect to any Theatre Property occurs, then:

(i) on the Basic Rent Payment Date designated by the Tenant (the "Taking Payment Date"), which shall be a date within ninety (90) days following such Taking but not later than the last day of the Lease Term, (A) the Tenant shall pay to the Landlord the Taking Proceeds received by Tenant (or, if not then received by the Tenant, shall assign to the Landlord the right to receive such Proceeds as and when determined), (B) the Lease Term shall terminate as to the affected Theatre Property and Additional Rent shall not thereafter be payable with respect to such affected Theatre Property (but Additional Rent accrued to the Taking Payment Date shall be paid), (C) the Lease Term shall continue as to the unaffected Theatre Properties, and (D) the Basic Rent payable and any Additional Rent and other amounts owing thereafter hereunder shall be adjusted in accordance with paragraph (d) below;

(ii) if such Event of Loss occurs during the Initial Term, (A) the Acquisition Cost shall be reduced by the amount of the Taking Proceeds actually paid or

assigned to Landlord, and (B) once the aggregate of Taking Proceeds equals \$29,000,000, any excess Taking Proceeds shall be paid to the Tenant; and

(iii) if the Tenant exercises the option to renew the Lease Term for the Renewal Term, the Renewal Rental Rate shall be determined as if the affected Theatre Property is not subject to this Lease.

The "Taking Proceeds" of any Taking shall mean the amount of proceeds of any award or sale received by Tenant or Landlord or their Affiliates in connection with such Taking, after deduction of any costs or expenses (including, without limitation, reasonable attorneys' fees) incurred by the Landlord or Tenant in connection with the negotiation and settlement of any proceedings related to such Taking. Notwithstanding the foregoing, if the amount of Taking Proceeds from all Takings during the Initial Term shall exceed the Acquisition Cost (as reduced in accordance with clause (ii) of paragraph (d) of Section 12 hereof), the amount in excess thereof shall be paid to and retained by Tenant (regardless of whether initially paid to Tenant or Landlord) and shall not otherwise be included in the term "Taking Proceeds."

(d) If the Basic Rent or any other amounts are to be adjusted pursuant to paragraph (c) of this Section 16:

(i) If such Event of Loss occurs during the Initial Term, the Basic Rent for each period from and after the Taking Payment Date to the end of the Initial Term shall be an amount equal to the Basic Rent as it would have been in effect for such period absent the adjustment made by this Section 16(d), multiplied by an amount equal to one minus a fraction, the numerator of which is the amount of the Taking Proceeds and the denominator of which is the then determined amount of the Acquisition Cost without taking account of such Event of Loss; and any other amounts shall be adjusted in a like manner as applicable.

(ii) If such Event of Loss occurs during the Renewal Term, the Basic Rent, for each month in the lease year in which the Taking Payment Date occurs, shall be reduced by an amount determined by the Landlord and the Tenant or determined by the Appraisal Procedure (prorated, in the case of any partial month), taking account of the method for determining the Basic Rent during the Renewal Term as described in paragraph (i) of Section 12 hereof, and any other amounts shall be adjusted in a like manner as applicable; and the Basic Rent as so adjusted shall be further adjusted for any subsequent lease year as provided in Section 12(j).

(e) To the extent any of the provisions of the Site Leases concerning any Taking, proceeds relating to any Taking, or the application of any proceeds relating to any Taking are inconsistent with the provisions of this Lease, the provisions of the Site Leases shall control and the parties shall be relieved of any inconsistent obligation hereunder.

(f) (i) So long as no Event of Default hereunder has occurred and is continuing, the Tenant shall have the right during the Initial Term, subject, at all times prior to the Funding Date, to the prior written consent of Landlord, not to be withheld unreasonably, (A) to grant, obtain or enter into minor easements for the benefit of or burdening any Parcel of Property, (B) to voluntarily dedicate or convey, as required, portions of any Parcel of Property for road, highway and other public purposes, (C) to voluntarily execute petitions to have any Parcel of Property or a portion thereof annexed to any municipality or included within any utility, highway or other improvement or service district, provided, that no more than minor restoration is required and such annexation has no material adverse effect on the value of such Parcel of Property and (D) to contest on its own and the Landlord's behalf any proposed Taking or the amount of any award in connection therewith. In connection with the Tenant's development, if any, of a Theatre Property in accordance with and subject to the terms of paragraph (f) of Section 9 hereof, the Tenant shall at all times be free to enter into and/or execute such agreements, dedications, easements, conditions, covenants and restrictions in favor of other property owners, lessees or local agencies as are necessary for the conduct of the Tenant's operations on the affected Theatre Property. If any monetary consideration is paid for such easement or dedication, the Tenant shall be entitled to receive or retain such consideration. Any monetary consideration paid for such easement or dedication, after deduction for actual costs and expenses (including reasonable counsel fees) of Tenant in connection therewith, shall be treated as Taking Proceeds if received during the Initial Term and shall be paid to Landlord if received during the Renewal Term.

(ii) Subject to the foregoing provisions of this Section 16(f), the Landlord will cooperate, without unreasonable delay and at the Tenant's expense, as necessary and join in the execution of any appropriate instrument or shall execute any separate instrument as necessary. As a condition precedent to the Tenant's exercise of any of the Tenant's powers under this Section 16(f), (A) the Tenant shall give the Landlord five (5) Business Days' prior written notice of the proposed action and (B) the Tenant shall provide to the Landlord a certificate of the Tenant stating that such action will not materially adversely affect either the fair market value of such Theatre Property or the use of such Theatre Property for its intended purpose, will not affect the Landlord's ability to exercise its rights and remedies under this Lease and that the Tenant undertakes to remain obligated under this Lease to the same extent as if the Tenant had not exercised its powers under this Section 16 and the Tenant will perform all obligations under such instrument and shall prepare all required documents and provide all other instruments and certificates as the Landlord may reasonably request.

(g) At any time during the Initial Term following the Funding Date, and provided no Event of Default has occurred and is then continuing, the Tenant shall have the right to conduct all proceedings relating to any Taking, including any negotiations or other proceedings relating to the amount of any Taking Proceeds, with counsel of its choice, reasonably acceptable to Landlord. At any time when Tenant is not permitted by the preceding sentence to conduct such proceedings, Landlord shall conduct such proceedings at Tenant's expense.

SECTION 17. ASSIGNMENT AND SUBLETTING.

(a) Except as hereinafter provided (and then only in compliance with the terms hereof), the Tenant shall not, without the prior written consent of the Landlord in each instance, assign or sublease any right or interest herein or in any Theatre Property or Element thereof; provided, however, that there shall be no assignment or right to assign less than all of Tenant's rights and interest hereunder. The Tenant shall not, without the prior written consent of the Landlord in each instance, sublease or otherwise relinquish possession of any Parcel of Property, Theatre Improvements or Unit of Equipment, except that the Tenant may relinquish possession of Theatre Improvements or Equipment to any contractor for use in performing work for the Tenant on such Theatre Improvements or Equipment; provided, that such relinquishment of possession shall in no way affect the obligations of the Tenant or the rights of the Landlord hereunder with respect to such Theatre Improvements or Equipment. If permitted under the applicable Site Lease(s), (i) the Landlord shall not unreasonably withhold or delay its consent under this paragraph (a) to any assignment of all but not less than all of Tenant's rights and interest hereunder or any sublease, (ii) no consent of Landlord shall be required for any assignment or sublease to Parent or any controlled Affiliate of Parent provided Parent shall have confirmed in writing that the Lease Guaranty is applicable to and covers the obligations and liabilities of such assignee as if originally named in such Lease Guaranty, and (iii) no consent of Landlord shall be required for any assignment or sublease to Reading or any controlled Affiliate of Reading provided, in the case of an assignment or sublease to such an Affiliate, either Parent shall have confirmed in writing that the Lease Guaranty is applicable to and covers the obligations and liabilities of such assignee as if originally named in such Lease Guaranty or Reading shall have provided a Lease Guaranty. In the event Landlord consents to Tenant's subletting hereunder in any instance, (A) the sublease shall expressly be made subject and subordinate to the provisions hereof, shall by its terms be subject to termination upon the termination for any reason of this Lease and shall expressly provide for the surrender of the applicable Parcel of Property, Theatre Improvements or Unit of Equipment by the sublessee at the election of the Landlord or Pledgee after the occurrence of an Event of Default hereunder, (B) no sublease shall modify or limit any right or power of the Landlord or Pledgee hereunder or affect or reduce any obligation of the Tenant hereunder, and all such obligations shall continue in full force and effect as obligations of a principal and not of a guarantor or surety, as though no such subletting had been made, and (C) any sublease made otherwise than as expressly permitted by this paragraph (a) shall be void and of no force and effect.

(b) As additional security to the Landlord for the performance of the Tenant's obligations under this Lease, the Tenant (A) hereby assigns to the Landlord all of the Tenant's right, title and interest in and to all subleases, whether or not permitted hereby (although the foregoing does not constitute authorization from the Landlord for any sublease not strictly conforming to the limitations of paragraph (a) above) and (B) agrees to cause any sublessee to enter into such commercially reasonable attornment agreement with the Landlord as the Landlord may reasonably request. The Landlord shall have the present and continuing right to collect and enjoy all rents and other sums of money payable under any such sublease, and the Tenant hereby irrevocably assigns

such rents and other sums to the Landlord for the benefit and protection of the Landlord; provided, that unless an Event of Default shall have occurred and be continuing hereunder, (i) the Tenant shall be entitled to collect and enjoy such rents and other sums and (ii) Tenant shall be entitled to receive and retain any amounts in excess of the amounts due Landlord hereunder; provided, however, that, with respect to any such excess amounts received by the Landlord or the Tenant during the existence of an Event of Default hereunder, such amount shall be held by the recipient until either such Event of Default shall be cured or the closing pursuant to the Purchase Option shall have occurred, in which event such excess shall be retained by, or be paid to, as the case may be, the Tenant, or the Lease Term shall be terminated or shall expire (the Purchase Option not having been exercised or the closing pursuant thereto not having occurred), in which event such excess shall be retained by, or paid to, as the case may be, the Landlord.

(c) (i) In connection with a Business Sale by Parent, Parent may be relieved of its future obligations under its Lease Guaranty (and, if such Business Sale includes the sale of the Theatre Properties as such, Tenant may be relieved of its future obligations hereunder) if Parent provides a Suitable Replacement (whether as Tenant hereunder or guarantor pursuant to a guaranty substantially in the form of the Lease Guaranty); provided, however, that the foregoing shall not limit the proviso in the first sentence of paragraph (a) of this Section 17 as relates to the Theatre Properties.

(ii) If Parent seeks to provide a Suitable Replacement (other than Reading), Parent or the Tenant shall provide to Landlord, at least thirty days prior to the date such assignment is to become effective, such information regarding the financial ability and movie theatre operating and management experience of the relevant party(ies) as shall enable Landlord to perform a thorough evaluation of the suitability of the proposed party(ies). Landlord will advise within fifteen days following its receipt of such information whether the information is sufficient or, if additional information is required by Landlord to conduct its evaluation, the areas and topics where the initially-proffered information is insufficient. This process shall be repeated as Landlord may reasonably require and Landlord shall ultimately be afforded ten Business Days from the last delivery of information hereunder to determine whether the proposed party(ies) constitute a Suitable Replacement.

(iii) Any provision of this paragraph (c) to the contrary notwithstanding, Citadel will not be relieved of its obligations under the Lease Guaranty, whether or not a Suitable Replacement is provided as the Tenant or guarantor, until (A) such Suitable Replacement becomes the guarantor or the Tenant hereunder and (B) either of the following has occurred: (I) the Funding Date or (II) the Suitable Replacement or an Affiliate of such Suitable Replacement has succeeded to Citadel's obligations under the Loan Agreement and, if there then remains any unused Commitment under and as defined in the Loan Agreement, such successor (or a guarantor of such obligations, pursuant to the terms of a guaranty reasonably acceptable to Landlord) is either Reading or meets the Minimum Net Worth Requirement.

(iv) Except upon compliance with and subject to the terms of this paragraph (c), nothing in this Section 17 shall be construed to relieve Tenant of its obligations hereunder.

(d) The Tenant shall, within thirty (30) days after the execution of any sublease or assignment, deliver a conformed copy thereof to the Landlord and any Pledgee.

(e) The decision of the Landlord to grant a request to approve a subletting or assignment in any instance shall not constitute a waiver of the obligation of the Tenant to seek such consent in any other instance (whether for the same or a different Theatre Property, whether for the same proposed subtenant or a different one) or a waiver by the Landlord of its rights to withhold its consent in connection with any subsequent request.

(f) For purposes hereof, an assignment shall include a transfer of the direct or indirect interests in the Tenant such that the Tenant ceases to be an Affiliate of the Parent.

SECTION 18. EVENTS OF DEFAULT.

Any of the following events of default shall constitute an "Event of Default" and shall give rise to the rights on the part of the Landlord described in Section 19 hereof:

(a) Failure of the Tenant to pay Basic Rent or Additional Rent pursuant to Section 7 hereof on or prior to the earlier of (i) five (5) Business Days after such payment is due and (ii) the Lease Termination Date, or failure of the Tenant to pay any other amount payable by the Tenant hereunder on or prior to the earlier of (i) fifteen (15) Business Days after demand for such other payment from the Landlord made on or after the due date therefor and (ii) the Lease Termination Date;

(b) Failure of the Tenant to maintain the insurance required by Section 10 hereof, or default in the performance of the covenant contained in paragraph (k) of Section 10 hereof and, in either case, the continuance of such default for two (2) Business Days after written notice of such default is given to the Tenant by the Landlord or written notice of the expiration of any required policy is received by the Tenant from its insurance agent or an insurer; or

(c) Default in the performance of any other obligation or covenant of the Tenant pursuant to this Lease and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice of such default is given to the Tenant by the Landlord; or with respect to any such default that it is not capable of being cured within such thirty (30) day period, the failure of Tenant within such initial thirty (30) day period to commence appropriate steps to cure such default or, thereafter, to continue to pursue such cure with diligence and good faith; or

(d) The Tenant shall fail to observe or perform, after the expiration of any applicable grace period, any material term, covenant or condition of any of the Site Leases on the

part of the Landlord, as tenant thereunder, to be observed or performed, unless any such observance or performance shall have been waived or not required by the Site Landlord under the applicable Site Lease, or if any one or more of the events referred to in a Site Lease shall occur which would cause such Site Lease to terminate without notice or action by the Site Landlord thereunder or which would entitle the Site Landlord under such Site Lease to terminate such Site Lease and the term thereof by the giving of notice to the Landlord without opportunity to cure, as tenant thereunder; or

(e) A default by Parent under the Lease Guaranty in favor of Landlord past notice and time to cure if required or if any such Guaranty ceases to be in full force and effect; or

(f) (i) A default by Tenant in making any payment when due under the notes delivered by Tenant under the Agreement of Purchase and Sale of Membership Interest, of even date herewith, between Tenant and certain Affiliates of Landlord, in any such case following expiration of cure and notice periods set forth therein; or (ii) a default by the lender under the Loan Agreement to make a loan thereunder when required to so lend by the terms thereof, provided such failure continues for 30 days after notice; or (iii) the Lender under the Loan Agreement shall default on any obligation under any indemnity agreement entered into pursuant to Section 4.2(e)(y) of the Loan Agreement, provided such default continues for 30 days after notice; or

(g) The entry of a decree or order for relief in respect of the Tenant or Parent by a court having jurisdiction in the premises or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Tenant or the Parent of any substantial part of the Tenant's or Parent's property, which appointment is not discharged within sixty (60) days, or ordering the winding up or liquidation of the Tenant's or Parent's affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against the Tenant or Parent of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, and the continuance of any such case undismissed and in effect for a period of sixty (60) days; or

(h) The suspension or discontinuance of the Tenant's or Parent's business operations, the Tenant's or the Parent's insolvency (however evidenced) or the Tenant's or the Parent's admission of insolvency or bankruptcy, or the commencement by the Tenant or the Parent of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by the Tenant or the Parent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Tenant or the Parent or of any substantial part of the Tenant's or the Parent's property, or the making by the Tenant or the Parent of an assignment for the benefit of creditors, or the failure of the Tenant or the Parent generally to pay its debts as such debts become due, or the taking of corporate action by the Tenant or the Parent in furtherance of such action; or

(i) Failure of the Tenant to pay when due the Acquisition Cost if the Purchase Option is exercised; or

(j) This Lease or any Theatre Property or Element thereof is taken upon execution or by other process of law (other than eminent domain or similar proceedings) directed against the Tenant.

SECTION 19. RIGHTS UPON DEFAULT.

(a) Upon the occurrence and continuation of any Event of Default, the Landlord may, at its sole option, give to the Tenant a notice (hereinafter called "Notice of Termination") terminating this Lease at the expiration of fifteen (15) days from the date of service of such Notice of Termination, and at the expiration of such fifteen (15) days, this Lease and the term of this Lease, as well as all of the right, title and interest of the Tenant hereunder, shall wholly cease and expire in the same manner and with the same force and effect as if the date of expiration of such fifteen (15) day period were the date originally specified herein for the expiration of the term of this Lease, and the Tenant shall then quit and surrender the Theatre Properties and each and every Element thereof to the Landlord, and the Landlord or Landlord's agents or servants may, either by summary process or by any suitable action or proceeding at law, immediately or at any time thereafter re-enter the Theatre Properties and each and every Element thereof and remove therefrom Tenant, its agents, employees, servants, licensees, and any subtenants and other persons, and all or any of its or their property therefrom, and repossess and enjoy the Theatre Properties and each and every Element thereof, together with all additions, alterations and improvements thereto; but Tenant shall remain liable as hereinafter provided.

(b) If this Lease shall be terminated as provided in paragraph (a) of this Section 19, all of the right, title, estate and interest of Tenant (i) in and to each Theatre Property and each and every Element thereof, all changes, additions and alterations therein, and all renewals and replacements thereof, (ii) in and to all rents, income, receipts, revenues, issues and profits issuing from the Theatre Properties, or any Element, part or portion thereof, whether then accrued or to accrue, (iii) in and to all insurance policies and all insurance monies paid or payable thereunder, and (iv) in the then entire undisbursed balance of any funds then being held by any party pursuant to the terms hereof shall automatically pass to, vest in and belong to Landlord, without further action on the part of either party, free of any claim thereto by Tenant.

(c) If this Lease is terminated under the provisions of paragraph (a) of this Section 19, or in the event of the termination of this Lease, or of re-entry, by or under any summary dispossession or other proceeding or action or any provision of law by reason of an Event of Default hereunder on the part of Tenant, Tenant shall pay to Landlord as liquidated damages, at the election of Landlord, either

(i) a sum which at the time of such termination of this Lease or at the time of any such re-entry by Landlord, as the case may be, represents the then value of the

excess, if any, of (A) the aggregate amount of the Basic Rent and Additional Rent which would have been payable by Tenant for the period commencing with such earlier termination of this Lease and ending with the date contemplated as the expiration date hereof (ignoring the Renewal Term if such termination occurs during the Initial Term) if this Lease had not so terminated or if Landlord had not so re-entered the Theatre Properties, over (B) the aggregate rental value of the Theatre Properties for the same period, discounted at the rate of 7.75% per annum, or

(ii) a sum equal to any deficiency between the Basic Rent and Additional Rent which would have been payable by Tenant had this Lease not so terminated and the net amount, if any, of the rents, additional rent and other charges collected on account of the lease or leases of the Theatre Properties or any of them for each month of the period which would otherwise have constituted the balance of the term of this Lease, payable on the respective due dates thereof as specified herein. Any such reletting may be for a period shorter or longer than the remaining term of this Lease; but in no event shall Tenant be entitled to receive any excess of such credits over the sums payable by Tenant to Landlord hereunder, nor shall Tenant be entitled in any suit for the collection of damages pursuant to this Section to a credit in respect of any net rents from a reletting except to the extent that such net rents are actually received by Landlord. If the Landlord shall operate any or all of the Theatre Properties itself (or if the Landlord shall relet to an Affiliate of the Landlord), the deficiency shall be determined as if the Landlord had relet such Theatre Properties to a non-Affiliate, using as the rent from such re-letting the rent determined by agreement of the Landlord and the Tenant, or, if no such agreement can be reached, by the Appraisal Procedure.

In either event, Tenant shall pay Landlord the fair rental value of any space in the Theatre Properties occupied by Tenant or an Affiliate after such termination or re-entry. Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Landlord from time to time at its election, and nothing contained herein shall be deemed to (x) require Landlord to postpone suit until the date when the term of this Lease would have expired if it had not been so terminated under the provisions of paragraph (a) of this Section 19 or under any provision of law, or had Landlord not re-entered the Theatre Properties, or (y) preclude the bringing of additional or subsequent suits.

(d) In computing such damages there shall be added to the said deficiency such reasonable expenses as Landlord may incur in connection with re-letting, such as reasonable legal expenses, reasonable attorneys' fees, brokerage, advertising and expenses incurred in keeping the Theatre Properties in good order or for preparing the same for re-letting or for use by Landlord for its own operations or operations of an Affiliate. Any such damages shall be paid in monthly installments by Tenant on the rent day specified in this Lease, based on the amount of expense incurred by Landlord during the preceding month. Landlord, in putting the Theatre Properties in good order or preparing the same for re-rental or for use by Landlord for its own operations or operations of an Affiliate, may, at Landlord's option, make such alterations, repairs, replacements, and/or decorations in the Theatre Properties as Landlord, in Landlord's sole judgment, considers

advisable and necessary for the purpose of re-letting the Theatre Properties or for use by Landlord for its own operations or operations of an Affiliate and the making of such alterations, repairs, replacements, and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid. Landlord shall in no event be liable in any way whatsoever for failure to re-let the Theatre Properties or to operate the Business therein, either directly or through an Affiliate, or in the event that the Theatre Properties are re-let, for failure to collect the rent thereof under such re-letting, and in no event shall Tenant be entitled to receive the excess, if any, of such net rents collected over the sums payable by Tenant to Landlord hereunder. In the event of a breach or threatened breach by Tenant of any of the covenants or provisions hereof beyond the applicable grace period, if any, Landlord shall have the right of injunction and the right to invoke any remedy allowed at law or in equity as if re-entry, summary proceedings and other remedies were not herein provided for. Mention in this Lease of any particular remedy shall not preclude Landlord from any other remedy, in law or in equity. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the Theatre Properties by reason of the violation by Tenant of any of the covenants and conditions of this Lease, or otherwise.

(e) The receipt of any payments under this Lease by the Landlord with knowledge of any breach of this Lease by the Tenant or of any default by the Tenant in the performance of any of the terms, covenants or conditions of this Lease, shall not be deemed to be a waiver of any provision of this Lease.

(f) No receipt of moneys by the Landlord from the Tenant after the termination or cancellation hereof in any lawful manner shall reinstate, continue or extend Lease Term or affect any notice theretofore given to the Tenant, or operate as a waiver of the right of the Landlord to enforce the payment of Basic Rent, Additional Rent or other charges payable hereunder, or operate as a waiver of the right of the Landlord to recover possession of the Theatre Properties and Equipment subject to this Lease by proper suit, action, proceedings or remedy; it being agreed that, after the service of notice to terminate or cancel this Lease, and the expiration of the time therein specified, if the default has not been cured in the meantime, or after the commencement of any suit, action or summary proceedings or of any other remedy, or after a final order, warrant or judgment for the possession of any Theatre Property or Element thereof, the Landlord may demand, receive and collect any moneys payable hereunder, without in any manner affecting such notice, proceedings, suit, action, order, warrant or judgment. Acceptance of the keys to any Theatre Property or Theatre Improvements, or any similar act, by the Landlord, or any agent or employee of the Landlord, during the term hereof, shall not be deemed to be an acceptance of a surrender of any Theatre Property or Theatre Improvements unless the Landlord shall consent thereto in writing.

(g) With respect to the termination of this Lease as a result of an Event of Default, the Tenant hereby waives service of any notice of intention to re-enter. The Tenant hereby waives any and all rights to recover or regain possession of any Parcel of Property, Theatre Improvement or Unit of Equipment or to reinstate this Lease as permitted or provided by or under any statute, law or

decision now or hereafter in force and effect. The words "re-enter" and "re-entry" (and words of similar import) are not restricted to their technical legal meaning.

(h) No remedy referred to in this Section 19 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to the Landlord at law or in equity, and the exercise in whole or in part by the Landlord of any one or more of such remedies shall not preclude the simultaneous or later exercise by the Landlord of any or all such other remedies. No waiver by the Landlord of any Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Event of Default, whether similar or dissimilar to the previously assumed Event of Default.

(i) Each party shall pay to the other all costs and expenses, including reasonable attorneys' fees, incurred by such other party in successfully enforcing any of the covenants and provisions of this Lease and incurred in any successful action brought by such other party on account of the provisions hereof, and all such costs, expenses, and attorneys' fees may be included in and form a part of any judgment entered in any proceeding brought by such other party on or under this Lease. All of the sums paid or obligations incurred by one party as aforesaid with interest and costs shall be paid by such party to the other within five (5) days of the rendition by such first party to the other of any bill or statement therefor, and sums owing by the Tenant shall be treated as Additional Rent.

(j) Tenant expressly waives, for itself and for any person claiming through or under Tenant, any rights which Tenant or any such person may have under the provisions of Section 2-201 of the New York Civil Practice Law and Rules and of any successor law of like import then in force, in connection with any holdover summary proceedings which Landlord may institute to enforce the provisions of this Article 19.

SECTION 20. LANDLORD'S LIEN.

To secure its payment of all Basic Rent, Additional Rent and all other amounts owing hereunder and the performance of its covenants and agreements contained in this Lease (including, without limitation, the covenants and agreements contained in the Site Leases), the Tenant hereby grants to the Landlord an express first and prior contractual lien and security interest on all property (including fixtures, equipment, chattels and merchandise) that may be placed on a Theatre Property, and also upon all proceeds of any insurance that may accrue to the Tenant by reason of the destruction or damage to that property. The Tenant will not remove that property from each Theatre Property (except in the ordinary course of business) without the prior written consent of the Landlord, which can be unreasonably withheld or delayed in the Landlord's absolute discretion, until all arrearages in Basic Rent, Additional Rent and all other amounts owing hereunder have been paid. The Tenant waives the benefit of all exemption laws in favor of this lien and security interest. This lien and security interest is given in addition to the Landlord's statutory lien and is cumulative with it. Upon the occurrence of any Event of Default, these liens may be foreclosed with or without court proceedings by public or private sale, so long as the Landlord gives the Tenant at least ten (10) days'

notice of the time and place of the sale. The Landlord will have the right to become the purchaser of such property if it is the highest bidder at the sale. Contemporaneously with its execution of this Lease, and if requested by the Landlord at any time after the Effective Date, the Tenant will execute and deliver to the Landlord Uniform Commercial Code financing statements in form and substance sufficient (upon proper filing) to perfect the security interest granted in this Section 20 hereof. If requested by the Landlord, the Tenant will also execute and deliver to the Landlord Uniform Commercial Code continuation statements in form and substance sufficient to reflect any proper amendment of, modification in or extension of the security interest granted in this Section 20 hereof.

SECTION 21. SUBORDINATION AND ATTORNMENT.

This Lease and the Tenant's rights under this Lease are subject and subordinate to any ground lease or underlying lease (including the Site Leases), first mortgage, first deed of trust or other first lien encumbrance or indenture (or series of mortgages held by or for the benefit of Affiliated parties), whether encumbering any Theatre Property or the interest of the Landlord under any of the Site Leases, together with any renewals, extensions, modifications, consolidations, and replacements of them listed on Exhibit C that now or at any subsequent time affects any Parcel of Property, Theatre Improvement or Unit of Equipment or any interest of the Landlord in any Parcel of Property, Theatre Improvement or Unit of Equipment or the Landlord's interest in this Lease and the estate created by this Lease or such landlord's interest; provided, that this Lease shall not be subordinate to any Lien created by Landlord other than a Landlord Permitted Lien; and any and all mortgages and other encumbrances on the interest of a Site Landlord under its Site Lease or in and to the estate of such Site Landlord in and to the real property interest of the Site Landlord thereunder. This provision will be self-operative and no further instrument of subordination will be required in order to effect it. Nevertheless, the Tenant will execute, acknowledge and deliver to the Landlord, at any time and from time to time, within ten (10) Business Days following written demand by the Landlord, documents reasonably requested by the Landlord, any Site Landlord or underlying lessor or any mortgagee, or any holder of a deed of trust or other instrument described in this paragraph, to confirm or effect the subordination. Notwithstanding the foregoing, if Landlord shall not obtain from the holder of any ground lease or underlying lease, first mortgage, first deed of trust or other first lien encumbrance or indenture a reasonably acceptable non-disturbance and attornment agreement, this Lease shall not be subject and subordinate to such ground lease or underlying lease, first mortgage, first deed of trust or other first lien encumbrance or indenture or other Landlord Permitted Lien except to the extent now so provided in any Site Lease. Such non-disturbance and attornment agreement will provide, among other things, that anyone succeeding to the interest of the Landlord as a result of the exercise of its rights under any ground lease or underlying lease, first mortgage, first deed of trust or other first lien encumbrance or indenture or other Landlord Permitted Lien will not be bound by (i) any payment of Basic Rent, Additional Rent or any other amount payable hereunder for more than one month in advance, or (ii) any amendment or modification of this Lease made thereafter without its written consent, or (iii) any claim against the Landlord arising prior to the date that the successor succeeded to the Landlord's interest (except to the extent such claim relates to a condition or circumstance which continues to exist thereafter), or (iv) any claim or offset of Basic Rent, Additional Rent or any other amount owing hereunder against the Landlord

(except to the extent such claim or offset relates to a condition or circumstance which continues to exist thereafter but then, so long as such party is not an Affiliate of Landlord, only as to the time period following such party's succession to the interest of landlord hereunder). Upon request by the successor and without cost to the Landlord or the successor, the Tenant will execute, acknowledge and deliver reasonable documents confirming the attornment.

SECTION 22. RIGHT TO PERFORM FOR TENANT.

(a) If the Tenant fails to pay when due any amounts payable under this Lease (including amounts payable pursuant to a Site Lease which are the obligation of Tenant pursuant to the terms hereof) or to perform or comply with any of its covenants or agreements contained in this Lease (including, without limitation, the covenants or agreements contained in any of the Site Leases), and the period to cure such failure has expired without the Tenant curing such failure, the Landlord may, upon at least ten (10) days' advance written notice to the Tenant (or without notice to the Tenant if the Landlord in its reasonable discretion determines that any delay in performing or complying with such covenant or agreement could have a Material Adverse Property Effect or in cases of emergency), but without any obligation so to do (whether or not so done in any previous instance) and without waiving or releasing any obligations or default, itself perform or comply with such covenant or agreement.

(b) All amounts paid by the Landlord pursuant to paragraph (a) hereof and all costs and expenses incurred by the Landlord in connection with the performance or compliance with any of those obligations will be payable by the Tenant to the Landlord on demand, together with interest at the Reimbursement Rate from the date incurred by the Landlord until the date repaid by the Tenant. Any payments from Tenant to Landlord may be applied to costs, fees and interest as Landlord may elect.

(c) In the proof of any damages that the Landlord may claim against the Tenant arising out of the Tenant's failure to maintain insurance pursuant to any of the provisions of Section 10 hereof, the Landlord will not be limited to the amount of the unpaid insurance premium but rather the Landlord will also be entitled to recover, as damages for the breach, the amount of any uninsured loss (to the extent of any deficiency in the insurance required by and actually maintained pursuant to Section 10 hereof), damages, costs, and expenses of suit, including reasonable attorneys' fees, arising out of damage to, or destruction of, any Theatre Improvement and Unit of Equipment occurring during any period for which the Tenant has failed to provide such insurance.

(d) Nothing herein shall affect obligations of, or claims or rights against, Tenant pursuant to Section 11 hereof.

SECTION 23. PERMITTED CONTESTS.

(a) The Tenant shall not be required, nor shall the Landlord have the right, to pay, discharge or remove any tax, assessment, levy, fee, rent, charge or Lien, or to comply or cause any

Parcel of Property, Theatre Improvement or Unit of Equipment to comply with any Legal Requirements applicable to any Parcel of Property, Theatre Improvement or Unit of Equipment or the occupancy, use or operation thereof, so long as no Event of Default exists under this Lease, and, in the reasonable judgment of the Tenant's counsel (which, if the amount at issue would be reasonably likely to exceed \$50,000 and to comply with the following would not result in the loss of any attorney-client, work product, or similar privilege, the Landlord may request to be provided to it in writing), the Tenant shall have reasonable grounds to contest the existence, amount, applicability or validity thereof by appropriate proceedings, which proceedings, in the reasonable judgment of the Landlord, (i) shall not involve any danger that the Parcel of Property, Theatre Improvement or Unit of Equipment or any Basic Rent, Additional Rent or any other amounts owing hereunder would be subject to sale, forfeiture or loss or loss of use, as a result of failure to comply therewith, (ii) shall not affect the payment of any Basic Rent, Additional Rent or any other sums due and payable hereunder or result in any such sums being payable to any Person other than the Landlord or any Pledgee except as provided herein, (iii) will not place the Landlord, any Pledgee or a Site Landlord in any danger of civil liability for which the Landlord, any Pledgee or such Site Landlord is not adequately indemnified (the Tenant's obligations under Section 11 of this Lease shall be deemed to be adequate indemnification if no Event of Default exists and if such civil liability is reasonably likely to be less than \$50,000 per Parcel or Unit and \$100,000 in the aggregate prior to the Funding Date and \$500,000 per Parcel or Unit and \$1,000,000 in the aggregate from and after the Funding Date, and so long as Tenant or a guarantor of its obligations hereunder meets the Minimum Net Worth Requirement) or subject the Landlord, any Pledgee or such Site Landlord to any danger of criminal liability, (iv) if involving Taxes, shall suspend the collection of Taxes (unless the Tenant has provided a bond for the full amount in dispute), and (v) shall be permitted under and be conducted in accordance with the provisions of any other instrument (including, without limitation, the Site Leases) to which the Tenant or the Parcel of Property, Theatre Improvement or Unit of Equipment is subject and shall not constitute a default thereunder (the "Permitted Contest"). The Tenant shall conduct all Permitted Contests in good faith and with due diligence and shall promptly after the final determination (including appeals) of any Permitted Contest (or, if earlier, upon any of the above criteria no longer being satisfied) pay and discharge all amounts which shall be determined to be payable therein. The Landlord shall at the Tenant's expense reasonably cooperate in good faith with the Tenant with respect to all Permitted Contests conducted by the Tenant pursuant to this Section 23, including, without limitation, in assisting in the preparation of, and participating in, filings related to such Permitted Contests.

(b) At least ten (10) days prior to the commencement of any Permitted Contest, the Tenant shall notify the Landlord in writing thereof if the amount in contest or the cost of compliance exceeds (or is reasonably estimated by Tenant to exceed) \$100,000 if prior to the Funding Date or \$500,000 thereafter, and shall describe such proceeding in reasonable detail. In the event that the Landlord shall receive written notice from a taxing authority or subdivision thereof which proposes an additional assessment or levy of any tax for which the Tenant is obligated to reimburse the Landlord under this Lease which notice does not indicate that an original or copy thereof was provided to the Tenant, or in the event that the Landlord is notified in writing of the commencement of an audit or similar proceeding which could result in such an additional assessment

which notice does not indicate that an original or copy thereof was provided to the Tenant, then the Landlord shall in a timely manner notify the Tenant in writing of such proposed levy or proceeding.

SECTION 24. PLEDGE BY LANDLORD.

(a) The Landlord shall have the right to obtain debt financing for the continuing ownership of any Theatre Property or Element thereof by pledging its right, title and interest in any or all amounts payable by or due from the Tenant or any third party under this Lease and granting a security interest in (including a Lien on) this Lease, or the Landlord's estate in such Theatre Property and/or Element, to a lender or lenders under a Financing Agreement; provided, that any such financing shall be subject to the rights and interests of the Tenant under this Lease, including, without limitation, the Purchase Option. In no event may the Landlord enter into any Financing Agreement or other instrument, or take any other action, which would constitute or incur a Lien which is not a Permitted Landlord Lien.

(b) Any Pledgee shall, except as otherwise agreed by the Landlord and such Pledgee, have all the rights, powers, privileges and remedies of the Landlord hereunder, and the Tenant's obligations as between itself and such Pledgee hereunder shall not be subject to any claims or defense that the Tenant may have against the Landlord other than payment; provided that the foregoing shall not be deemed to be a waiver of any claims the Tenant may have against the Landlord. Anything contained herein to the contrary notwithstanding, no Pledgee shall be obligated to perform any duty, covenant or condition required to be performed by the Landlord hereunder, and any such duty, covenant or condition shall be and remain the sole obligation of the Landlord.

SECTION 25. NOTICES AND REQUESTS.

Any notices, consents, or other communications between Landlord and Tenant may be oral or in writing, so long as the Landlord remains Sutton Hill Capital, L.L.C. or an Affiliate thereof and the Tenant remains Reading or Citadel or a Subsidiary of Reading or Citadel; provided, however, that, if this Lease specifically provides that a notice, consent or communication must be in writing, then such provision controls. Subject to the preceding sentence, all notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder or under any other instrument, certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 25. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set

forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to the Tenant:

Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90017
Attn: President
Telecopy: (213) 235-2229

With a copy of all notices under this Section 25 to be simultaneously given, delivered or served to S. Craig Tompkins at the following address:

Reading International, Inc.
550 South Hope Street, Suite 1825
Los Angeles, CA 90071
Telecopier (213) 235-2229

If to Landlord:

Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, CA 90048
Attention: Legal Department
Telecopy: (310) 652-6490

With a copy of all notices under this Section 25 to be simultaneously given, delivered or served to Ira Levin at the following address:

Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

With a copy of all notices under this Section 25 to any Pledgee at such address as such Pledgee may specify by written notice to the Landlord and the Tenant.

SECTION 26. COVENANT OF QUIET ENJOYMENT.

During the Lease Term and so long as (i) no Event of Default shall have occurred and be continuing and (ii) the Tenant is performing and observing all the covenants, conditions and agreements on the Tenant's part to be observed and performed, the Landlord recognizes the Tenant's right to uninterrupted use and quiet enjoyment of the Theatre Properties and all material Elements thereof on the terms and conditions provided in this Lease without any interference from the Landlord or anyone claiming through or under the Landlord, subject, however, to the terms and conditions of the Site Leases and to the liens and encumbrances listed on Exhibit C attached hereto. This covenant shall be construed as running with the land to and against subsequent owners and successors in interest, and is not, nor shall it operate or be construed as, a personal covenant of the Landlord, except to the extent of the Landlord's interest in the Theatre Properties, and this covenant and any and all other covenants of the Landlord contained in this Lease shall be binding upon the Landlord and upon such subsequent owners and successors in interest of the Landlord's interest under this Lease, to the extent of their respective interests in the Theatre Properties as and when they shall acquire same and then only for so long as they shall retain such interest.

SECTION 27. LEASEHOLD INTERESTS.

(a) This Lease is subject to all of the terms, covenants, conditions and agreements contained in the Site Leases for the Lease Term. Except as otherwise expressly provided in this Lease, all of the terms, covenants, conditions and agreements contained in the Site Leases, except such as by their nature or purpose are inapplicable or inappropriate to the leasing of the Theatre Properties pursuant to this Lease, are hereby incorporated in and made a part of this Lease with the same force and effect as though set forth at length herein and except that obligations and liabilities of the tenant or lessee thereunder are deemed to refer to Tenant hereunder and all rights, benefits, indemnities and protections in favor of the lessor or landlord thereunder also inure to the benefit of the Landlord hereunder.

(b) For the purposes of this Lease, the provisions of the Site Leases, as incorporated herein, are subject to the following modifications or deletions: (i) in all provisions requiring the approval or consent of the Landlord, if the approval or consent of the lessor under any of the applicable Site Leases is also required, the Tenant shall be required to obtain the approval or consent of such lessor in addition to the approval or consent of the Landlord; and (ii) the time limits provided in each of the Site Leases for the giving of notice, making demands, performance of any act, condition or covenant, or the exercise of any right, remedy, or option, are amended for the purpose of this Lease by lengthening or shortening the same in each instance by five (5) days, as appropriate, so that notices may be given, demands made, or any act, condition or covenant performed, or any right, remedy or option hereunder exercised, by the Landlord or the Tenant, as the case may be, within the same limit relating thereto contained in the Site Leases.

(c) The Tenant hereunder covenants and agrees to perform and to observe and to cause each permitted sublessee to perform and observe all of the terms, covenants, provisions, conditions and agreements of the Site Leases on the Landlord's part as lessee or sublessee thereunder to be performed and observed (including, without limitation, (x) payment of all rent, additional rent, and any other amounts payable by the Landlord as lessee under the Site Leases, (y) surrender of each Theatre Property under the Site Lease applicable thereto in the condition required at the end of the term thereof as if such term end coincided with the expiration or sooner termination of the Lease Term, and (z) reconstruction following a casualty if and to the extent required therein) to the end that all things shall be done which are necessary to keep unimpaired the rights of the Landlord as lessee under the Site Leases. The Landlord and Tenant further covenant that they shall cause to be exercised any renewal option contained in the Site Leases which relates to renewal occurring in whole or in part during the Lease Term. The Tenant agrees to cooperate fully with the Landlord to enforce the Landlord's rights as the lessee under any of the Site Leases as against the lessor under any of the Site Leases.

(d) The Tenant covenants and agrees pursuant to Section 11 hereof to indemnify and hold harmless the Landlord and any Pledgee from and against any and all Losses arising by reason of the Tenant's or any permitted sublessee's failure to comply with the Site Leases or the provisions of this Section 27 other than to the extent arising, from (i) a Landlord Act or (ii) any breach of any covenant or agreement of Landlord or any Affiliate under this Lease or any Other Lease Document.

(e) The Landlord and the Tenant agree that during the Lease Term the Landlord shall have no obligation or responsibility to provide services or equipment required to be provided or repairs or restorations required to be made in accordance with the provisions of the Site Leases by the lessor thereunder. The Landlord shall in no event be liable to the Tenant nor shall the obligations of the Tenant hereunder be impaired or the performance thereof excused because of any failure or delay on the part of the Landlord as the lessee under the Site Leases in providing such services or equipment or making such restorations or repairs and such failure or delay shall not constitute a basis for any claim against the Landlord or any offset against any amount payable to the Landlord under this Lease. So long as there is no Event of Default hereunder, the Landlord will reasonably cooperate, at the Tenant's sole cost and expense, to seek from the lessor under any Site Lease the performance by such lessor of its obligations under the applicable Site Lease.

SECTION 28. MISCELLANEOUS.

(a) All agreements, indemnities, representations and warranties shall survive the expiration or other termination hereof.

(b) This Lease and the instruments, documents or agreements referred to herein constitute the entire agreement between the parties and no representations, warranties, promises, guarantees or agreements, oral or written, express or implied, have been made by any party hereto

with respect to this Lease or any Theatre Property or Element thereof, except as provided herein or therein.

(c) This Lease may not be amended, modified or terminated, nor may any obligation hereunder be waived orally, and no such amendment, modification, termination or waiver shall be effective for any purpose unless it is in writing, signed by the party against whom enforcement thereof is sought. The consent or approval by the Landlord to or of any act by the Tenant requiring the Landlord's consent or approval shall not be deemed to have been waived by the Landlord unless such waiver is in writing signed by the Landlord waiving such covenant or condition.

(d) The captions in this Lease are for convenience of reference only, and shall not be deemed to affect the meaning or construction of any of the provisions hereof. Any provision of this Lease which is prohibited by law or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and the parties hereto shall negotiate in good faith appropriate modifications to reflect such changes as may be required by law, and, as nearly as possible, to produce the same economic, financial and tax effects as the provision which is prohibited or unenforceable; and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the Landlord and the Tenant hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

THIS LEASE HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE TENANT AND THE LANDLORD AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAW OF THE STATE OF NEW YORK, THIS LEASE, AND THE RIGHTS AND DUTIES OF THE TENANT AND THE LANDLORD HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, INCLUDING, WITHOUT LIMITATION, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. EACH OF THE TENANT AND THE LANDLORD HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS LEASE OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS

BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS LEASE OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NON-EXCLUSIVE AND DOES NOT PRECLUDE EITHER PARTY FROM OBTAINING JURISDICTION OVER THE OTHER IN ANY COURT OTHERWISE HAVING JURISDICTION. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE TENANT AND THE LANDLORD AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. EACH OF THE TENANT AND THE LANDLORD AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS LEASE OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

THE LANDLORD AND THE TENANT HEREBY WAIVE THEIR RESPECTIVE RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, COUNTERCLAIM OR CROSS COMPLAINT IN ANY ACTION, PROCEEDING AND/OR HEARING BROUGHT BY EITHER THE LANDLORD AGAINST THE TENANT OR THE TENANT AGAINST THE LANDLORD ON ANY MATTER WHATSOEVER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF THE LANDLORD AND THE TENANT, THE TENANT'S USE OR OCCUPANCY OF THE THEATRE PROPERTIES AND THE ELEMENTS THEREOF, OR ANY CLAIM OF INJURY OR DAMAGE, OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY LAW, STATUTE OR REGULATION, EMERGENCY OR OTHERWISE, NOW OR HEREAFTER IN EFFECT. THE LANDLORD AND THE TENANT ACKNOWLEDGE THAT THE PROVISIONS OF THIS PARAGRAPH (D) OF SECTION 28 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

(e) This Lease may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(f) One or more waivers of any covenant or condition by the Landlord shall not be construed as a waiver of a subsequent breach of the same covenant or condition. The giving by the Landlord of any consent or approval hereunder (whether affirmatively or by inaction) shall not be deemed a waiver of the requirement for Tenant to seek such consent or approval in the future for the same or a dissimilar event.

(g) The Landlord recognizes the Tenant's right to call any Theatre Property by such name or designation as the Tenant may deem appropriate in the ordinary course of the Tenant's business and to place such signs, labels, plates or other markings on any Theatre Property as the

Tenant may desire in exercising such rights, subject to the provisions of paragraph (b) of Section 8 hereof and the provisions of the Other Lease Documents.

(h) Each and every covenant contained herein shall be deemed separate and independent and not dependent upon other provisions of this Lease.

(i) The relationship of the parties hereto is that of landlord and tenant and no partnership, joint venture or participation is hereby created.

(j) Either party shall have the right to obtain specific performance of any and all covenants or obligations of the other under this Lease, and nothing contained in this Lease shall be construed as, or shall have the effect of, abridging such right.

(k) The Landlord acknowledges that Citadel, pursuant to its obligations under the Securities Acts and the rules and regulations thereunder, may be required to file this Lease, and certain or all of the Other Lease Documents, with the Securities and Exchange Commission as exhibits to its reports and statements under the Securities Acts, and the Landlord hereby consents to the same.

(l) This Lease has been prepared by the Landlord and its professional advisors and reviewed by the Tenant and its professional advisors. The Landlord, the Tenant and their separate advisors believe that this Lease is the product of all of their efforts, that it expresses their agreement, and that it should not be interpreted in favor of either the Landlord or the Tenant or against the Landlord or the Tenant merely because of their efforts in preparing it.

(m) The Tenant agrees from time to time, no later than ten (10) Business Days after a written request by the Landlord (including therein the proposed certificate as the Landlord then in good faith would complete it on behalf of the Tenant), to execute, acknowledge and deliver to the Landlord an estoppel certificate, in form reasonably satisfactory to the Landlord, which: (i) certifies that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified, and stating the modifications); (ii) states the expiration date of the Lease Term and that (except as set forth herein) there are no agreements with the Landlord to extend or renew the Lease Term or to permit any holding over (or if there are any such other agreements, describes them and specifies the periods of extension or renewal); (iii) certifies the dates through which Basic Rent, Additional Rent and all other amounts owing hereunder have been paid; (iv) states whether or not, to the knowledge and belief of the Tenant, the Landlord is in default in performance of any of its obligations under this Lease, and specifies each default of which the Tenant has knowledge; (v) states whether or not, to the knowledge and belief of the Tenant, any event has occurred which, with the giving of notice or passage of time, or both, would constitute a default by the Landlord and, if such an event has occurred, specifies each such event; (vi) states whether or not, to the knowledge and belief of the Tenant, the Tenant is entitled to any credits, offsets, defenses or deductions against payment of any amounts owing hereunder, and, if so, describes them; and (vii) such other matters as may be

reasonably requested by the Landlord. An estoppel certificate issued by the Tenant pursuant to this paragraph (m) shall be a representation and warranty by the Tenant which may be relied upon by the Landlord and by others with whom the Landlord may be dealing, regardless of independent investigation. If the Tenant fails within ten (10) Business Days after a written request by the Landlord to execute and deliver an estoppel certificate or to advise the Landlord in writing what, if anything, Tenant believes in good faith to be incorrect in the form certificate provided by the Landlord, the Landlord's representations concerning the factual matters covered by its proposed estoppel certificate, as described above, shall be conclusively presumed to be correct.

(n) All exhibits referred to in this Lease are attached hereto and incorporated herein by reference.

(o) The Landlord and its authorized representatives shall have the right during business hours, upon not less than twenty-four (24) hours' oral or written notice to the Tenant (except that in the case of an emergency, the existence of which shall be determined by the Landlord in its reasonable discretion, no advance notice shall be required) to enter upon any Theatre Property for purposes of inspection and exercising its rights under this Lease, provided that such inspections shall not unreasonably interfere with the Tenant's construction or business activities.

(p) Any holding over by the Tenant after the expiration of the Lease Term shall be construed as a tenancy from month to month and shall be subject to all of the terms and conditions which are provided for in this Lease except that the Basic Rent for any such month shall be an amount equal to 150% of the Basic Rent which would have been in effect for such month calculated as if the Lease Term had continued (including beyond the originally scheduled expiration hereof) and Basic Rent had been calculated for the applicable continuation period (Lease Year by Lease Year) without reference to the adjustments contemplated by this Section 28(p). Nothing herein shall be construed as an agreement or approval by Landlord of any right or option to extend or renew the term hereof (except strictly in compliance with and subject to the terms of Section 12 hereof).

(q) This Lease shall not be recorded, but at the request of either the Landlord or the Tenant, the other party agrees to join in the execution, acknowledgment and delivery of any and all documents necessary to record a memorandum or short form of this Lease. Subject to paragraph (g) of Section 2.2 and paragraph (e) of Section 2.4, all costs of recording a memorandum or short form of this Lease shall be borne by the party requesting recordation.

(r) The Landlord and any Pledgee shall, to the extent reasonably requested by the Tenant, and at the Tenant's cost and expense, cooperate to allow the Tenant to (a) perform its covenants contained in this Lease, including at any time and from time to time, upon the reasonable request of the Tenant, and at the Tenant's cost and expense, to execute and deliver any and all such further instruments and documents as the Tenant may reasonably request in order to perform such covenants, and (b) further the Tenant's requirements as lessee of the Theatre Properties, including, at the Tenant's cost and expense, to file any tax abatements or other tax requirements.

SECTION 29. CONSENTS.

(a) The Tenant hereby waives any claim against Landlord which the Tenant may have based upon any assertion that, when the consent or approval (or words of similar import) of the Landlord is not to be withheld or delayed unreasonably or the discretion or judgment (or words of similar import) of the Landlord is to be exercised reasonably (any such instance, a "Consent"), Landlord has unreasonably withheld or unreasonably delayed its Consent; and the Tenant agrees that its sole remedy in any such instance shall be an action or proceeding to enforce any such provision for specific performance, injunction or declaratory judgment so long as the Landlord has not acted in bad faith. In the event of such a determination by a court of competent jurisdiction, the requested Consent shall be deemed to have been granted; provided, however, that the Landlord shall have no liability to the Tenant for its refusal or failure to give such Consent so long as the Landlord has not acted in bad faith. The sole remedy for Landlord's unreasonably withholding or delaying of Consent, so long as the Landlord has not acted in bad faith, shall be as provided in this Section 29 and shall be available only in those cases where Landlord has expressly agreed in this Lease not to unreasonably withhold or unreasonably delay its Consent. In any proceeding with respect to matters covered by this Section 29, the prevailing party shall be liable for all costs (including reasonable attorneys' fees and disbursements) of the other party.

(b) In any instance in this Lease when Consent is not specified to be subject to the reasonable discretion of the party whose consent is sought, such Consent may be withheld in the sole and absolute discretion of the party in question, for any reason or no reason at all, and without the need or obligation to provide any explanation.

SECTION 30. NO RECOURSE.

The Landlord's obligations hereunder are intended to be the obligations of the limited liability company Landlord only and no recourse for the payment of any amount due under this Lease, the Site Leases or any other agreement contemplated hereby or thereby, or for any claim based hereon or thereon or otherwise in respect hereof or thereof, shall be had against any member of the Landlord, or any incorporator, officer, director, member or Affiliate, as such, past, present or future of the Landlord, any such member, parent or other subsidiary of an Affiliate, except as set forth in a certain Guaranty of even date herewith by Messrs. Cotter and Forman in favor of Tenant (as well as Citadel Holding Corporation) and as set forth in a certain Pledge Agreement of even date herewith between Citadel Holding Corporation and Sutton Hill Associates, as amended and restated as of January 29, 2002, it being understood that the Landlord is a limited liability company formed for the purpose of the transactions involved in and relating to this Lease on the express understanding aforesaid. Nothing contained in this Section 30 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Lease and any other documents referred to herein, of the rights and remedies against the Landlord or the assets of the Landlord.

SECTION 31. NO MERGER.

There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in any Parcel of Property by reason of the fact that the same person acquires or holds, directly or indirectly, this Lease or the leasehold estate hereby created or any interest herein or in such leasehold estate as well as the fee estate in any Parcel of Property or any interest in such fee estate.

SECTION 32. EQUIPMENT TO BE PERSONAL PROPERTY.

It is the intention and understanding of the Landlord and the Tenant that all Equipment shall be and at all times remain personal property. The Tenant shall obtain and record such instruments and take such steps as may be necessary to prevent any Person from acquiring any rights in the Equipment paramount to the rights of the Landlord by reason of such Equipment being deemed to be real property.

SECTION 33. MERGER, CONSOLIDATION OR SALE OF ASSETS.

The Tenant may not consolidate with or merge into any other corporation or sell or assign all or substantially all of its assets or its interest in the Lease or any Theatre Property and Equipment to any Person, unless the surviving corporation or transferee Person shall assume, by execution and delivery of instruments reasonably satisfactory to the Landlord prior to any such consolidation, merger, sale or assignment, the obligations of the Tenant hereunder and become successor to the Tenant, but the Tenant shall not thereby be released, without the consent of the Landlord, from its obligations hereunder and provided, further, that no Event of Default shall have occurred and be continuing, both prior and after giving effect to any such consolidation, merger, sale or assignment and, if the successor Tenant shall be other than Citadel Cinemas, Inc., Reading, Craig Corporation, or a controlled Affiliate of Reading or Craig Corporation with respect to which Reading or Craig Corporation, respectively, has furnished a Lease Guaranty, Citadel shall have confirmed in writing that the Lease Guaranty is applicable to and covers the obligations and liabilities of such successor as if originally named in such Lease Guaranty. The terms and provisions of this Lease shall be binding upon and inure to the benefit of the Tenant and its respective successors and assigns.

SECTION 34. SUCCESSORS AND ASSIGNS.

This Lease shall be binding on the parties hereto and their respective successors and assigns but the foregoing shall not affect, alter or limit the provisions of Section 17 hereof.

IN WITNESS WHEREOF, the Landlord and the Tenant have caused this Lease to be executed and delivered by their duly authorized officers as of the day and year first above written.

CITADEL CINEMAS, INC.

By:

Name: Andrzej Matyczynski
Title: Chief Financial Officer

SUTTON HILL CAPITAL, L.L.C.

By:

Name: James J. Cotter
Title: Operating Member

AMENDED AND RESTATED
CITADEL STANDBY CREDIT FACILITY
Dated as of January 29, 2002
between
SUTTON HILL CAPITAL, L.L.C.,
as Borrower
and
READING INTERNATIONAL, INC.,
as Lender

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AMENDED AND RESTATED
CITADEL STANDBY CREDIT FACILITY

THE CITADEL STANDBY CREDIT FACILITY, dated as of the 28th day of July, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), by and between CITADEL HOLDING CORPORATION now known as READING INTERNATIONAL, INC. (together with its permitted successors and assigns, the "Lender"), a Nevada corporation with an office at 550 South Hope Street, Suite 1825, Los Angeles, CA 90071, and SUTTON HILL CAPITAL, L.L.C. (together with its permitted successors and assigns, the "Borrower"), a New York limited liability company with its chief executive office and principal place of business at 120 North Robertson Boulevard, Los Angeles, California 90048, is hereby amended and restated as of this 29th day of January 2002.

ARTICLE I

DEFINED TERMS

1.1 Definitions. When used in this Agreement, each of the following terms defined in this Section 1.1 shall have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

"Actual Knowledge" shall mean, with respect to the Borrower, the information, material or other represented item is actually known by James J. Cotter, Michael R. Forman or, with respect to representations and warranties as of the date hereof, Robert Smerling or Michael Conroy.

"Affiliate" shall mean, as to any Person, any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," 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, by contract or otherwise; and the terms "controlling" and "controlled" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (a) the Borrower and its Affiliates (the "Borrower's Affiliates") shall not include Reading, the Lender, and their respective direct and indirect Subsidiaries; (b) Reading, the Lender, and their respective direct and indirect Subsidiaries, on the one hand, and the Borrower and the Borrower's Affiliates, on the other hand, shall not be considered Affiliates of each other; and (c) none of Nationwide or any of its Affiliates shall be considered an Affiliate of Reading, Lender or any of their respective direct and indirect Subsidiaries or the Borrower or any of its Affiliates.

"Agreement" shall mean this Amended and Restated Citadel Standby Credit Facility, as the same may be amended, restated, modified or supplemented from time to time.

"Applicable Law" shall mean all laws, rules and regulations applicable to the Person, conduct, transaction or covenant in question, including (a) all applicable common law and equitable principles; (b) all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations and orders of governmental bodies; and (c) all orders, judgments and decrees of all courts and arbitrators.

"Assets" shall mean any and all assets or property of any kind, real or personal, tangible or intangible, now owned or hereafter acquired by the Borrower.

"Bankruptcy Code" shall mean Title 11 of the United States Code, as now constituted or hereafter amended.

"Board of Governors" shall mean the Board of Governors of the Federal Reserve Board.

"Borrower" shall have the meaning specified in the preamble to this Agreement.

"Borrower Collateral" shall mean the Equipment and all other assets of the Borrower except Real Property Interests.

"Business Day" shall mean a day other than (a) a Saturday or a Sunday or (b) a day on which banks in New York City are permitted, required or authorized by law or executive order to close.

"Capitalized Lease" shall mean, as applied to any Person, any lease of any property which in accordance with GAAP would be capitalized on that Person's balance sheet as lessee or for which the amount of the asset or liability thereunder, if so capitalized, should be disclosed in a note to such balance sheet.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation, which is a subsidiary of Lender, and its successors and assigns (including successors or assigns as tenant under the Lease Agreement).

"Closing Date" shall mean July 28, 2000.

"Collateral" shall mean the Equity Collateral and the Borrower Collateral.

"Commitment" shall mean, at any time, the obligation of the Lender to make Loans pursuant to Section 2.1 hereof in an aggregate principal amount up to eighteen million Dollars (\$18,000,000) (as the same may be reduced pursuant to Section 2.1, 2.6, 3.4 or 9.2 hereof).

"Commitment Period" shall have the meaning set forth in Section 2.1 hereof.

"Consumer Price Index" shall mean the Consumer Price Index for Urban Consumer Wage and Clerical Workers based upon the New York-Northern New Jersey-Long Island area for All Items, published by the United States Department of Labor, Bureau of Labor Statistics, or a successor substitute index, and if in any year the 1982-84 average of one hundred (100) is no longer used as the basis of calculation, then, for the purposes of this Section, the Consumer Price Index for such year shall be recalculated as though such 1982-84 average of one hundred (100) were still the basis of calculation of the Consumer Price Index for such year. In the event such Consumer Price Index (or a successor substitute index) is not available, a reliable government or other non-partisan publication evaluating the information theretofore used in determining the Consumer Price Index shall be used to reflect the increase in the national cost of living.

"Contract" shall mean any contract, agreement, indenture, loan or credit agreement, receivable sales or financing agreement, capital note, mortgage, security agreement, bond or note (or any guarantee of any of the foregoing).

"Dollars" or "\$" shall mean the lawful currency of the United States of America and, in relation to any amount to be advanced or paid hereunder, funds having same day or immediate value.

"Equipment" shall mean all of the Borrower's right, title and interest in and to all personal property used primarily in connection with the Theatre Properties or otherwise located at the properties listed on Exhibit H attached hereto, including, without limitation, all replacements and subsequent replacements of the foregoing, excluding any supplies and inventory.

"Equity Collateral" shall have the meaning given to that term in the Pledge Agreement.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 and all rules and regulations from time to time promulgated thereunder.

"Event of Default" shall mean each of the events set forth in Section 9.1 hereof.

"Fee Option Agreement" shall mean the Fee Option Agreement, dated as of the Closing Date, between Fee Sub and the Borrower, as amended and restated as of January 29, 2002 as the same may be amended, restated, modified or supplemented from time to time.

"Fee Sub" shall mean Citadel Realty, Inc., a Nevada corporation.

"Final Date" shall mean December 1, 2010.

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect from time to time (except for accounting changes in response to releases of the Financial Accounting Standards Board, or other authoritative releases).

"Improvements" shall mean all buildings and other improvements (including, without limiting the generality of the foregoing, any affixed property which would constitute "fixtures" under Section 9-313(1)(A) of the UCC) now or hereafter located on the Theatre Properties.

"Indebtedness" shall mean for any Person, without duplication, (a) all indebtedness or other obligations of such Person for borrowed money and all indebtedness of such Person with respect to any other items (other than income taxes payable, deferred taxes, deferred credits and accounts payable) which would, in accordance with GAAP, be classified as a liability on the balance sheet of such Person, (b) all obligations of such Person to pay the deferred purchase price of property or services, including any such obligations created under or arising out of any conditional sale or other title retention agreement, (c) all obligations of such Person (contingent or otherwise) under reimbursement or similar agreements with respect to the issuance of letters of credit, (d) all indebtedness or other obligations of such Person under or in respect of any swap, cap, collar or other financial hedging arrangement, (e) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c) or (d) above, the payment or collection of which such Person has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or in respect of which such Person is liable, contingently or otherwise, including, without limitation, liable by way of agreement to purchase products or securities, to provide funds for payment, to maintain working capital or other balance sheet conditions or otherwise to assure a creditor against loss, and (f) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c), (d) or (e) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or becomes liable for the payment of such indebtedness or obligations.

"Indemnity Guarantee" shall mean the Guaranty, dated the Closing Date, entered into among the Indemnity Guarantors, Citadel Cinemas and Fee Sub.

"Indemnity Guarantors" shall mean James J. Cotter and Michael R. Forman.

"Initial Drawdown Date" shall mean the date that is the seventh (7th) anniversary of the Closing Date.

"Interest Rate" shall mean a rate per annum equal to (a) for the period ending on the day prior to the second anniversary of the Closing Date, 8.25%, and (b) during each contract year (or part thereof) thereafter, the multiplier (as hereinafter defined) for such contract year multiplied by the Interest Rate as in effect during the prior contract year. For purposes of the foregoing, (i) a "contract year" means each period beginning on the Closing Date or an anniversary thereof and ending on the day prior to the next anniversary thereof, and (ii) the

"multiplier" means one plus a fraction, the numerator of which is the Consumer Price Index in effect for the month of March preceding the anniversary date in question minus the Consumer Price Index in effect for the month of March in the prior year and the denominator of which is the Consumer Price Index in effect for the month of March in the prior year, provided that (A) except as provided in the following clause (B), the multiplier for any contract year shall not be greater than 1.06 nor less than 1.03 and (B) the multiplier for the contract year shall be such as would have been in effect had the multiplier for the second contract year been applied to determining the Interest Rate for the second contract year; and provided, further, that in no event shall the Interest Rate exceed the maximum rate permitted by law.

"Insolvency or Liquidation Proceeding" shall mean (a) any insolvency or bankruptcy case or proceeding (including any case under the Bankruptcy Code), or any receivership, liquidation, reorganization or other similar case or proceeding relative to the Borrower or all or substantially all of its Assets, or (b) any liquidation, dissolution, reorganization or winding up of the Borrower, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy (other than any voluntary liquidation, dissolution, reorganization or winding up), or (c) any assignment of all or substantially all of the Assets of the Borrower for the benefit of creditors or any other marshaling of Assets and liabilities of the Borrower.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated as of the Closing Date as amended and restated as of January 29, 2002, among the Lender, Nationwide, and the Borrower, in the form of Exhibit G hereto, as the same may be amended, restated, modified or supplemented from time to time.

"Lease Agreement" shall mean the lease agreement between the Borrower and Citadel Cinemas, dated as of the Closing Date, as amended, modified and supplemented from time to time.

"Lender" shall mean Citadel Holding Corporation, a Nevada corporation, now known as Reading International, Inc. and its successors.

"License of Intangibles" shall mean that certain License of Intangibles dated as of the Closing Date between the Borrower and Citadel Cinemas, as the same may be amended, restated, modified or supplemented from time to time.

"Lien" shall mean any security interest, mortgage, pledge, hypothecation, assignment as collateral, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction in respect of any of the foregoing).

"Limited Liability Company Agreement" shall mean the Limited Liability Company Agreement of the Borrower, effective as of April 8, 1999, as amended, modified, supplemented or restated from time to time.

"Loan" shall mean each loan, if any, made by the Lender to the Borrower pursuant to Section 2.1 hereof.

"Mandatory Borrowing or Reduction Notice" shall have the meaning set forth in Section 2.8 hereof.

"Material Adverse Effect" shall mean the effect of any event or condition which, alone or when taken together with other events or conditions occurring or existing concurrently therewith, (a) has a material adverse effect upon the business, operations or financial condition of the Borrower or upon the Collateral (taken as a whole), or the Property (taken as a whole); (b) materially impairs the ability of the Lender to enforce or collect the Obligations in accordance with this Agreement or the other Related Documents; (c) materially impairs the ability of the Lender to realize, in accordance with this Agreement or the other Related Documents or Applicable Law, upon the Equity Collateral or upon any material element or portion of the Borrower Collateral (taken as a whole); or (d) has a material adverse effect on the ability of the Lender to realize on the Indemnity Guarantee, including on the business and financial condition and prospects of Messrs Cotter and Forman.

"Member" shall mean Sutton Hill and its successors and assigns.

"Nationwide" shall mean Nationwide Theatres Corp., a California corporation, and its successors and assigns.

"Nationwide Agreement" shall mean, collectively, the agreements, documents and instruments evidencing or securing the Nationwide Indebtedness, as any thereof may be amended, restated, modified or supplemented from time to time.

"Nationwide Default" shall mean a "Default" by the Borrower under the Nationwide Agreement, as such term is defined from time to time therein.

"Nationwide Event of Default" shall mean an "Event of Default" by the Borrower under the Nationwide Agreement, as such term is defined from time to time therein.

"Nationwide Indebtedness" shall mean any and all indebtedness, obligations and liabilities of the Borrower from time to time outstanding under the Nationwide Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, premium, interest (including interest accruing before or after the commencement of any Insolvency or Liquidation Proceeding or interest that would have accrued but for the commencement of such Insolvency or

Liquidation Proceeding, to the date of payment, even if the claim for such interest is not allowed pursuant to Applicable Law), fees, indemnities, costs, expenses or otherwise.

"Nationwide Liens" shall mean the Liens on the Collateral which have been or may from time to time be granted to Nationwide pursuant to the Nationwide Agreement.

"Note" shall mean, collectively, the promissory note if and when issued by the Borrower payable to the order of the Lender, evidencing the Loans, if any, made by the Lender as provided herein, in the form of Exhibit A hereto, and any promissory note or notes of the Borrower issued in substitution thereof.

"Notice of Borrowing" shall mean an irrevocable notice, in the form of Exhibit B hereto, given to the Lender by the Borrower pursuant to Section 2.2 hereof.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of the Borrower to the Lender from time to time outstanding under the Related Documents to which the Borrower is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on and any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operating Manager" shall mean (a) during the four-year period commencing on the Closing Date, James J. Cotter, so long as he remains active in the business and affairs of the Member, and (b) at any time after such four-year period (or any earlier time when Mr. Cotter is not so active), any Person designated pursuant to the terms of the Limited Liability Company Agreement as the operating manager of the Borrower; provided that there may be more than one Operating Manager of the Borrower from time to time.

"Operational Agreements" shall mean the License of Intangibles, the Sub-Management Agreement and the Lease Agreement.

"Option Agreement" shall mean the Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions dated as of August 16, 1985 between Sutton Hill and Nationwide (as successor-in-interest to Sutcin Holding Corp.), as such agreement has been extended by a First Addendum dated as of January 1, 1992, a Second Addendum dated as of July 1, 1996, and a Third Addendum, dated as of the Closing Date and a Fourth Addendum dated January 29, 2002, in connection with the purchase of fee properties underlying the Sutton Theatre, as the same may be amended, restated, modified or supplemented from time to time.

"Outstanding" shall mean all Loans made by the Lender pursuant hereto and not repaid by the Borrower.

"Payment Account" means account designated in writing by the Lender prior to the making of the Initial Loan and from time to time thereafter as the "Payment Account" for purposes of this Agreement.

"Payment Date" shall mean the 30th day of each March, June, September and December, commencing on the first such date following the initial Loan made hereunder.

"Permitted Liens" shall mean any Lien of a kind specified in Section 7.2 of this Agreement.

"Person" shall mean any individual, partnership, corporation, joint stock company, trust (including a business trust), limited liability company, joint venture, unincorporated organization or other form of business entity, or a government or agency or political subdivision thereof.

"Pledge Agreement" shall mean the Pledge Agreement, dated as of the Closing Date, between Sutton Hill and the Lender as amended and restated as of January 29, 2002, as the same may be amended, restated, modified or supplemented from time to time.

"Properly Contested" shall mean (including grammatical alternatives thereof), (a) in the case of any Indebtedness of the Borrower (including any Taxes) that is not paid as and when due or payable by reason of the Borrower's bona fide dispute concerning its liability to pay same or concerning the amount thereof, (i) such Indebtedness is being contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) if the Indebtedness results from, or is determined by the entry, rendition or issuance against the Borrower or any of its Assets of, a judgment, writ, order or decree, execution on such judgment, writ, order or decree is stayed pending a timely appeal or other judicial review; and (iii) if such contest is abandoned, settled or determined adversely (in whole or in part) to Borrower, Borrower forthwith pays such Indebtedness and all penalties, interest and other amounts due in connection therewith or otherwise causes such judgment, writ, order or decree to be satisfied; and (b) in the case of any other obligation of Borrower, (i) compliance with or performance of such obligation is being contested in good faith by appropriate proceedings promptly instituted and diligently conducted; (ii) the lack of performance or compliance therewith will not have a Material Adverse Effect or compliance therewith or performance thereof has been stayed or permissibly deferred; (iii) there is no material risk of criminal liability against the Lender; and (iv) if such contest is abandoned, settled or determined adversely to Borrower, Borrower thereafter promptly and with reasonable diligence effects such required compliance or performance.

"Property" shall mean the Borrower's interest in the Site Leases, Improvements and Equipment.

"Reading" shall mean Reading Entertainment, Inc., a Nevada corporation.

"Real Property Interests" shall mean fee, leasehold and other estates in real property, real property fixtures and improvements, the rents, income and profits generated or arising from any such estate, fixtures or improvements and any and all other real estate interests, claims and rights a lien or encumbrance on which would be subject to mortgage taxes pursuant to Article 11 of the Tax Law of the State of New York (as from time to time in effect) or replacements thereto.

"Related Documents" shall mean this Agreement, the Note, the Security Agreement and the Intercreditor Agreement. The term "Related Documents" shall not include any of the foregoing documents to the extent that such document has been terminated in accordance with its terms not due to the occurrence of an event of default thereunder.

"Security Agreement" shall mean the Security Agreement, dated as of July 28, 2000, between the Lender and the Borrower, substantially in the form of Exhibit F hereto as amended and restated as of January 29, 2002, as it may be amended, restated, modified or supplemented from time to time.

"Site Leases" shall mean all the site leases listed on Exhibit I attached hereto.

"Sub-Management Agreement" means the Sub-Management Agreement, dated as of the date hereof, between the Borrower and Citadel Cinemas, as the same may be amended, restated, modified and supplemented from time to time.

"Subsidiary" of any Person shall mean any corporation, partnership, limited liability company, joint venture, trust or estate of which (or in which) more than 50% of:

(a) the outstanding capital stock having voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency),

(b) the interest in the capital or profits of such partnership or joint venture, or

(c) the beneficial interest of such trust or estate

is at the time directly or indirectly owned by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's Subsidiaries.

"Sutton Hill" shall mean Sutton Hill Associates, a California general partnership, and its successors and assigns.

"Taxes" shall mean any present or future taxes, levies, imposts, duties, fees, assessments, deductions, withholdings or other charges of whatever nature, including income, receipts, excise, property, sales, use, transfer, license, payroll, withholding, social security and franchise taxes now or hereafter imposed or levied by the United States, or any state, local or foreign government or by any department, agency or other political subdivision or taxing authority thereof or therein and all interest, penalties, additions to tax and similar liabilities with respect thereto, but excluding, in the case of the Lender, franchise taxes or taxes imposed on or measured by the net income or overall gross receipts of the Lender.

"Tenant Event" shall mean an event arising from or attributable to an action or inaction of, or a condition or event relating to, Citadel Cinemas or any of its Affiliates (or the agents, officers, directors or employees of Citadel Cinemas or any such Affiliate), or initiated by Citadel Cinemas or any of its Affiliates (or any such Person), unless such action, inaction, or event was or resulted from an action by Citadel Cinemas or any of its Affiliates to enforce any rights or remedies under the Lease Agreement or any other Contract or Applicable Law so long as such action so to enforce was initiated in good faith.

"Termination Date" shall mean the date which is eighteen (18) months following the Initial Drawdown Date.

"Theatre Properties" shall mean the Borrower's interest in the properties listed on Exhibit H attached hereto.

"UCC" shall mean the Uniform Commercial Code (or any successor statute) as adopted and in effect from time to time in the State of New York or, when the laws of any other state govern the method or manner of the creation, perfection or enforcement of any security interest in any of the Collateral, the Uniform Commercial Code (or any successor statute) of such state.

1.2 Accounting and Other Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP or, as appropriate, the accounting principles used in preparation of the financial statements referred to in Section 5.15, and all financial data pursuant to the Agreement shall be prepared in accordance with such principles. All other terms contained in this Agreement shall have, when the context so indicates, the meanings provided for by the UCC to the extent the same are used or defined therein.

1.3 Certain Matters of Construction. All references in this Agreement to any other agreement or instrument shall include such other agreement or instrument as the same may be amended, modified or supplemented from time to time. In the computation of interest and fees payable from a specified date to a later specified date, unless otherwise indicated the word "from" means "from and including" and the words "to" and "until" both mean "to but not including". The terms "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be

deemed to cover all genders. The section titles, table of contents and list of exhibits appear as a matter of convenience only and shall not affect the interpretation of this Agreement. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; all references to any instruments or agreements, including references to this Agreement or any and all agreements, instruments and documents heretofore, now or hereafter executed by the Borrower in favor of or delivered to the Lender in respect to the transactions contemplated by this Agreement, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. The words "including" and "include" mean "including, without limitation".

ARTICLE II

CREDIT FACILITY

2.1 The Commitment. Subject to the terms and conditions of this Agreement and in reliance on the representations and warranties contained herein, the Lender shall make Loans to the Borrower, from time to time during the period (the "Commitment Period") from the Initial Drawdown Date to and including the date that is one hundred eighty (180) days following the Termination Date (or such later date as is set forth in a written notice from the Lender to the Borrower), in an aggregate principal amount at any one time Outstanding up to but not exceeding the amount of the Commitment, which Loans shall be evidenced by and be repayable in accordance with the terms of the Note and shall be secured by the Collateral. The Lender, in its sole discretion or as provided in Section 2.2(d), may at the request of the Borrower given at any time after the sixth anniversary of the Closing Date make loans earlier than the Initial Drawdown Date. Within the limits of the Commitment, the Borrower may borrow under this Section 2.1 and prepay pursuant to Section 2.6 hereof. Any principal amount repaid, by prepayment or otherwise, may not be reborrowed, and the Commitment shall be reduced by the amount so borrowed and repaid. The sum of the principal amount at any time of all Outstanding Loans made by the Lender pursuant to this Agreement shall not exceed eighteen million Dollars (\$18,000,000).

2.2 Manner of Borrowing.

(a) The Borrower shall give the Lender (i) for any Loan proposed to be made on or before or within ninety (90) days following the Initial Drawdown Date, a duly completed Notice of Borrowing in the form of Exhibit B attached hereto not later than 3:00 P.M. (New York City time) not less than one hundred twenty (120) days prior to the date designated by the Borrower as the date of advance for such Loan, and (ii) for any Loan proposed to be made any time thereafter, a duly completed Notice of Borrowing not later than 3:00 P.M. (New York City time) not less than one hundred eighty (180) days prior to the date designated by the Borrower as the date of advance for such Loan. Each Notice of Borrowing shall be irrevocable and binding on the Borrower.

(b) Each such Notice of Borrowing shall specify: (i) the amount of such Loan, which shall be in an aggregate principal amount of at least \$25,000 (or, if the then unused

Commitment is less than \$25,000, such lesser amount); and (ii) the date of such borrowing, which shall be a Business Day during the Commitment Period (unless the Lender agrees to make a Loan earlier than the Initial Drawdown Date).

(c) Subject to the terms and conditions of this Agreement, the Lender shall make the amount of each Loan available to the Borrower by transferring the amount thereof on the date of the advance specified by the Borrower to an account designated by the Borrower in the Notice of Borrowing.

(d) At any time and from time to time after the Closing Date, subject to the provisions of this Section 2.2(d), the Lender may give the Borrower a notice (a "Mandatory Borrowing or Reduction Notice") requiring the Borrower to either (i) give a Notice of Borrowing for a Loan in an amount equal to the then unused amount of the Commitment, as provided in Section 2.2(a)(i), or (ii) give a notice under Section 3.4 reducing the Commitment, as of the date of such notice, to the amount of Loans then outstanding. If the Borrower does not give either a Notice of Borrowing or a notice reducing the Commitment, as required by this Section 2.2(d), within 30 days of the date of the Mandatory Borrowing or Reduction Notice, the Borrower shall be deemed to have given on such 30th day a notice as described in Section 2.2(d)(ii).

2.3 Repayment of Principal. The Borrower shall repay the Lender the aggregate principal amount of the Outstanding Loans on the Final Date (or such earlier date as is required pursuant to Section 2.6) in accordance with the terms of the Note.

2.4 Payment of Interest.

(a) The Borrower shall pay interest on the unpaid principal amount of each Loan, if any, owing to the Lender from the date of such Loan to the date on which such principal amount shall be paid in full, at a rate equal to the Interest Rate, payable quarterly in arrears on each Payment Date.

(b) Regardless of any provision contained in this Agreement or any other Related Document, in no contingency or event whatsoever shall the aggregate of all amounts deemed interest under this Agreement or the Note and charged or collected pursuant to the terms hereof or thereof exceed the highest rate permissible under Applicable Law. It is the intent of the parties hereof to comply with all Applicable Laws relating to interest and usury and, if the Lender shall inadvertently charge or receive interest hereunder in excess of the highest applicable rate, the Lender shall promptly refund such excess interest to the Borrower and such rate shall automatically be reduced to the maximum rate permitted by Applicable Law.

2.5 Voluntary Prepayment. Subject in each case to the terms of the Intercreditor Agreement, the Borrower may, on 10 day's prior written notice to Lender, prepay all, but not less than all, of the outstanding Loans. The Borrower may not otherwise prepay any Loan without the consent of the Lender, except as required by this Agreement. Any prepayment must be accompanied

by the payment of accrued interest on the amount prepaid to the date of prepayment. Amounts so prepaid shall be applied to the remaining installments due in respect of the Loans in inverse order of maturity.

2.6 Mandatory Prepayment. Subject in each case to the terms of the Intercreditor Agreement:

(a) If Citadel Cinemas exercises the Purchase Option (as defined in the Lease Agreement), the Borrower shall prepay all Obligations in full on the Purchase Option Closing Date (as defined in the Lease Agreement); provided that, if Citadel Cinemas shall fail or refuse to close, then the Borrower shall have no obligation to prepay as herein set forth; and

(b) If the Borrower shall receive and, pursuant to the terms of the Lease Agreement, be entitled to retain any insurance proceeds resulting from damage to any of its Assets (including proceeds of insurance maintained by Citadel Cinemas), or proceeds resulting from any Taking (as defined in the Lease Agreement) or shall receive a payment pursuant to clause (i) of paragraph (c) of Section 19 of the Lease Agreement, the Borrower shall use the full amount of such sums, after payment of any out-of-pocket expenses incurred by the Borrower in connection therewith, to pay (i) first, any outstanding principal amount of the Nationwide Indebtedness, and (ii) second, any outstanding principal amount of the Indebtedness under this Agreement; provided, however, that, with the prior written approval of Nationwide (which it may elect to grant or withheld in its sole discretion), the Borrower may apply all of such sums to prepay the principal Indebtedness outstanding hereunder until paid in full, in which event all such excess shall be applied in reduction of the principal balance of the Nationwide Indebtedness; provided, further, that, if at the time of the Borrower's receipt of any of the aforesaid sums, there is no amount then outstanding hereunder or less than the full amount has been drawn hereunder, the Borrower shall utilize such sums to prepay other Indebtedness (or distribute such sums to its sole Member for such use) or the Nationwide Indebtedness and, to the extent that such sums are applied in reduction of the principal of such other Indebtedness (or so used by such Member), the Commitment hereunder shall be reduced dollar for dollar.

(c) If the Acquisition Cost (as defined in the Lease Agreement) is reduced by the Acquisition Cost Adjustment (as defined in the Lease Agreement) as a result of the termination of the Sub-Management Agreement, then (i) the Commitment shall be reduced by an amount equal to the lesser of the Acquisition Cost Adjustment and the unused Commitment and (ii) if the amount of the reduction under Section 2.6(c)(i) is less than the Acquisition Cost Adjustment, then (A) the Borrower, within 30 days after the date the adjustment for the Acquisition Cost Adjustment is made under the Lease Agreement, shall pay an amount equal to the excess of the Acquisition Cost Adjustment over the amount of the reduction in the Commitment under Section 2.6(c)(i) to be applied to (I) first, any outstanding principal amount of the Nationwide Indebtedness, and (II) second, any

outstanding principal amount of the Indebtedness under this Agreement; provided, however, that, with the prior written approval of Nationwide (which it may elect to grant or withheld in its sole discretion), the Borrower may apply all of such sums to prepay the principal Indebtedness outstanding hereunder until paid in full, in which event all such excess shall be applied in reduction of the principal balance of the Nationwide Indebtedness, and (B) the Commitment shall be reduced by the amount of Loans as so prepaid.

2.7 Note. The Loans shall be evidenced by a single Note payable to the order of the Lender. The amount of each Loan and repayment or prepayment of the principal thereof shall be endorsed by the Lender on the schedule annexed to and constituting a part of the Note, provided that the failure to make or any error in making any such endorsement on such schedule shall not limit or extinguish the obligation of the Borrower to repay such Loan. Such endorsements shall be prima facie evidence of the aggregate unpaid principal amount of all Loans made by the Lender.

2.8 Other Indebtedness. Any amount paid by the Lender or an Affiliate of the Lender to Nationwide under the Intercreditor Agreement, or to any other lender to Borrower under a similar agreement entered into pursuant to the last sentence of Section 7.3, shall be deemed a borrowing by the Borrower and a part of the Loans.

ARTICLE III

PAYMENTS; REDUCTION OF COMMITMENT; EXTENSION

3.1 Manner of Payments. Each payment required to be made by the Borrower under this Agreement and the Note, if any, shall be made by transferring the amount thereof in immediately available funds in Dollars to the Payment Account, no later than 3:00 P.M. (New York City time) on the date on which such payment shall become due. Each such payment shall be made without set-off or counterclaim; provided that no payment by the Borrower to the Lender pursuant to this Section 3.1 shall be deemed a waiver of any rights the Borrower may have against the Lender. Subject to Section 11.16 hereof, each such payment shall also be made free and clear of, and without deduction for, any taxes, duties, levies, imposts or other charges of a similar nature except as required by law and, in the event that any deduction for any taxes, duties, levies, imposts or other charges shall be so required, the Borrower shall pay such additional amounts as may be necessary so that the net amount of the payment hereunder, after reduction by the amount of such taxes, duties, levies, imposts or other charges, is equal to the amount that the Borrower was obligated to pay absent the requirement to deduct such taxes, duties, levies, imposts or other charges. Notwithstanding anything to the contrary contained in the foregoing sentence or elsewhere in this Agreement, in no event shall the Borrower be obligated or responsible for taxes on the overall net income or overall gross receipts of the Lender or franchise taxes of the Lender. Any payment received after 3:00 P.M. (New York City time) on any Business Day shall be deemed to have been received on the next following Business Day. All payments received by the Lender shall be applied first to outstanding Obligations other

than principal, interest and late charges, then to accrued but unpaid late charges, then to accrued but unpaid interest, and then to unpaid principal.

3.2 Extension of Payments. If any payment by the Borrower under this Agreement shall become due on a day which is not a Business Day, the due date thereof shall be extended to the next following day which is a Business Day, and such extension shall be taken into account in computing the amount of interest then due and payable hereunder.

3.3 Computation of Interest. Interest on all Loans payable under this Agreement and the Note shall be computed on the basis of a year of 360 days consisting of 12 months of 30 days each.

3.4 Reduction of Commitment. The Borrower may, upon not less than three Business Days' irrevocable notice (or such shorter period as is provided in Section 2.2(d)), reduce all but not less than all of the unused Commitment to zero. In addition, if the Borrower shall give a Notice of Borrowing but fails to satisfy the conditions to the Loan requested thereby on the date for making of such Loan, other than as provided in the proviso to Section 4.1(i), the Commitment shall be reduced to an amount of the outstanding Loans, if any, effective as of the date such Loan was to have been made. The Borrower may not otherwise reduce the Commitment. At 5:00 P.M. (New York City time) on the one hundred eightieth (180) day following the Termination Date, unless the Commitment Period is extended pursuant to a written notice delivered to the Borrower by the Lender, the Commitment shall be reduced to zero; provided, however, that the foregoing shall not affect the Borrower's rights with respect to any unfunded advance theretofore requested by the Borrower.

ARTICLE IV

CONDITIONS OF LENDING

4.1 Initial Conditions. Notwithstanding any other provision of this Agreement, and without affecting in any manner the rights of the Lender under the other Sections of this Agreement, it is understood and agreed that the Lender will not be obligated to fund the initial Loan unless the Lender has received the following items three (3) Business Days prior to the date of the initial Loan (unless such conditions are waived by the Lender), except with respect to the items described in paragraphs (a), (b), (d), and (g) which shall be delivered on the date hereof:

(a) Standby Credit Facility and Note. A counterpart of this Agreement and of the Note in the form attached hereto as Exhibit A, duly executed and delivered on behalf of the Borrower (including by way of a telecopied signature page, provided that, in the case of the Note, the original thereof is delivered to the Lender on or before the date of the initial Loan);

(b) Borrower's Certificate. A certificate from the Borrower, executed on its behalf by an Operating Manager of the Borrower, certifying that attached thereto are true and complete copies of the certificate of formation (certified by the Secretary of State of the State of New

York) and the Limited Liability Company Agreement and of partnership authorizations of Sutton Hill, the sole member of the Borrower, authorizing the transactions contemplated hereby and the borrowing of the Loans;

(c) Good Standing Certificates. A certificate from the Secretary of State of the State of New York certifying that the Borrower is in existence and in good standing in such state;

(d) Legal Opinion. A legal opinion addressed to the Lender from Whitman Breed Abbott & Morgan LLP, New York counsel to the Borrower, as to the matters set forth in Exhibit C hereto, which opinion the Borrower hereby instructs its counsel to deliver to the Lender for its benefit;

(e) No Default Certificate. A certificate from the Borrower certifying that to its Actual Knowledge (i) the representations and warranties of the Borrower contained in Article V hereof, which are qualified with respect to materiality, are true and correct, and all such representations or warranties that are not so qualified are true and correct in all material respects with the same force and effect as though made on and as of such date, except to the extent that such representations and warranties expressly relate to an earlier date, and (ii) no Event of Default has occurred and is continuing; provided, however, that no such representation or warranty contained in Article V shall be deemed untrue or incorrect nor shall any such Event of Default be deemed to exist if resulting from a Tenant Event.

(f) Collateral. A counterpart of the Security Agreement, duly executed and delivered (including, without limitation, by way of a telecopied signature page) on behalf of the Borrower, a counterpart of the Pledge Agreement, duly executed and delivered (including, without limitation, by way of a telecopied signature page) by the Member, and evidence that (i) all filings or other action necessary to perfect the Lender's security interest in the Collateral have been made, and (ii) the Lien perfected by such filings has priority over any other Liens except as otherwise permitted under Section 7.2 hereof;

(g) Authorized Signatures. A certificate of the Borrower as to the names of the officers or similar officials of the Borrower authorized to sign any documents contemplated by this Agreement and the other Related Documents, together with the true signatures of such officers or similar officials who will sign such documents. The Lender may conclusively rely on such certificates until the Lender receives a further written certificate of the Borrower canceling or amending the prior certificate and submitting the signature(s) of the officers or similar officials named in such subsequent certificate;

(h) Use of Proceeds. A certificate from the Borrower confirming that (i) (x) the proceeds of the initial Loan will be used to discharge all of the Borrower's then-existing Indebtedness (other than under the Nationwide Agreement), that all commitments thereunder have been or will be terminated, and that all Liens relating thereto have been released; (y) such Indebtedness has otherwise been satisfied, with all such commitments terminated and Liens released;

or (z) the Borrower is no longer obligated, or its assets encumbered, with respect thereto; and (ii) once the conditions of clause (i) are satisfied, Loan proceeds will be used for distribution to Sutton Hill;

(i) UCC, etc., Searches. Reports listing the results of UCC filing and tax and judgment Lien searches, prepared by one or more firms reasonably satisfactory to the Lender, with respect to the Borrower and each of its Affiliates which at any time in the past 6 years have been tenant under any of the Site Leases and with respect to Sutton Hill, indicating that there are no such filings or Liens affecting the Collateral except for Permitted Liens; provided, however, that the Lender shall withhold from the pending Loan an amount equal to the amount secured by any such filing or 125% of the amount of any such Lien (unless such Lien is a Permitted Lien), which amount shall be deemed made as and thereafter be an outstanding Loan, until such filing or Lien is resolved (promptly after which time any amount of such withheld Loan not used to satisfy the claim relating to such filing or Lien shall be delivered to Borrower) and the balance of the pending Loan shall be advanced if the other conditions thereto are then satisfied;

(j) Intercreditor Agreement. Counterparts of the Intercreditor Agreement, duly executed and delivered (including, without limitation, by way of a telecopied signature page) on behalf of the Borrower and Nationwide. The Lender agrees to execute and deliver the Intercreditor Agreement, provided the other conditions herein are satisfied; and

(k) Nationwide Agreement. The Nationwide Agreement shall not have been amended or modified in any respect, other than amendments or modifications which would not have required consent of the Lender under Section 2.10(c) of the Intercreditor Agreement had the Intercreditor Agreement been entered into on the date of this Agreement.

4.2 Continuing Conditions. The agreement of the Lender to make each Loan requested to be made by it on any date (including the initial Loan) is subject to the satisfaction of the following conditions precedent:

(a) Notice of Borrowing. The Lender shall have received a duly completed and executed Notice of Borrowing, as required by Section 2.2 hereof;

(b) Certificate. The Lender shall have received a certificate of the type described in clause (e) of Section 4.1 hereof, subject to the same proviso as therein set forth;

(c) Use of Loan Proceeds. The Lender shall receive a certificate from the Borrower as to Borrower's use of proceeds of the requested advance of the Loan in accordance with clause (h) of Section 4.1 hereof; and

(d) UCC, etc., Searches. The Lender shall have received an updated search of the type described in clause (i) of Section 4.1 hereof (and the amount of the Loan shall be

reduced, but the balance thereof made available to the Borrower, as described in the proviso thereto).

(e) Cotter/Forman Guaranty. If such Loan is being made on or before the second (2nd) anniversary of the Closing Date as a result of a Mandatory Borrowing or Reduction Notice and, in such Mandatory Borrowing Notice, the Lender states that (i) it will obtain all or a part of the funds for such Loan by the Lender or an Affiliate, or any of them (such party or party being the "Citadel Borrower"), borrowing funds from a person or persons other than an Affiliate of the Lender (the "Third Party Lender") and (ii) it requests delivery of the guaranty provided for in this Section 4.2(e), the Third Party Lender shall have received a guaranty by James J. Cotter and Michael R. Forman, jointly and severally, of the obligations of the Citadel Borrower to the Third Party Lender, in such form and containing such terms as such Third Party Lender may reasonably request (and, without limiting the foregoing, the Lender may assign or grant a security interest in the Note and the Pledge Agreement and Security Agreement, or any of them, to any Third Party Lender); provided, that (v) such guaranty shall be on customary terms for similar guaranties and shall provide that it shall terminate on, and be of no effect with respect to any claim made thereon after, the seventh (7th) anniversary of the Closing Date, (w) Messrs. Cotter and Forman shall not be required to provide such guaranty unless, simultaneously therewith, the Lender provides to them an indemnity agreement, in form reasonably satisfactory to them, pursuant to which the Lender agrees to indemnify such guarantors against any liability (including reasonable attorneys fees and other costs) they may incur by reason of such guaranty, (x) Messrs. Cotter and Forman shall have no obligation to provide any security or collateral for such guaranty, (y) Messrs. Cotter and Forman shall have no obligation to provide such guaranty (A) unless the loan obtained by the Citadel Borrower is obtained solely for the purpose of providing funds to make Loans under this Agreement or (B) if any collateral is provided for such loan other than any one or more of the Note, the Pledge Agreement, the Security Agreement, the Lease Agreement, the License of Intangibles, those certain management agreements assigned to the Lender or an Affiliate by the Borrower or entered into between the Lender or an Affiliate, on the one hand, and the Borrower or an Affiliate, on the other, the other assets and contract rights obtained or entered into by the Lender and its Affiliates in connection with the foregoing, and the other assets, contract rights, and other intangibles obtained by the Lender and its Affiliates in connection with the leasing or operation of the Theatre Properties and the management of the theatres managed under the management agreements referred to in this clause (B) and (z) the Lender shall pay or reimburse Messrs. Cotter and Forman for all reasonable legal fees and other out of pocket expenses incurred by them in connection with such guaranty.

On the date of each Loan, the Borrower shall be deemed to have represented that all of the conditions to the making of such Loan have been satisfied.

4.3 No Waiver of Conditions. If any one or more of the foregoing conditions set forth in Section 4.1 or 4.2 hereof are not satisfied at the time when a Loan is to be advanced by the Lender

and the Lender nevertheless (whether with or without knowledge of the failure of any such condition to be satisfied) funds the then pending Loan to the Borrower, the making of such Loan shall not operate as a waiver of any such condition.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to enter into this Agreement and to make the Loans, if any, hereunder, the Borrower hereby represents and warrants to the Lender that the following statements are true and correct as of the Closing Date and that the statement set forth in Sections 5.1, 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9, 5.10, 5.11, 5.12, 5.13, 5.14 are true as of the date hereof:

5.1 Status. The Borrower (a) is a duly organized and validly existing limited liability company in good standing under the laws of the State of New York, (b) is duly licensed or qualified to do business in each other jurisdiction where the failure to be so licensed or qualified could have a Material Adverse Effect, (c) has all requisite power and authority to own or lease its properties and conduct its business as presently conducted and to execute and deliver, and to perform its obligations under, this Agreement and the other Related Documents to which it is (or may become) a party, except where the failure to have such power or authority would not materially impair the ability of the Borrower to perform its obligations under this Agreement and the other Related Documents, and (d) has delivered to the Lender true and complete copies of the Borrower's certificate of formation and Limited Liability Company Agreement, as each is in effect on the Closing Date.

5.2 Litigation. Except as listed in Schedule 5.2, to the Actual Knowledge of the Borrower, the Borrower has not received written notice of any:

(a) judgment at law or in equity issued by any court, governmental body, agency, commission or other tribunal against the Borrower that (i) questions the validity of this Agreement or any of the other Related Documents to which it is (or may become) a party or the Liens purported to be created thereby and (ii) is not related to any action or inaction of, or any condition or event relating to, the Lender or any of its Affiliates, or

(b) action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal pending against, nor, to the Borrower's Actual Knowledge, threatened in writing against, the Borrower by Nationwide or any of its Affiliates or, as of the date of this Agreement, any other Person (other than Lender or any of its Affiliates) that, if adversely determined against the Borrower, could be reasonably expected to question the validity of this Agreement or any of the other Related Documents to which it is (or may become) a party or the Liens purported to be created thereby.

5.3 Compliance with Other Instruments. The execution, delivery and performance by the Borrower of this Agreement and the other Related Documents to which it is (or may become) a party will not (a) as of the date hereof or the date such other Related Document is executed, conflict with, result in a breach of, or constitute a default under, any terms or provisions of any material Contract to which the Borrower is a party or to which it or any material portion of its Assets is subject (including its interest in the Site Leases and the Option Agreement) or any Applicable Law (provided compliance with such Contract or Applicable Law is not the obligation of Citadel Cinemas or any of its Affiliates under the Operational Agreements), or the Borrower's certificate of formation or Limited Liability Company Agreement or (b) result in, or require the creation or imposition of, any Lien upon or with respect to the Assets except as may be contemplated hereby or by the Related Documents, which, in the case of this clause (b) would have, in the aggregate, a Material Adverse Effect.

5.4 Binding Agreement. The execution, delivery and performance by the Borrower of this Agreement and the other Related Documents to which the Borrower is (or may become) a party have been duly authorized by all necessary action by or on behalf of the Borrower. This Agreement constitutes, and such other Related Documents, if and when executed and delivered by or on behalf of the Borrower, will constitute, legal, valid and binding obligations of the Borrower, enforceable according to their terms, subject, as to enforceability, to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

5.5 Authorizations. To the Borrower's Actual Knowledge, all authorizations, consents, approvals, registrations, filings, exemptions and licenses with or from any governmental or regulatory authorities which are necessary for the borrowings hereunder, for the execution and delivery by the Borrower of this Agreement or any other Related Document to which the Borrower is (or may become) a party, or for the performance by the Borrower of its obligations hereunder or thereunder, except for such authorizations, consents, approvals, registrations, filings, exemptions and licenses which are required to be effected or obtained by Citadel Cinemas or any of its Affiliates pursuant to the terms of the Operational Agreements or Applicable Law or the absence of which would not, in the aggregate, have a Material Adverse Effect, have been effected and obtained and, so long as may be required for the Borrower to comply with this Agreement or any other Related Document, are in full force and effect.

5.6 Regulation. The Borrower is not principally engaged in, nor does it have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System).

5.7 Title to Property; Liens. The Borrower has good title to the Borrower Collateral and is the sole legal owner thereof. The Borrower Collateral is free and clear of any Liens, except as permitted pursuant to Section 7.2 hereof and Liens arising as a result of any Tenant Event.

5.8 Taxes. The Borrower has filed, or caused to be filed, all required tax returns with respect to Taxes, or has filed for extensions of time for the filing thereof, and has paid all applicable Taxes other than Taxes not yet due or which may be paid hereafter without penalty, except for (a) filings or payments as to which the failure to file would not have a Material Adverse Effect, (b) Taxes which are being Properly Contested by the Borrower, and (c) Taxes which are required to be paid or discharged by Citadel Cinemas or any of its Affiliates under the terms of the Operational Agreements. The Borrower has no Actual Knowledge of any deficiency or additional assessment in connection therewith not provided for in the financial statements heretofore furnished the Lender except such deficiencies or assessments that would not have a Material Adverse Effect.

5.9 Pension Plans. The Borrower has not established and does not maintain or contribute to any employee benefit plan that is covered by Title IV of ERISA.

5.10 Collateral. Once executed and delivered, the terms of the Pledge Agreement shall create a valid security interest in the Equity Collateral, securing the payment of the Obligations. Once executed and delivered, the terms of the Security Agreement shall create a valid security interest in all material elements of the Borrower Collateral (taken as a whole), securing payment of the Obligations. On or prior to the date of the initial Loan, all action necessary to perfect such security interests will have been taken and such security interests will have priority over any other Lien on such Collateral, except for Liens permitted by Section 7.2 hereof.

5.11 Location of Borrower. On the date hereof, the Borrower is "located" (as that term is defined in Section 9-103(3)(d) of the UCC) at 120 North Robertson Boulevard, Los Angeles, California 90048.

5.12 Investment Company Act. The Borrower is not, nor will it be during the term of this Agreement, (a) an "investment company," within the meaning of the Investment Company Act of 1940, as amended or (b) subject to regulation under any foreign, federal or local statute or any other Applicable Law of the United States of America or any other jurisdiction, in each case limiting its ability to incur indebtedness for money borrowed as contemplated hereby or by any of the other Related Documents.

5.13 Membership Interests; Management. The only member of the Borrower is Sutton Hill, its successors and assigns. As of the date hereof, James J. Cotter is an Operating Manager of the Borrower.

5.14 Brokerage Fees, etc. There are no claims against the Borrower for brokerage commissions, finder's fees or investment banking fees in connection with the transactions contemplated by this Agreement.

5.15 Financial Statements. The financial statements of the Borrower furnished to the Lender fairly present the financial position of the Borrower as of the date of this Agreement and have been prepared in conformity with tax accounting principles used by the Borrower for its federal tax reporting purposes.

5.16 Name. The Borrower has not changed its name prior to the date hereof.

5.17 Indebtedness; Other Agreements. On or prior to the date hereof, the Borrower has not (a) created, assumed or incurred any Indebtedness except the existing Indebtedness listed on Schedule 5.17 hereto and the Nationwide Indebtedness, (b) entered into any Contract other than (i) the Related Documents to which it is a party, and (ii) Contracts incidental to the performance of its obligations under the Operational Agreements, or (c) conducted any business other than incidental to its formation, its acquisition of the Property and related Assets from its Affiliates, and the transactions contemplated hereby and by the Operational Agreements. The Borrower has no material obligations other than under this Agreement and the documents and instruments referred to in clauses (a) and (b) of this Section 5.17. The Borrower has delivered to the Lender true and complete copies of all material documents and instruments relating to all such Indebtedness (including the Nationwide Indebtedness) and all material Contracts referred to in clause (b) (ii) of this Section 5.17 (other than the Operational Agreements).

5.18 No Subsidiaries. The Borrower has no Subsidiaries and owns no interest in any other Person.

ARTICLE VI

AFFIRMATIVE COVENANTS

The Borrower hereby covenants and agrees that from the date hereof until the Obligations have been paid and performed in full and this Agreement shall have terminated, unless the Lender shall otherwise consent in writing:

6.1 Payment of Taxes. The Borrower will duly pay and discharge, or cause to be paid and discharged, all Taxes, and governmental charges or levies imposed upon it or upon its income or Assets, prior to the date on which penalties attach thereto, except to the extent that (a) the nonpayment of such Tax, charge or levy would not, either singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (b) any such Tax, charge or levy is being Properly Contested or (c) such Tax, charge or levy is required to be paid or discharged by Citadel Cinemas or any of its Affiliates under the terms of the Operational Agreements. The Borrower will file all federal, state and local Tax returns and other reports which the Borrower is required by Applicable Law to file.

6.2 Preservation of Existence. The Borrower will preserve and maintain its existence, rights, franchises and privileges, except such rights, franchises and privileges the loss of which would not reasonably be expected to have a Material Adverse Effect, and shall maintain its qualification and good standing in the State of New York and in all other states in which the failure to be qualified might reasonably be expected to have a Material Adverse Effect.

6.3 Compliance with Laws. The Borrower will comply with the requirements of all Applicable Laws, except if (a) non-compliance, singly or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, (b) the compliance with which is being Properly Contested by the Borrower or (c) the compliance with such laws is the responsibility of Citadel Cinemas or any of its Affiliates under the Operational Agreements.

6.4 Keeping of Books and Records; Inspection. The Borrower will maintain, or cause to be maintained, at all times a system of accounting used for federal income tax purposes. Upon reasonable notice from the Lender, the Borrower will permit the Lender or any duly authorized representatives to have access to and examine and inspect the books and records and properties of the Borrower and confer with its agents and employees at any reasonable time and from time to time and reasonably to copy memoranda and extracts therefrom.

6.5 Notice of Certain Events. The Borrower will promptly upon obtaining Actual Knowledge thereof notify the Lender of (a) the occurrence of any Event of Default of which it has Actual Knowledge, (b) the service upon, or other actual receipt by, the Borrower of written notice of the commencement of any litigation or governmental proceeding affecting the Borrower or any of its Assets which, if adversely determined, could reasonably be expected to result in a Material Adverse

Effect, (c) any material adverse change in the condition or operations of the Borrower, financial or otherwise unless resulting from a Tenant Event, (d) the receipt by the Borrower of written notice of the occurrence of any action or event which might reasonably be expected to have a Material Adverse Effect, (e) any change in its name, (f) any proposed amendment requested in writing to any Site Lease or the Option Agreement which is not requested or consented to by Citadel Cinemas or Fee Sub, as the case may be, or (g) any Person giving any written notice to the Borrower or taking any other material action with respect to a claimed default or event or condition of the type referred to in paragraph (e) of Section 9.1 hereof. The Borrower shall promptly give notice thereof to the Lender specifying the nature and period of existence of any such condition or event, or specifying the notice given or action taken and the nature of such claimed Event of Default or condition and what action the Borrower has taken, is taking and proposes to take with respect thereto.

6.6 Financial Statements and Other Information. The Borrower will deliver, or cause to be delivered, to the Lender:

(a) as soon as available and in any event within one hundred twenty (120) days after the end of each of its fiscal years, a balance sheet of the Borrower at the end of such year and statements of operations and statements of changes in member's capital and statements of cash flows of the Borrower for such year, setting forth in each (other than its first) fiscal year in comparative form the figures for the previous year;

(b) from and after the date the initial Loan is made, and simultaneously with the delivery of each set of financial statements referred to in clause (a) of this Section 6.6, a certificate of the Borrower stating, to its Actual Knowledge, whether there exists on the date of such certificate any Event of Default, and if any Event of Default exists, specifying the nature and period of existence thereof and the action the Borrower is taking and proposes to take with respect thereto; and

(c) from and after the date the initial Loan is made, and from time to time thereafter, such additional information regarding the financial condition or business of the Borrower as the Lender may reasonably request.

All such financial statements shall be complete and correct in all material respects and shall be prepared in accordance with tax accounting principles used by the Borrower for its federal tax reporting purposes applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officers, as the case may be, and disclosed therein).

6.7 Maintenance of Property. The Borrower will maintain its Assets in good condition, except to the extent Citadel Cinemas or any of its Affiliates has assumed such responsibility pursuant to the terms of the Operational Agreements.

6.8 Use of Proceeds. The Borrower will use the proceeds of each Loan, if any, solely for the purposes described in clause (h) of Section 4.1 hereof.

6.9 Separate Existence. The Borrower shall continue to observe and maintain the requisite legal formalities in order that the Borrower may be treated as a legally separate entity. The Borrower shall maintain separate financial records to reflect its Assets and liabilities, separate and apart from the financial records of its Member and its Affiliates. The Borrower shall maintain its Assets in such a manner that it is not costly or difficult to segregate, identify or ascertain such Assets. The Borrower shall conduct business in its own name, and use separate stationery, invoices and checks. The Borrower shall not commingle its Assets or funds with those of any other Person and shall correct any known misunderstanding as to its separate identity.

ARTICLE VII

NEGATIVE COVENANTS

The Borrower hereby covenants and agrees that from the date hereof until the Obligations have been paid and performed in full and this Agreement shall have terminated, unless the Lender shall otherwise consent in writing:

7.1 Change in Nature of Business. The Borrower will not (a) enter into any business other than the business contemplated by the Lease Agreement or (b) become subject to or a party to any Contract, without the written consent of the Lender, other than this Agreement, the other Related Documents to which the Borrower is (or may become) a party, Contracts incidental to the performance of its obligations under the Operational Agreements and this Agreement, and extensions, renewals and replacements of the Nationwide Indebtedness, the other Indebtedness listed on Schedule 5.17 hereto and Indebtedness arising or permitted pursuant to the terms hereof.

7.2 Liens. The Borrower will not create, incur, assume or permit to exist any Lien on any of its Assets or any portion thereof, whether now owned or hereafter acquired, other than as follows (each a "Permitted Lien"): (a) Liens in favor of the Lender (or for the benefit of the Lender) under this Agreement and the other Related Documents; (b) existing Liens, and other matters affecting title, listed on Schedule 7.2 hereto; (c) Liens for Taxes and governmental charges and levies not delinquent, which are being Properly Contested or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to the Operational Agreements; (d) mechanics', workers', materialmen's, warehousemen's, operators', carriers', or other like Liens arising in the ordinary and normal course of business with respect to obligations which are not overdue for a period of more than thirty (30) days or which are being Properly Contested by the Borrower; (e) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation; (f) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary and normal course of the Borrower's business;

(g) extensions, renewals and replacements of Liens described in paragraph (b) hereof, provided that such extension, renewal or replacement Lien is limited to the property covered by the Lien so extended, renewed or replaced and does not secure any Indebtedness or amount that is in excess of that secured immediately prior to such extension or renewal; (h) easements, rights-of-way, restrictions, imperfections in title, liens, charges and other encumbrances on owned or leased real property, landlord's and lessor's Liens under any of the Site Leases, restrictions under federal and state securities laws on the transfer of securities and other restrictions not securing Indebtedness that are incurred in the ordinary and normal course of business, all of which (other than landlord's or lessor's Liens under the Site Leases), in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or will not have a Material Adverse Effect; (i) Liens created by the Nationwide Agreement (subject to Section 7.3 hereof) or Liens to secure Indebtedness permitted to exist pursuant to Section 7.3 hereof; (j) Liens not created by the Borrower, Citadel Cinemas or any of its Affiliates which are being Properly Contested; and (k) Liens placed on the Assets of the Borrower by, or arising from, a Tenant Event, whether or not such Liens are permitted to exist pursuant to the terms of the Operational Agreements; provided, however, that the fact that a Lien described in any of foregoing clauses other than clause (k) above is a Permitted Lien for purposes of this Agreement does not affect Citadel Cinemas' rights or the Borrower's obligations as landlord pursuant to the Lease Agreement if Citadel Cinemas properly exercises its Purchase Option thereunder; provided, further, however, that the Liens described in paragraphs (d), (e) and (f) shall only constitute Permitted Liens in the event that Citadel Cinemas or any of its Affiliates either has requested that the Borrower allow such Liens to be incurred or permitted to exist on the Borrower's Assets or has failed to perform any obligation under any of the Operational Agreements and as a result thereof, the Borrower, in its reasonable discretion, creates, incurs, assumes or permits to exist such Liens.

7.3 Other Indebtedness. The Borrower will not create, assume, incur or permit to exist or otherwise become or remain liable in respect of any Indebtedness other than (a) Indebtedness pursuant to the Related Documents; (b) the existing Indebtedness listed on Schedule 5.17 hereto; (c) the Nationwide Indebtedness; (d) prior to drawing down a Loan hereunder, any other Indebtedness (but any such other Indebtedness shall be repaid with proceeds of the initial Loan hereunder); and (e) extensions, renewals and replacements of the Indebtedness described in clauses (a), (b), (c), and (d) above; provided, however, that the Borrower may only incur or permit to exist such extensions, renewals, or replacements, or any Indebtedness described in clause (b) or (d) which is secured by a Lien on any material Assets of the Borrower, if each lender of any portion of such Indebtedness (excluding for this purpose Nationwide and the Lender and any of its Affiliates) shall have executed and delivered agreements (x) with Citadel Cinemas and Fee Sub which in Citadel Cinemas' reasonable judgment will assure to Citadel Cinemas its rights under the Lease Agreement (including the Purchase Option), absent the existence of an Event of Default by Citadel Cinemas under the Lease Agreement, and assure to Fee Sub its rights under the Fee Option Agreement and (y) in the case of such Indebtedness referred to in clause (b) only, with the Lender, in form and substance reasonably satisfactory to the Lender, providing to the Lender substantially the same rights as the Lender has under Sections 2.02(e), 2.03, 2.08(b), 2.10(c), 2.11(g), 2.11(h)(i), 2.11(h)(iii), 2.12 and 2.13 of the Intercreditor Agreement (except that the Borrower shall have complied with its obligation

in respect of this clause (y) to obtain an agreement of such other lender as aforesaid if such other lender has offered to enter into such an agreement provided the Lender hereunder agrees in such agreement to provisions in favor of such other lender similar to those set forth in Sections 2.02(e), 2.12 and 2.13(a) of the Intercreditor Agreement and, if such other lender is then providing financing to replace the Nationwide Indebtedness, Sections 2.02(a), (b) and (d), 2.04, 2.09(a), 2.10(b) and 2.11(f) thereof). Notwithstanding anything to the contrary herein, in no event will the Borrower create, assume, incur or permit to exist or otherwise become or remain liable in respect of any Indebtedness if, as a result thereof, (x) the outstanding principal amount of such Indebtedness under the Nationwide Agreement would exceed eleven million Dollars (\$11,000,000), or (y) the total outstanding principal amount of such Indebtedness, including the Indebtedness under this Agreement, would exceed twenty nine million Dollars (\$29,000,000) less any reductions made to the Acquisition Cost under the Lease (subject to the provisions of Section 2.6(c) as to the time period within which to reduce such Indebtedness if there is any Indebtedness outstanding hereunder).

7.4 Consolidations, Mergers, etc. The Borrower will not merge with or into, or consolidate with, any other Person.

7.5 Pension Plans. The Borrower will not establish or become party to any employee benefit plan of the type referred to in Section 5.9 hereof.

7.6 Location of Borrower. The Borrower will not maintain its chief executive office at any place other than the place specified in Section 5.11 hereof or change the places where the books and records of the Borrower are located unless the Borrower shall have given the Lender not less than thirty (30) days' prior written notice of such change in location, which shall be within the United States.

7.7 Sale, Lease, etc. The Borrower will not sell, lease, license, transfer, liquidate or otherwise dispose of any of its Assets, to or in favor of any Person without the prior written consent of the Lender.

7.8 Fiscal Year. The Borrower will not change its fiscal year.

7.9 Liquidation, Dissolution, etc. The Borrower will not liquidate, wind up its affairs or dissolve itself.

7.10 Loans. The Borrower will not acquire obligations of or securities of or make any loans or advances to any Person.

7.11 Change of Ownership or Management. The Borrower will not permit anyone other than the Persons specified in Section 5.13 to own beneficially or of record any of the membership interests of the Borrower without the prior written consent of the Lender, which consent shall not be unreasonably withheld or delayed. The Borrower will not, during the shorter of the four year period commencing on the date hereof or the period from the date hereof until James J. Cotter shall cease to

be active in the business of the Borrower other than by involuntary replacement, terminate as an Operating Manager James J. Cotter.

7.12 Dividends. The Borrower will not declare or pay any dividend in respect of, or make any distribution in respect of, or redemption or purchase of, any of its membership interests; provided, however, that so long as no Event of Default has occurred and is continuing or would result therefrom, the Borrower may make distributions or returns of capital to its Member in respect of any fiscal quarter of the Borrower, provided that the aggregate amount of distributions so paid would not render the Borrower insolvent within the meaning of Section 101(32) (A) of the Bankruptcy Code, provided, however, that a "fair valuation" (as defined in that Section) of the Assets (less cash held by the Borrower) shall in no event be valued at less than \$32,500,000.

7.13 Prohibition of Amendments or Waivers. The Borrower will not amend, alter, modify, or waive, or consent to any amendment, alteration, modification or waiver of: the Borrower's certificate of formation, the Limited Liability Company Agreement, any Site Lease or the Option Agreement, except to effect administrative changes that could not adversely affect the interests of the Lender or Citadel Cinemas or, in the case of Site Lease or the Option Agreement, are incidental to performance of its obligations under the Operational Agreements, provided that the Borrower shall provide written notice to the Lender of any such change promptly, and in any event not more than five (5) Business Days after such change is effective; or any Contract (including those referred to above) if such amendment, alteration, modification or waiver might have a Material Adverse Effect.

7.14 Subsidiaries. The Borrower will not create or acquire any Subsidiaries.

ARTICLE VIII

TERMS OF SUBORDINATION

8.1 Subordination of Indebtedness. The Indebtedness of the Borrower to the Lender pursuant hereto and the Liens on the Collateral in favor of the Lender are subject and subordinate to Indebtedness of the Borrower to Nationwide and the Liens on the Collateral in favor of Nationwide as more particularly described in and subject to the terms and conditions of the Intercreditor Agreement.

ARTICLE IX

EVENTS OF DEFAULT

9.1 Events of Default. If any one or more of the following events or conditions (herein called "Events of Default") shall occur and be continuing (each of which shall be deemed to exist and be continuing unless and until cured by the Borrower, or waived by the Lender, in its sole and absolute discretion), the Lender shall be entitled to exercise the remedies set forth in Section 9.2 hereof:

(a) Failure of the Borrower to pay (i) any installment of principal owing on any Loan, as and when due and payable, whether by reason of maturity, mandatory prepayment, acceleration or otherwise, or (ii) any installment of interest or any other amount payable to the Lender hereunder or under any other Related Document to which the Borrower is a party within ten (10) Business Days after receipt of notice from the Lender that the payment thereof is due; provided, however, that no such failure described in clause (i) or (ii) shall constitute an Event of Default hereunder for any purpose to the extent arising from (x) a failure by Citadel Cinemas to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) as and when due thereunder or (y) the use by the Borrower of such cash or cash equivalents or other reasonably liquid assets to perform any obligations which Citadel Cinemas has failed to perform under any of the Operational Agreements; or

(b) Any representation or warranty made by the Borrower in this Agreement, any other Related Document to which it is a party or any certificate, financial statement or other document delivered pursuant hereto or thereto proves to be false or inaccurate in any material respect when made or delivered unless each of the following conditions shall exist: (i) such representation or warranty is of a nature that it is capable of being cured within thirty (30) days after written notice shall have been given to the Borrower by the Lender specifying the falsity or inaccuracy of such representation or warranty, (ii) the Borrower shall have given such notice promptly after having obtained Actual Knowledge of such falsity or inaccuracy, (iii) the Borrower shall have diligently commenced curing such default and is proceeding diligently and in good faith to cure such false or inaccurate representation or warranty within such thirty (30) day period, and (iv) such false or inaccurate representation has not resulted in a Material Adverse Effect; or

(c) Default on the part of the Borrower in the due performance or observance of any covenant or obligation contained in Section 6.5 or 6.8 or Article VII hereof, provided, however, in the event such default occurs prior to the commencement of the Commitment Period (or, if earlier, the making of a Loan), such default shall not constitute an Event of Default hereunder unless such default continues for thirty (30) days after written notice from the Lender; or

(d) Default on the part of the Borrower in the due performance or observance of any other covenant or obligation of the Borrower contained herein, and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice to the Lender by the Borrower; provided that, if such default is of a nature that it is capable of being cured but not within such thirty (30) day period and the Borrower shall have proceeded diligently and in good faith to complete curing such default, such thirty (30) day period shall be extended to one hundred eighty (180) days; or

(e) (i) The entry of a decree or order for relief in respect of the Borrower by a court having jurisdiction in the premises, or the appointment of a receiver, liquidator,

assignee, custodian, trustee, sequestrator (or other similar official) of the Borrower or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against the Borrower of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, and the continuance of any such case unstayed and in effect for a period of sixty (60) consecutive days; or

(ii) The commencement by the Borrower of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Borrower or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the failure of the Borrower generally to pay its debts as such debts become due, or the taking of any action in furtherance of any of the foregoing; provided, however, that, if any of the events described in clauses (i) and (ii) of this paragraph (e) shall arise as a result of a Tenant Event, such event shall not constitute an Event of Default for purposes hereof; or

(f) Any of the Equity Collateral or any material portion of the Borrower Collateral (taken as a whole) shall be attached for execution or become subject to the order of any court or any other process for execution and attachment and such attachment, order or process shall remain in effect and undischarged for sixty (60) consecutive days and is not related to or does not arise from or by reason of a Tenant Event; or

(g) One or more final judgments for the payment of money shall be rendered against the Borrower in an aggregate amount in excess of \$500,000 (against which the Borrower is uninsured or which is not the obligation of Citadel Cinemas or any of its Affiliates pursuant to the Operational Agreements) and the same shall remain undischarged for a period of sixty (60) days during which execution of such judgment shall not be effectively stayed; or

(g) Sale, lease or encumbrance of any of the Equity Collateral, or, except as permitted pursuant to the Security Agreement (whether or not then in effect), any material portion of the Borrower Collateral (taken as a whole), or the making of any levy, seizure or attachment of or on the Equity Collateral or any material portion of the Borrower Collateral (taken as a whole) except in all cases described in this paragraph (h) as may be specifically permitted by other provisions of this Agreement or any Related Document or pursuant to any of the Operational Agreements; or

(h) (i) The Borrower shall default in the payment when due of any principal of or premium (if any) or interest on any Nationwide Indebtedness and such default shall continue beyond any applicable grace period, or shall fail to observe or perform any terms of any instrument pursuant to which any such Nationwide Indebtedness was created or of any mortgage, indenture or other agreement relating thereto if the effect of such failure is to cause the acceleration of such Indebtedness, or permit Nationwide to accelerate the maturity thereof, and such Nationwide failure shall not have been waived in writing pursuant thereto; or

(ii) The Borrower shall default in the payment when due of any principal of or premium (if any) or interest on any other Indebtedness and such default shall continue beyond any applicable grace period, or shall fail to observe or perform any terms of any instrument pursuant to which any such other Indebtedness was created or of any mortgage, indenture or other agreement relating thereto if the effect of such failure is to cause the acceleration of such Indebtedness and such failure shall not have been waived pursuant thereto; provided, however, that no such failure to pay by the Borrower shall constitute an Event of Default hereunder to the extent arising from (x) a failure by Citadel Cinemas to pay any amount of Basic Rent or Additional Rent as and when due pursuant to the Lease Agreement or (y) the use by the Borrower of such cash or cash equivalents or other reasonably liquid assets to perform any obligations which Citadel Cinemas has failed to perform under any of the Operational Agreements; or

(i) The representation contained in Section 5.10 hereof shall at any time become untrue as relates to the Equity Collateral or any material element or portion of the Borrower Collateral (taken as a whole) and the Borrower fails to cure such condition within ten (10) days after written notice by the Lender that such a condition exists; or

(j) (i) Any Related Document shall, for any reason, be declared to be null and void or shall not give or shall cease to give the Lender the Liens or the material rights, powers and privileges purported to be created thereby in favor of the Lender as relates to the Equity Collateral, or to any material element or portion of the Borrower Collateral (taken as a whole), superior to and prior to the rights of all third Persons and subject to no other Liens (except to the extent expressly permitted herein or therein), provided, however, if any of the events described in this clause (i) of this paragraph (k) shall arise as a result of a Tenant Event, such an event shall not constitute an Event of Default hereunder, or (ii) the validity or enforceability of the Liens granted, to be granted, or purported to be granted, by this Agreement or the other Related Documents shall be contested by the Borrower or any of its Affiliates; or

(k) Any Site Lease or the Option Agreement shall be declared to be null and void or shall not give or shall cease to give the Borrower the material rights, powers and privileges purported to be created thereby, solely as a result of any action or inaction by the Borrower or an event or condition relating solely to the Borrower; or

(l) The Lease Agreement shall be declared to be null and void or shall not give or shall cease to give Citadel Cinemas the material rights, powers and privileges purported to be created thereby, solely as a result of any action or inaction by the Borrower or any event or condition relating solely to Borrower; or

(m) Any material representation or warranty made by either Indemnity Guarantor in his Indemnity Guarantee proves to be false or inaccurate in any material respect; or

(n) (i) The Indemnity Guarantee ceases to be in full force and effect; or

(ii) A default occurs and continues after the expiration of any applicable grace period under the Indemnity Guarantee such that the ability of the Lender to realize thereon is materially compromised.

9.2 Default Remedies. (a) If any Event of Default (other than Events of Default specified in paragraph (e) of Section 9.1 hereof) shall occur and be continuing, then and in every such event, and at any time thereafter during the continuance of such Event of Default, the Lender may by written notice to the Borrower declare the Obligations to be forthwith due and payable, whereupon (i) the Commitment shall immediately reduce to zero and (ii) the Obligations shall become forthwith due and payable both as to principal and interest together with all other amounts payable by the Borrower under this Agreement which may be due or accrued and unpaid, without presentment, demand, protest or any other notice of any kind, all of which are expressly waived. Notwithstanding anything in the preceding sentence to the contrary, if an Event of Default occurs prior to the advance of the initial Loan and the Lender elects to reduce the Commitment to zero, then if the Borrower cures such Event of Default before the Termination Date, the rights of the parties hereto shall be reinstated as if the Event of Default never occurred.

(b) In addition, if an Event of Default occurs following the date of the initial Loan but prior to the Termination Date, then if the Borrower cures such Event of Default prior to the earlier of (i) the completion of the sale of any Collateral pursuant to the Pledge Agreement or the Security Agreement and (ii) the Termination Date, then the rights of the parties hereto shall be reinstated as if the Event of Default never occurred, provided that the Borrower has made good any missed payments.

(c) If an Event of Default set forth in paragraph (e) of Section 9.1 hereof shall occur with respect to the Borrower, then without any notice to the Borrower or any other act by the Lender or any other Person (i) the Commitment shall be immediately reduced to zero, and (ii) the Obligations shall become forthwith due and payable, all without presentment, demand, protest or notice of any kind, all of which are expressly waived.

(d) If the Lender shall declare the Obligations to be forthwith due and payable pursuant to the terms of this Section 9.2, the Lender may, subject in all cases to the terms of the Intercreditor

Agreement, enforce its rights hereunder and under any other instrument or agreement delivered in connection herewith and take any other action to which it is entitled hereunder, thereunder, or by law, whether for the specific performance of any covenant or agreement contained in this Agreement, in any such instrument or agreement or to enforce payment as provided herein, therein, or by law, and, in such event, the Lender shall be entitled to receive from the Borrower, in addition to all other amounts provided for herein, all costs, expenses and fees reasonably incurred by the Lender, including reasonable attorneys fees and disbursements.

(e) The Lender shall endeavor to give the Borrower notice within 30 days of the Lender becoming aware of any Event or Default (or event which, with notice or passage of time or both, would become an Event of Default), provided that (i) if Lender fails to give such notice within five Business Days of obtaining knowledge of such default (which shall not include knowledge of James J. Cotter), and Borrower does not otherwise have knowledge of such default on or before such fifth Business Day, then any period provided herein for Borrower to cure such default shall be extended by the number of days in the period from such fifth Business day to the date on which Borrower obtains Actual Knowledge of such default (whether by notice from Lender or otherwise) and (ii) failure to give such notice shall not act as a waiver of or prejudice any rights or remedies of the Lender, except as specifically provided in Section 9.2(e)(i).

9.3 Setoff. The Lender is hereby authorized at any time and from time to time, upon the occurrence and during the continuance of any Event of Default, without prior notice to the Borrower, to the fullest extent permitted by law, to set-off and apply any and all balances, credits, deposits (general or special, time or demand, provisional or final), accounts or monies at any time held and other indebtedness at any time owing by the Lender or any Affiliate to or for the account of the Borrower against any and all of the amounts owing by the Borrower under this Agreement or the Related Documents to which it is a party, whether or not the Lender shall have made any demand hereunder or thereunder; provided, however, that no setoff will be made by any Affiliate of the Lender unless and until such Affiliate has provided not less than five (5) Business Days' notice to the Borrower of such anticipated action. The rights of the Lender under this Section 9.3 are in addition to, and do not derogate from or impair, other rights and remedies (including, without limitation, other rights of setoff) which the Lender may have.

9.4 Default Interest. Notwithstanding any other provision of this Agreement to the contrary, so long as an Event of Default shall have occurred and be continuing (after, as well as before judgment), but with regard to Events of Default other than pursuant to Section 9.1(a) only after notice from the Lender electing to impose the default rate, then to the extent permitted by Applicable Law, the Borrower shall from time to time pay interest to the Lender on any amount not paid within five (5) days after demand from the date such payment became due until payment in full at a rate equal to the sum of the rate of interest payable by the Borrower pursuant to Section 2.4 hereof plus 1.5% per annum.

9.5 Restrictions on Remedies. Notwithstanding any provision in this Agreement, including in Article IX hereof, the rights of the Lender hereunder shall be subject in all cases to the limitations imposed by the Intercreditor Agreement.

ARTICLE X

COLLATERAL

10.1 Borrower Collateral. In order to secure the due payment and performance by the Borrower of all of the Obligations of the Borrower to the Lender, the Borrower shall grant to the Lender a Lien on all of the Borrower Collateral by the execution and delivery to the Lender of the Security Agreement.

10.2 Equity Collateral. In order to secure the Obligations, Sutton Hill shall grant to the Lender a Lien on the Equity Collateral, by the execution and delivery of the Pledge Agreement.

ARTICLE XI

GENERAL PROVISIONS

11.1 Modification of Agreement; No Sale of Interest. Any provision of this Agreement or any other Related Document may be modified, altered, amended or waived if, but only if, such modification, alteration, amendment or waiver is in writing and is signed by the Borrower and the Lender. The Lender may assign, grant or sell any participation, interest, obligation or right in or to this Agreement or any other Related Document, or any portion hereof or thereof, to any Person without the prior written consent of the Borrower; provided, however, that no such assignment, grant, or sale shall relieve the assigning Lender of its obligations to lend (before or after such assignment) or of any other obligations hereunder theretofore accruing; and, provided, further, that the Lender may grant participations to Affiliates so long as the Lender's obligations to the Borrower hereunder are not affected thereby.

11.2 Indulgences Not Waivers. The Lender's failure, at any time or times hereafter, to require strict performance by the Borrower of any provision of this Agreement or the other Related Documents shall not waive, affect or diminish any right of the Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by the Lender of an Event of Default by the Borrower under this Agreement or the other Related Documents shall not suspend, waive or affect any other Event of Default by the Borrower under this Agreement or the other Related Documents, whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of the Borrower contained in this Agreement or the other Related Documents and no Event of Default by the Borrower under this Agreement or the other Related Documents shall be deemed to have been suspended or waived by the Lender, unless such suspension or waiver is by an instrument in writing

specifying such suspension or waiver and is signed by a duly authorized representative of the Lender and directed to the Borrower.

11.3 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

11.4 Cumulative Rights; No Waiver. The rights, powers and remedies of the Lender hereunder are cumulative and in addition to all rights, powers and remedies provided under any and all agreements between the Borrower and the Lender relating hereto, at law, in equity or otherwise. Neither any delay nor any omission by the Lender to exercise any right, power or remedy shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or remedy.

11.5 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

11.6 Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 11.6. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

(i) If to the Lender:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Chief Financial Officer
Telecopier No.: (212) 235-2229

and

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Telecopier No. (213) 235-2229

(ii) If to the Borrower:

Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, California 90048
Attention: Legal Department
Telecopier No.: (310) 652-6490

and

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier No. (310) 652-6490

Each such notice, request or other communication shall be effective when actually received.

11.7 Entire Agreement. This Agreement embodies the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, understandings and inducements which relate to Loans, if any, to be made hereunder, whether express or implied, oral or written.

11.8 Governing Law. THIS AGREEMENT HAS BEEN DELIVERED AT, AND SHALL BE EFFECTIVE WHEN ACCEPTED BY THE LENDER IN, NEW YORK, NEW YORK, WHEREUPON THIS AGREEMENT SHALL BE DEEMED A CONTRACT MADE IN NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

11.9 Waiver of Jury Trial. THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE BORROWER ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 11.9 HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

11.10 General Waivers. The Borrower waives (a) presentment, demand and protest and notice of presentment, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any Indebtedness at any time held by the Lender on which the Borrower may in any way be liable and hereby ratifies and confirms whatever the Lender may do in this regard; (b) notice prior to the Lender's taking possession or control of any of the Collateral or any bond or security which might be required by any court prior to allowing the Lender to exercise any of the Lender's remedies, including the issuance of an immediate writ of possession; and (c) notice of the Lender's acceptance hereof. Each party hereto waives the right to interpose counterclaims (other than mandatory counterclaims) of any kind or description in any litigation between the Borrower and the Lender involving this Agreement, provided that the foregoing shall not limit set-off rights any party may have.

11.11 Limited Recourse. Except to the extent of, and under the circumstances specifically provided for in, Section 5 of the Pledge Agreement, no recourse for the payment of the principal of, or interest on, the Loans or any other amount due under this Agreement or any Related Document, or for any claim based thereon or otherwise in respect thereof, shall be had against any direct or indirect member of the Borrower or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect member, it being understood that the Borrower is a special purpose limited liability company formed on the express understanding aforesaid. Nothing contained in this Section 11.11 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Borrower or its Assets, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

11.12 Headings. The Article and Section headings in this Agreement and the table of contents are for convenience of reference only and shall not affect the interpretation hereof.

11.13 Termination by Borrower. The Borrower may terminate this Agreement at any time upon not less than thirty (30) days' prior written notice to the Lender; provided, however, that on the

date specified by the Borrower for termination (a) there shall not be any Loans then Outstanding and (b) all amounts then due and payable to the Lender under this Agreement or the other Related Documents shall have been paid in full. No termination of this Agreement, for whatever reason, shall affect the obligations and liabilities of the Borrower hereunder which arose prior to such termination or the Lender's rights, powers and remedies with respect thereto.

11.14 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP, except as otherwise stated herein.

11.15 Incorporation. All appendices and schedules attached to this Agreement are incorporated herein by this reference.

11.16 Tax Forms. On or before the date hereof or, if later, the date on which it acquires the rights and obligations of a Lender pursuant to this Agreement, the Lender if it is not a United States person (within the meaning of Section 7701 of the Internal Revenue Code of 1986) will deliver to the Borrower a fully completed and duly executed copy of the United States Internal Revenue Service Form 4224 or Form 1001 confirming that such Lender is entitled under Section 1442 of the Internal Revenue Code or any other applicable provision thereof or under any applicable tax treaty or convention to receive payments under this Agreement without deduction or withholding of United States federal income tax. So long as the Loans are Outstanding and until the Obligations have been paid and performed in full, the Lender shall also deliver a further copy of such Form 4224 or Form 1001 or any successor forms thereto to the Borrower upon expiration of the form previously delivered by the Lender hereunder, unless any change in law or regulation of the United States or any taxing authority thereof has occurred prior to the date on which such delivery would otherwise be required which renders such form inapplicable or which would prevent the Lender from completing and delivering such form. Notwithstanding anything to the contrary in this Agreement, the Borrower shall not be required to gross-up any payment for withholding taxes imposed on the Lender which has failed to comply with its obligations under this Section 11.16 if such compliance would have avoided such withholding taxes.

ARTICLE XII

LENDER COOPERATION

12.1 Lender Cooperation. In the event the Borrower has not drawn down, or elects not to draw down, the entire Commitment hereunder, the Lender shall, to the extent reasonably requested by the Borrower and subject to the terms and conditions herein, and at the Borrower's cost and expense, cooperate to allow the Borrower to refinance its Indebtedness existing on the date hereof with any other Person, including at any time and from time to time, upon the reasonable request of the Borrower, and at the Borrower's cost and expense, to execute and deliver any and all such further instruments and documents as the Borrower may reasonably request in order to carry out such refinancing, provided that such financing otherwise complies with the terms of Sections 7.2 and 7.3 hereof.

IN WITNESS WHEREOF, this Agreement has been duly executed under seal in New York, New York, on the day and year specified at the beginning hereof.

SUTTON HILL CAPITAL, L.L.C.
("Borrower")

By:

Name: James J. Cotter
Title: Operating Manager

READING INTERNATIONAL, INC.
("Lender")

By:

Name: Andrzej Matyczynski
Title: Chief Financial Officer

EXHIBIT A

FORM OF NOTE

SUTTON HILL CAPITAL, L.L.C.

NOTE

New York, New York

\$18,000,000

_____, ____

Sutton Hill Capital, L.L.C., a New York limited liability company (the "Borrower"), for value received, hereby promises to pay to the order of READING INTERNATIONAL, INC. (the "Lender") the principal amount of EIGHTEEN MILLION DOLLARS (\$18,000,000) or, if less, the unpaid principal amount of the Lender's Loans outstanding under the Citadel Standby Credit Facility dated as of July 28, 2000 between the Borrower and the Lender, as amended and restated as of January 29, 2002 (as the same may from time to time be amended, modified, supplemented or extended, the "Credit Agreement"). Capitalized terms used herein have the meanings given to them in the Credit Agreement. The principal amount of each Loan shall be due and payable as provided in the Credit Agreement. The Borrower also promises to pay interest on the unpaid principal amount hereof from time to time outstanding, at such interest rates and on such dates as are determined pursuant to the Credit Agreement. All such principal and interest shall be payable in lawful money of the United States of America in immediately available funds at the office of the Lender as provided in the Credit Agreement.

The date and amount of each Loan and each repayment and prepayment of principal thereof shall be endorsed by the Lender on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof, provided that the failure to make or any error in making any such endorsement on such schedule shall not limit, extinguish or in any way modify the obligation of the Borrower to repay the Lender's Loans strictly in accordance with the Credit Agreement.

This Note is the Note referred to in the Credit Agreement and is entitled to the benefits thereof. This Note is subject to prepayment and its maturity is subject to acceleration upon the terms provided in the Credit Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

All indebtedness arising under this Note and all interest payable hereunder shall be subordinate and junior in right of payment to the Nationwide Indebtedness now or hereafter owing,

in the manner and to the extent set forth in the Credit Agreement and the Intercreditor Agreement (as defined in the Credit Agreement).

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SUTTON HILL CAPITAL, L.L.C.

By: _____

Name:

Title:

SCHEDULE OF LOANS

Date of Loan	Principal Amount of Loan	Payments or Prepayments of Principal	Balance Outstanding	Notation Made By
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EXHIBIT B

Form of Notice of Borrowing

NOTICE OF BORROWING

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Chief Financial Officer

Gentlemen:

Pursuant to Section 2.2 of the Citadel Standby Credit Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 (the "Credit Agreement") between Sutton Hill Capital, L.L.C. and you, we hereby give you irrevocable notice that we request a Loan as follows:

1. Amount of Loan: _____ .
2. Date of borrowing: _____ , ____ .
3. Account Information: _____ .

We hereby confirm that all conditions to such Loan will be satisfied on the date of such Loan.

Capitalized terms used herein but not defined shall have the meanings given to them in the Credit Agreement.

Dated this _____ day of _____, ____ .

SUTTON HILL CAPITAL, L.L.C.

By: _____
Name:
Title:

EXHIBIT E

AMENDED AND RESTATED PLEDGE AGREEMENT

AMENDED AND RESTATED
PLEDGE AGREEMENT

THE PLEDGE AGREEMENT, dated as of July 28, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into by and between SUTTON HILL ASSOCIATES, a California general partnership (the "Pledgor"), and CITADEL HOLDING CORPORATION, a Nevada corporation now known as Reading International, Inc. (together with its permitted successors and assigns, the "Pledgee") is hereby amended and restated as of January 29, 2002.

WITNESSETH:

WHEREAS, the Pledgor is (a) the sole member of Sutton Hill Capital, L.L.C., a limited liability company formed under the laws of the State of New York ("Sutton Hill Capital"), and (b) the legal and beneficial owner of the Membership Interest (as hereinafter defined);

WHEREAS, Sutton Hill Capital and the Pledgee have entered into a certain Citadel Standby Credit Facility, dated as of July 28, 2000 as amended and restated as of January 29, 2002 (as the same may be amended, restated, modified, or supplemented from time to time, the "Credit Agreement"), pursuant to which, at the election of Sutton Hill Capital and upon the satisfaction of certain conditions precedent provided for therein, the Pledgee has agreed to make to Sutton Hill Capital certain loans in an aggregate principal amount up to eighteen million Dollars (\$18,000,000) (hereinafter referred to as the "Loans");

WHEREAS, as an inducement to the Pledgee to make the Loans, if any, to Sutton Hill Capital pursuant to the terms of the Credit Agreement, the Pledgor has agreed, in accordance with the terms of Section 4.1(f) of the Credit Agreement, to execute and deliver this Agreement pursuant to which the Pledgor will pledge the Collateral (as hereinafter defined) in favor of the Pledgee to secure the performance and repayment of Sutton Hill Capital's Obligations (as hereinafter defined), to the extent and in accordance with the terms hereof;

WHEREAS, Sutton Hill Capital has also acquired certain interests in various theatre properties in New York City, including the option (the "Sutton Fee Option") to acquire the fee interests in and to one of such properties (the "Sutton Fee");

WHEREAS, Citadel Cinemas, Inc., a Nevada corporation ("Citadel Cinemas"), has subleased from Sutton Hill Capital certain of the theatre properties, including the improvements and equipment located therein or thereon (collectively, the "Leased Interests"), pursuant to provisions of a certain Lease Agreement, dated as of July 28, 2000, as amended and restated as of January 29, 2002 (the "Lease Agreement"), between Sutton Hill Capital, as lessor, and Citadel Cinemas, as lessee;

WHEREAS, included in the Lease Agreement is an option in favor of Citadel Cinemas (the "Lease Option") to acquire from Sutton Hill Capital the Leased Interests;

WHEREAS, pursuant to an agreement, dated as of July 28, 2000 as amended and restated as of January 29, 2002 (the "Fee Option Agreement"), between Citadel Realty, Inc. ("Fee Sub") and Sutton Hill Capital, Sutton Hill Capital has granted to Fee Sub the right (the "Fee Option Right"), subject to the exercise by Citadel Cinemas of the Lease Option and payment by Citadel Cinemas of the exercise price under the Lease Option, to require Sutton Hill Capital to exercise the Sutton Fee Option and direct the delivery of the Sutton Fee to or as directed by Fee Sub, upon payment by Fee Sub or its designee of the exercise price under the Sutton Fee Option;

WHEREAS, the Collateral will be subject to the prior pledge thereof to Nationwide, as described in a certain Intercreditor Agreement among Nationwide, Sutton Hill Capital and the Pledgee;

WHEREAS, it is the intention of the Pledgor in executing and delivering this Agreement to assure to the Pledgee that, if it forecloses on the pledge of the Membership Interest, the Membership Interest will not be subject to any claims thereto or rights therein arising from any action of Sutton Hill Capital or its Affiliates, except for Pledgor Permitted Liens (as hereinafter defined); and

WHEREAS, it is the Pledgee's expectation that, if it were to foreclose on the pledge of the Membership Interest, Sutton Hill Capital's interest in the Sutton Fee Option and in the Leased Interests would be subject only to Pledgor Permitted Liens;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Unless otherwise defined herein, terms that are defined in the Credit Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Accounts" shall have the meaning assigned to that term in Article 9 of the Code.

"Certificate of Title" shall mean a title search or report provided by a title insurance company or agency licensed to do business in the state where the Leased Interests are located.

"Chattel Paper" shall have the meaning assigned to that term in Article 9 of the Code.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation and its successors and assigns (including successors or assigns as tenant under the Lease Agreement).

"Code" shall mean the Uniform Commercial Code from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to that term in Section 2 of this Agreement.

"Cure" (including grammatical alternatives thereof) shall mean (i) the removal of the Lien or Title Impairment in question, either of record or by arrangement for the title company insuring the interest of the transferee to "omit" the Lien or Title Impairment in question, or (ii) the causing of the title company involved to insure against collection or to insure against loss or forfeiture of title with respect to the Lien or Title Impairment in question, provided, that, in the case of a Cure described in clause (ii) hereof, the title company must agree to "omit" such Lien or Title Impairment in question in connection with any mortgagee title insurance policy with respect to any third party financing.

"Designated Payment" shall mean the amounts (if any) required to be paid to satisfy amounts then payable by the Pledgor to Nationwide pursuant to the Nationwide Agreement.

"Event of Default" shall mean the occurrence of any of the following events: (1) an Event of Default (as defined in the Credit Agreement), or (2) a default on the part of the Pledgor in the due performance or observance of any covenant or obligation of the Pledgor contained herein, and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice from the Pledgee to the Pledgor; provided, however, that if such default is of a nature that it is capable of being cured but not within such thirty (30) day period and the Pledgor shall have proceeded diligently and in good faith to complete curing such default, such thirty (30) day period shall be extended to one hundred eighty (180) days.

"Fee Option Agreement" shall have the meaning assigned to that term in the recitals hereto.

"Fee Option Right" shall have the meaning assigned to that term in the recitals hereto.

"General Intangibles" shall have the meaning assigned to that term in Section 9-106 of the Code and shall include, without limitation, the Membership Interest and all rights of the Pledgor to receive, directly or indirectly, moneys or any other rights or benefits therefrom.

"Insolvency or Liquidation Proceeding" of any person shall mean:

(a) The entry of a decree or order for relief in respect of such person by a court having jurisdiction in the premises, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against such person of an involuntary case under the Federal bankruptcy

laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or

(b) The commencement by such person of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of such person or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

"Instruments" shall have the meaning assigned to that term in Article 9 of the Code.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated as of July 28, 2000 as amended and restated as of January 29, 2002, entered into by and among the Pledgor, the Pledgee, and Nationwide Theatres Corp., a California corporation and its successors and assigns (hereinafter referred to as "Nationwide") as amended and restated as of January 29, 2002.

"Lease Agreement" shall mean the Lease Agreement between Sutton Hill Capital, as lessor, and Citadel Cinemas, as lessee, dated as of July 28, 2000, as amended and restated as of January 29, 2002 as amended, modified and supplemented from time to time.

"Lease Option" shall have the meaning assigned to that term in the recitals hereto.

"Leased Interests" shall have the meaning assigned to that term in the recitals hereto.

"Legal Requirements" shall mean all laws, judgments, decrees, ordinances and regulations and any other governmental rules, orders and determinations and all requirements having the force of law, now or hereinafter enacted, made or issued, whether or not presently contemplated (including without limitation the Americans with Disabilities Act, 42 U.S.C. " 12181 et seq., and local and state laws of similar impact or effect and rules, regulations and (to the extent Citadel Cinemas receives notice and a copy thereof pursuant to the Lease Agreement) orders issued under any thereof) and all existing recorded agreements, covenants, conditions and restrictions (or any such of which Citadel Cinemas has notice), applicable to any Leased Interest and/or the construction, ownership, operation or use thereof, including, without limitation, compliance with all requirements of labor laws and all federal, state, local and foreign laws, statutes, codes, ordinances, rules, regulations, directives, binding policies, permits or orders relating to or addressing the environment or human health, including, but not limited to, any law, statute, code, ordinance, rule, regulation, directive, binding

policy, permit, authorization or order, compliance with which is required at any time from the date hereof through the Lease Termination Date as such term is defined in the Lease Agreement (or thereafter as therein set forth), if any, whether or not such compliance shall require structural, unforeseen or extraordinary changes to any Leased Interest or the operation, occupancy or use thereof

"Lien" shall mean any security interest, mortgage, pledge, hypothecation, assignment as collateral, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Limited Liability Company Agreement" shall mean the Limited Liability Company Agreement of Sutton Hill Capital, dated as of April 8, 1999, as the same may be amended, restated, modified or supplemented from time to time.

"Membership Interest" shall have the meaning assigned to that term in Section 2 of this Agreement.

"Nationwide Accrued Interest" shall mean any interest that has accrued with respect to the Nationwide Indebtedness so long as such interest has not arisen as a result of a Tenant Event.

"Nationwide Pledge Agreement" shall mean the agreement, dated as of July 28, 2000, entered into between the Pledgor and Nationwide as amended and restated as of January 29, 2002, pursuant to which the Pledgor has granted a first security interest in the Collateral to Nationwide.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of Sutton Hill Capital to the Pledgee from time to time outstanding under the Related Documents to which Sutton Hill Capital is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operational Agreements" shall have the meaning assigned to that term in the Credit Agreement.

"Pledgor Permitted Liens" shall mean (a) with respect to the Membership Interest, the Lien created pursuant to the Nationwide Agreement or any Lien resulting from or attributable to a Tenant Event and (b) with respect to the Leased Interests and the Sutton Fee Option, the following Liens and other matters affecting the title thereto: (i) Liens securing the payment of taxes, assessments and other governmental charges or levies which are not yet delinquent to the extent not the obligations of Citadel Cinemas pursuant to the Lease Agreement; (ii) Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions, easements, rights-of-way, licenses, reservations,

covenants, conditions, waivers, or restrictions on the use of any material component of real estate comprising the Leased Interests, which exist on the date hereof and either are set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement or are not disclosed therein; (iii) encroachments or irregularities of title none of which materially impairs the current use or value of the affected Leased Interests; (iv) the Liens created pursuant to the Nationwide Agreement provided that such Liens are paid with the applicable Designated Payment; (v) leases and licenses in effect with respect to any Leased Interest which are permitted by the Lease Agreement; (vi) mechanics' and materialmen's liens or Liens not disclosed in the title insurance policy and existing on the date hereof; (vii) exceptions to the title of any material component of real estate comprising the Leased Interests, of the Sutton Fee or of the Sutton Fee Option, as the case may be, as set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement; (viii) existing Liens listed on Exhibit A attached hereto; (ix) any Lien which is or results from a Tenant Event or is approved by Citadel Cinemas for purposes of the Lease Agreement; (x) Liens, including Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions and any of the matters affecting title, which result from acts of any agency, department, court or other administrative, legislative or regulatory authority of any Federal, state, local or foreign governmental body from and after the date hereof not caused by or resulting from a Landlord Act (as such term is defined in the Lease Agreement); and (xi) such other or additional matters as may be approved in writing by Citadel Cinemas in its sole discretion.

"Proceeds" shall mean all "proceeds" as such term is defined in Section 9-306(1) of the Code on the date hereof and, in any event, shall include, without limitation, all dividends or other income from the Membership Interest and any and all collections on the foregoing or distributions with respect to the foregoing.

"Sutton Fee" shall have the meaning assigned to that term in the recitals hereto.

"Sutton Fee Option" shall have the meaning assigned to that term in the recitals hereto.

"Taxes" shall mean any present or future taxes, levies, imposts, duties, fees, assessments, deductions, withholdings or other charges of whatever nature, including income, receipts, excise, property, sales, use, transfer, license, payroll, withholding, social security and franchise taxes now or hereafter imposed or levied by the United States, or any state, local or foreign government or by any department, agency or other political subdivision or taxing authority thereof or therein and all interest, penalties, additions to tax and similar liabilities with respect thereto.

"Title Impairment" shall mean a claim, charge or other matter affecting title to an Asset or interest therein, other than a Lien, which materially impairs the intended use or value of the Asset (or interest therein) in question excluding, however, the matters affecting title as of the date hereof, the Site Leases and the terms and conditions thereof and matters which constitute Tenant Events.

SECTION 2. Grant of Security. As security for the prompt and complete payment when due of the Obligations, the Pledgor hereby assigns, pledges, transfers and grants to the Pledgee a

continuing security interest (which shall be subject and subordinate to the prior security interest granted to Nationwide pursuant to the Nationwide Pledge Agreement as and to the extent provided in the Intercreditor Agreement) in, and a lien upon, all of the Pledgor's right, title and interest in the following property now owned or at any time hereafter acquired by the Pledgor, or in which the Pledgor may acquire any right, title or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (collectively, the "Collateral"):

a) any and all of its membership interest in Sutton Hill Capital, including, without limitation, all its rights, title and interest to participate in the operation or management of Sutton Hill Capital and all its rights to properties, assets and distributions under the Limited Liability Company Agreement, and all certificates evidencing any of such membership interests (collectively, the "Membership Interest");

b) all Accounts arising out of the Limited Liability Company Agreement in respect of the Membership Interest;

c) all General Intangibles arising out of or constituted by the Limited Liability Company Agreement in respect of the Membership Interest; and

d) to the extent not otherwise included, all Proceeds of any and all of the foregoing.

This Agreement shall create a continuing security interest in the Collateral which shall be subject and subordinate to the prior security interest granted to Nationwide as provided in the Intercreditor Agreement and shall remain in effect until all the Obligations, now existing or hereafter arising, shall have been paid in full, the Commitments shall have been terminated and the Credit Agreement and the Related Documents shall no longer be in effect.

SECTION 3. Representations and Warranties of Pledgor. The Pledgor hereby represents and warrants to the Pledgee that: (i) the Pledgor is the sole member of Sutton Hill Capital and no other Person owns or holds any other ownership rights in the Membership Interest; (ii) the execution, delivery, and performance of this Agreement are not in violation of any indenture, agreement, or undertaking to which the Pledgor is a party or by which the Pledgor is bound; (iii) the execution, delivery and performance of this Agreement will not result in the creation or imposition of any lien or charge on, security interest in or other encumbrance on any of the assets of the Pledgor except as contemplated by this Agreement; (iv) the Pledgor's chief executive office and the place where the Pledgor keeps its business records is 120 North Robertson Boulevard, Los Angeles, California 90048; and (v) this Agreement will create and grant to the Pledgee (upon the filing of appropriate UCC-1 financing statements) a valid lien on, and a perfected security interest in favor of the Pledgee in, all right, title or interest of the Pledgor in or to the Collateral, subject to the prior lien in favor of Nationwide as provided in the Intercreditor Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the

Pledgor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements.

The Pledgor agrees that the foregoing representations and warranties shall be deemed to have been made by it on each date of a Notice of Borrowing on or after the date hereof by Sutton Hill Capital under the Credit Agreement on and as of such date as though made hereunder on and as of such date.

SECTION 4. Further Assurances; Affirmative Covenants.

The Pledgor covenants and agrees that, from and after the date of this Agreement until the Obligations are paid in full and the Commitment is terminated:

a) The Pledgor will promptly execute and deliver and will cause to be executed and delivered all further instruments and documents, including, without limitation, financing and continuation statements, and will take all further action and will cause all further action to be taken, that the Pledgee may reasonably request in order to create, preserve, perfect and protect the security interest in the Collateral or to enable the Pledgee to exercise and enforce its rights and remedies hereunder or to preserve, perfect and protect the Pledgee's right, title and interest in and to the Collateral.

b) The Pledgor will at all times keep accurate and complete books and records with respect to the Collateral and agrees that the Pledgee or its representative shall have the right at any time and from time to time to call at the Pledgor's place of business during normal business hours to inspect and examine the books and records of the Pledgor relating to the Collateral and to make extracts therefrom and copies thereof.

c) The Pledgor will keep the Collateral free and clear of all security interests, liens and claims other than the security interest and lien herein granted and the security interest and lien granted to Nationwide, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Pledgor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements, and will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, except by assignment to the Pledgee and Nationwide.

d) The Pledgor will defend the Pledgee's right, title and security interest in and to the Collateral against claims and demands of all persons whomsoever, other than Nationwide.

e) If the Pledgor shall, as a result of its ownership of the Collateral, receive any certificate representing its ownership of the Membership Interest and all of the Nationwide Indebtedness now or hereafter owing has been paid in full in accordance with the terms of the Nationwide Agreement, the Pledgor shall accept the same as the agent of the Pledgee, hold the same in trust for the Pledgee and deliver the same forthwith to the Pledgee in the exact form received, duly indorsed by the Pledgor to the Pledgee, if required.

f) The Pledgor will at all times remain the sole member of Sutton Hill Capital and will allow no other Person to own or hold any other ownership rights in the Membership Interest; provided, however, that the failure to comply with the terms hereof shall not constitute a breach hereunder if the failure to comply arises as a result of any action or inaction of, or any condition or event relating to, Citadel Cinemas or any of its Affiliates.

SECTION 5. Lien or Title Impairment.

a) Subject to the limitations set forth in Section 19 hereof, if, at the time of the exercise by the Pledgee of its rights and remedies involving the Membership Interest, title thereto or to any of the Leased Interests or the Sutton Fee Option shall be subject to a Lien or to a Title Impairment other than a Pledgor Permitted Lien, the Pledgor shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

b) Not less than ten days prior to the date of the anticipated exercise described in the preceding sentence, the Pledgee shall deliver to the Pledgor a lien search with respect to the Membership Interest and a Certificate of Title with respect to the Leased Interests and the Sutton Fee Option, indicating whether or not any Liens encumbering such Membership Interest or the interest of Sutton Hill Capital in such other assets constitute such Liens other than Pledgor Permitted Liens and whether there exists as to Sutton Hill Capital's title to any of such assets any such Title Impairment, each as described in the preceding paragraph.

c) If by reason of the occurrence of an Insolvency or Liquidation Proceeding of Sutton Hill Capital, Pledgee shall be prevented from foreclosing on the Membership Interest or its security interest under the Security Agreement (as defined in the Credit Agreement), Pledgor shall cause such Insolvency or Liquidation Proceeding to be terminated or otherwise to be resolved as promptly as practicable and in a manner such that the applicable transaction can be consummated in accordance with its terms. All times referred to in Section 5(d) hereof shall be determined without regard to any additional time that may be permitted or authorized under any statute or order entered in or applicable to such Insolvency or Liquidation Proceeding.

d) In the event the Pledgor does not timely perform any of the obligations set forth in paragraphs (a), (b) or (c) of this Section 5, the Pledgee may, after written demand to perform has been served upon the Pledgor and the Pledgor has been given 15 days to perform, perform said obligations at the Pledgor's sole cost and expense; provided, however, that the Pledgee shall not exercise its option to perform said obligations for up to 90 days if within said 15-day period the Pledgor has commenced to perform the obligation or obligations in question and thereafter to the reasonable satisfaction of the Pledgee continues to perform such obligation or obligations with reasonable diligence. The Pledgor shall, upon written demand from the Pledgee, reimburse the Pledgee for all costs, including reasonable attorney's fees and out-of-pocket expenses, and all liabilities incurred by the Pledgee by reason of the foregoing set forth in this Section 5, with interest thereon at the rate of eleven and one quarter percent (11.25%) per annum.

e) The obligations of the Pledgor under this Section 5 hereof and with respect to the Nationwide Accrued Interest shall be unlimited, with full recourse to all of the assets of the Pledgor and its partners. The Pledgor and its partners agree not to request or permit, in any Insolvency or Liquidation Proceeding of the Pledgor, (i) any plan of reorganization, or confirmation order with respect thereto, which would include a provision that would discharge the partners of Pledgor from their obligations to Pledgee under this Section 5 or (ii) any party in interest to obtain an injunction that would enjoin or limit the Pledgee's rights against the partners of the Pledgee or their assets.

SECTION 6. Remedies. (a) Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default and an acceleration of the Loans, the Pledgee may, in its sole discretion, exercise with respect to the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the New York Uniform Commercial Code or other applicable law, and the Pledgee may also, upon reasonable notice as specified below, sell the Collateral at public or private sale, at any exchange, broker's board or at any of the Pledgee's offices or elsewhere, for cash, on credit or for future delivery, and at such price and upon such other terms as the Pledgee may in good faith deem commercially reasonable. The Pledgee or any of its Affiliates may be the purchaser of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for the Collateral, to use and apply any of the Obligations as a credit on account of the purchase price of the Collateral payable by such Person at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of the Pledgor, and the Pledgor hereby waives (to the fullest extent permitted by law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Pledgor agrees that at least fifteen (15) days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notice. The Pledgee will not be obligated to make any sale regardless of notice of sale having been given. The Pledgee may adjourn any public or private sale from time to time by announcement of the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. The Pledgor

hereby waives any claims against the Pledgee arising by reason of the fact that the price at which the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale, even if the Pledgee accepts the first offer received and does not offer the Collateral to more than one offeree.

(b) The proceeds of any sale of the Collateral under subsection (a) above shall be applied in the following manner:

i. FIRST, to the payment of all costs and expenses reasonably incurred in connection with the sale, collection or other realization, including reasonable costs, fees and expenses of the Pledgee and its agents and counsel, all other reasonable expenses, liabilities and advances made or incurred by the Pledgee in connection therewith;

ii. SECOND, to the payment, in whole or in part, of the Nationwide Indebtedness (as defined in the Intercreditor Agreement);

iii. THIRD, to the payment, in whole or in part, of the Obligations; and

iv. FOURTH, the balance, if any, shall be paid to the Pledgor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If the Pledgee or any of its Affiliates is the successful bidder at such sale, the amount owing to Nationwide must be paid in cash.

(c) The Pledgee has the right to enforce any and all remedies provided in this Agreement, successively and concurrently, and such action will not operate to estop or prevent the Pledgee from pursuing any other remedy which the Pledgee may have at law or in equity or under any other document.

(d) THE PLEDGOR ACKNOWLEDGES THAT ANY PRIVATE SALE OF THE COLLATERAL MAY RESULT IN PRICES AND OTHER TERMS LESS FAVORABLE TO THE PLEDGOR THAN IF SUCH SALE WERE A PUBLIC SALE AND THE PLEDGOR AGREES THAT ANY SUCH PRIVATE SALE SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALY REASONABLE MANNER.

SECTION 7. Pledgee Appointed Attorney-in-Fact.

Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence and during the continuance of an Event of Default which is not waived by the Pledgee and following an acceleration of the Loans, the Pledgor hereby irrevocably makes, constitutes and appoints the Pledgee or any of its officers or designees its true and lawful attorney-in-fact, with full authority in

the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time after the occurrence and during the continuation of an Event of Default which is not waived by the Pledgee and following an acceleration of the Loans, to take any action, to execute any instruments and to exercise any rights, privileges, elections or power of the Pledgor pertaining or relating to the Collateral which the Pledgee may reasonably deem necessary or desirable to preserve and enforce its security interest in the Collateral and otherwise to accomplish the purposes of this Agreement.

SECTION 8. Pledgee May Perform. If the Pledgor fails to perform any agreement contained herein other than any agreement set forth in Section 5 hereof, the Pledgee may (but shall not be obligated to) itself perform, or cause performance of, such agreement; provided, however, that the Pledgee shall first have provided to the Pledgor five (5) Business Days' prior written notice of the Pledgee's intention so to act (except in cases of emergency when no such notice shall be required). Any sums expended by the Pledgee pursuant to this Section 7 shall be added to the Obligations and secured by the Collateral.

SECTION 9. Amendments, etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by the Pledgor therefrom, shall in any event be effective unless the same shall be in writing making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings and signed by the Pledgor, the Pledgee and Nationwide, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

SECTION 10. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral and shall (a) except with respect to the provisions in Section 5 hereof, remain in full force and effect until the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, (b) be binding upon the Pledgor and (c) inure to the benefit of the Pledgee and its successors and assigns. If the Pledgee shall have instituted any proceeding to enforce any right, power or remedy under this instrument by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Pledgee, then and in every such case, the Pledgor and the Pledgee shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all right, remedies and powers of the Pledgee shall continue as if no such proceeding had been instituted.

SECTION 11. Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 10. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be

effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

- (a) If to the Pledgor:
Sutton Hill Associates
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Department
Telecopier: (310) 652-6490

with required copies to:

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

- (b) If to the Pledgee:
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Chief Financial Officer
Telecopier No.: (213) 235-2229

with required copies to:

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Telecopier No. (213) 235-2229

Each such notice, request or other communication shall be effective when actually received.

SECTION 12. Governing Law. THIS AGREEMENT HAS BEEN DELIVERED AT, AND SHALL BE EFFECTIVE WHEN EXECUTED BY THE PLEDGOR AND THE PLEDGEE IN, NEW YORK, NEW YORK, WHEREUPON THIS AGREEMENT SHALL BE DEEMED A CONTRACT MADE IN NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 13. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 14. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when executed and delivered, shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

SECTION 15. Benefits. The rights and privileges of the Pledgee hereunder shall inure to the benefit of its successors and assigns and the obligations of the Pledgor shall be binding on the Pledgor's successors and assigns.

SECTION 16. Powers Coupled With An Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

SECTION 17. Paragraph Headings. The Article and Section headings in this Agreement and the table of contents are for convenience of reference only and shall not affect the construction hereof or be taken into consideration in the interpretation hereof.

SECTION 18. Waiver of Jury Trial. THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE PLEDGOR ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 18 HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

SECTION 19. Termination. After the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, this Agreement shall terminate and the Pledgee at the request of the Pledgor will execute and deliver to the Pledgor a proper instrument or instruments acknowledging the satisfaction and termination of this Agreement, and will duly assign, transfer and deliver to the Pledgor such of the Collateral as may be in the possession of the Pledgee and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement, together with any moneys at the time held by the Pledgee. Notwithstanding anything contained herein to the contrary,

the provisions of Section 5 hereof and the obligations of the Pledgor arising with respect thereto shall terminate and be of no further force and effect on and as of the day following the repayment in full of the Loan, provided that such obligations shall be reinstated if at any time payment or performance of Sutton Hill Capital is rescinded or must otherwise be returned as a result of an Insolvency or Liquidation Proceeding.

SECTION 20. Conflict Of Provisions. In the event of any conflict between any term, covenant or condition of this Agreement and any term, covenant or condition of the Intercreditor Agreement, the provisions of the Intercreditor Agreement shall control and govern.

SECTION 21. Limited Recourse. Except to the extent of and under the circumstances specifically provided for in Section 5 hereof and except with respect to the Nationwide Accrued Interest, no recourse for the payment of the principal of, or interest on, the Obligations or obligations of the Pledgor hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect partner or owner of the Pledgor or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect partner. Nothing contained in this Section 21 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Collateral, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby. In no event shall the Pledgor have any liability to the Pledgee hereunder for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise). The parties further agree that no claim for direct damages by a party hereunder shall include any amounts for which such party has been reimbursed or is entitled to be reimbursed under any insurance required to be obtained under the Lease Agreement or acquired in connection therewith.

SECTION 22. Cumulative Rights; No Waiver. No failure on the part of the Pledgee to exercise, no course of dealing with respect to, and no delay on the part of the Pledgee in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PLEDGOR:
SUTTON HILL ASSOCIATES

By: _____
Name:
Title:

By: _____
Name:
Title:

PLEDGEE:
READING INTERNATIONAL, INC.

By: _____
Name:
Title:

Agreed to as to Section 5 hereof
and as to payment of the Nationwide
Accrued Interest

James J. Cotter

Michael R. Forman

EXHIBIT F

AMENDED AND RESTATED SECURITY AGREEMENT

AMENDED AND RESTATED SECURITY AGREEMENT

THE SECURITY AGREEMENT, dated as of July 28, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), by and between SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (the "Grantor"), and CITADEL HOLDING CORPORATION, a Nevada corporation now known as READING INTERNATIONAL, INC. (the "Company"), is hereby amended and restated as of January 29, 2002.

W I T N E S S E T H:

WHEREAS, the Grantor and the Company have entered into a certain Citadel Standby Credit Facility, dated as of July 28, 2000 as amended and restated as of January 29, 2002 (as the same may be amended, restated, modified, or supplemented from time to time, the "Credit Agreement"), pursuant to which, at the election of the Grantor and upon the satisfaction of certain conditions precedent provided for therein, the Company has agreed to make to the Grantor certain loans in an aggregate principal amount up to eighteen million Dollars (\$18,000,000) (hereinafter referred to as the "Loans"); and

WHEREAS, as an inducement to the Company to make the Loans, if any, to the Grantor, pursuant to the terms of the Credit Agreement, the Grantor has agreed, in accordance with the terms of Section 4.1(f) of the Credit Agreement, to execute and deliver this Agreement pursuant to which the Grantor will pledge the Collateral (as hereinafter defined) in favor of the Company to secure the performance and repayment of the Grantor's Obligations (as hereinafter defined), to the extent and in accordance with the terms hereof;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Unless otherwise defined herein, terms that are defined in the Intercreditor Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Accounts" shall have the meaning assigned to that term in Article 9 of the Code.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation, and its successors or assigns (including successors or assigns as tenant under the Lease Agreement).

"Code" shall mean the Uniform Commercial Code from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to that term in Section 2 of this Agreement.

"Equipment" shall have the meaning assigned to that term in Article 9 of the Code.

"Event of Default" shall mean the occurrence of any of the following events: (1) an Event of Default (as defined in the Credit Agreement), or (2) a default on the part of the Grantor in the due performance or observance of any covenant or obligation of the Grantor contained herein, and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice from the Company to the Grantor; provided, however, that if such default is of a nature that it is capable of being cured but not within such thirty (30) day period and the Grantor shall have proceeded diligently and in good faith to complete curing such default, such thirty (30) day period shall be extended to one hundred eighty (180) days.

"General Intangibles" shall have the meaning assigned to that term in Article 9-106 of the Code.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated as of July 28, 2000, entered into by and among the Grantor, the Company and Nationwide Theatres Corp., a California corporation and its successors and assigns (hereinafter referred to as "Nationwide") as amended and restated as of January 29, 2002.

"Lease Agreement" shall mean the lease agreement between the Grantor, as lessor, and Citadel Cinemas, as lessee, dated as of July 28, 2000, as amended and restated as of January 29, 2002, as amended, modified and supplemented from time to time.

"Lien" shall mean any security interest, mortgage, pledge, hypothecation, assignment as collateral, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Nationwide Security Agreement" shall mean the agreement, dated as of July 28, 2000, entered into between the Grantor and Nationwide, as amended and restated as of January 29, 2002 pursuant to which the Grantor has granted a first security interest in the Collateral to Nationwide.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of the Grantor to the Company from time to time outstanding under the Related Documents to which the Grantor is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operational Agreements" shall have the meaning assigned to that term in the Credit Agreement.

"Proceeds" shall mean all "proceeds" as such term is defined in Section 9-306(1) of the Code on the date hereof and, in any event, shall include, without limitation, any and all collections on the foregoing.

"Properly Contested" shall have the meaning assigned to that term in the Lease Agreement.

"Taxes" shall mean any present or future taxes, levies, imposts, duties, fees, deductions, withholdings or other charges of whatever nature, including income, receipts, excise, property, sales, use, transfer, license, payroll, withholding, social security and franchise taxes now or hereafter imposed or levied by the United States, or any state, local or foreign government or by any department, agency or other political subdivision or taxing authority thereof or therein and all interest, penalties, additions to tax and similar liabilities with respect thereto.

SECTION 2. Grant of Security. As security for the prompt and complete payment when due of the Obligations, the Grantor hereby assigns, pledges, transfers and grants to the Company a continuing security interest (which shall be subject and subordinate to the prior security interest granted to Nationwide pursuant to the Nationwide Security Agreement as and to the extent provided in the Intercreditor Agreement) in, and a lien upon, all of the Grantor's right, title and interest in the following property now owned or at any time hereafter acquired by the Grantor, or in which the Grantor may acquire any right, title or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (collectively, the "Collateral"):

a) all of the Grantor's right, title and interest, whether now owned or hereafter acquired, in and to all Equipment, wherever located, now or hereafter existing, together with any manufacturers' warranties with respect to the foregoing;

b) all Accounts;

c) all General Intangibles;

d) any and all insurance policies, proceeds or benefits thereof related to the Collateral, provided that such policies do not expressly prohibit the grant of such security interest; and

e) to the extent not otherwise included, all Proceeds of any and all of the foregoing.

Notwithstanding the foregoing, "Collateral" shall not include any general intangibles, or other rights, arising under any contracts, licenses or other documents as to which the grant of a security

interest would constitute a violation of a valid and enforceable restriction in favor of a third party on such grant, unless and until any required consents shall have been obtained. The Grantor agrees to use commercially reasonable efforts to obtain any such required consent with respect to any material items of such Collateral.

This Agreement shall create a continuing security interest in the Collateral which shall remain in effect until all the Obligations, now existing or hereafter arising, shall have been paid in full, the Commitments shall have been terminated and the Credit Agreement and the Related Documents shall no longer be in effect.

SECTION 3. Representations and Warranties of Grantor. The Grantor hereby represents and warrants to the Company that: (i) except as otherwise provided in the Operational Agreements, no other Person owns or holds any ownership rights in the Collateral; (ii) the execution, delivery, and performance of this Agreement are not in violation of any indenture, agreement, or undertaking to which the Grantor is a party or by which the Grantor is bound; (iii) the execution, delivery and performance of this Agreement will not result in the creation or imposition of any lien or charge on, security interest in or other encumbrance on any of the assets of the Grantor except as contemplated by this Agreement; (iv) the Grantor's chief executive office and the place where the Grantor keeps its business records is 120 North Robertson Boulevard, Los Angeles, California 90048; and (v) this Agreement will create and grant to the Company (upon the filing of appropriate UCC-1 financing statements) a valid lien on, and a perfected security interest in favor of the Company in, all right, title or interest of the Grantor in or to the Collateral, subject only to the prior lien in favor of Nationwide as provided in the Intercreditor Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Grantor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements.

SECTION 4. Further Assurances; Affirmative Covenants.

The Grantor covenants and agrees that, from and after the date of this Agreement until the Obligations are paid in full and the Commitment is terminated:

a) The Grantor will promptly execute and deliver and will cause to be executed and delivered all further instruments and documents, including, without limitation, financing and continuation statements, and will take all further action and will cause all further action to be taken, that the Company may reasonably request in order to create, preserve, perfect and protect the security interest in the Collateral or to enable the Company to exercise and enforce its rights and remedies hereunder or to preserve, perfect and protect the Company's right, title and interest in and to the Collateral.

b) The Grantor will at all times keep accurate and complete books and records with respect to the Collateral and agrees that the Company or its representative shall have the right at any time and from time to time to call at the Grantor's place of business during normal business hours to inspect and examine the books and records of the Grantor relating to the Collateral and to make extracts therefrom and copies thereof.

c) The Grantor will keep the Collateral free and clear of all security interests, liens and claims other than the security interest and lien herein granted and the security interest and lien granted to Nationwide or otherwise permitted to exist pursuant to the Credit Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Grantor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements, and will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, except by assignment to the Company and Nationwide or the holder of any such other permitted lien.

d) The Grantor will defend the Company's right, title and security interest in and to the Collateral against claims and demands of all persons whomsoever, other than Nationwide.

SECTION 5. Remedies. Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default and an acceleration of the Loans, the Company may, in its sole discretion, exercise with respect to the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the Code or other applicable law, and the Company may also, upon reasonable notice as specified below, sell the Collateral at public or private sale, at any exchange, broker's board or at any of the Company's offices or elsewhere, for cash, on credit or for future delivery, and at such price and upon such other terms as the Company may in good faith deem commercially reasonable. The Company or any of its Affiliates may be the purchaser of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for the Collateral, to use and apply any of the Obligations as a credit on account of the purchase price of the Collateral payable by such Person at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of the Grantor, and the Grantor hereby waives (to the fullest extent permitted by law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Grantor agrees that at least fifteen (15) days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notice. The Company will not be obligated to make any sale regardless of notice of sale having been given. The Company may adjourn any public or private sale from time to time by announcement of the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to

which it was adjourned. The Grantor hereby waives any claims against the Company arising by reason of the fact that the price at which the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale, even if the Company accepts the first offer received and does not offer the Collateral to more than one offeree.

(b) The proceeds of any sale of the Collateral under subsection (a) above shall be applied in the following manner:

(i) FIRST, to the payment of all costs and expenses reasonably incurred in connection with the sale, collection or other realization, including reasonable costs, fees and expenses of the Company and its agents and counsel, all other reasonable expenses, liabilities and advances made or incurred by the Company in connection therewith;

(ii) SECOND, to the payment, in whole or in part, of the Nationwide Indebtedness (as defined in the Intercreditor Agreement).

(iii) THIRD, to the payment, in whole or in part, of the Obligations; and

(iv) FOURTH, the balance, if any, shall be paid to the Grantor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If the Company or any of its Affiliates is the successful bidder at such sale, the amount owing to Nationwide in respect of the Nationwide Indebtedness (as defined in the Intercreditor Agreement) must be paid in full in cash.

(c) The Company has the right to enforce any and all remedies provided in this Agreement, successively and concurrently, and such action will not operate to estop or prevent the Company from pursuing any other remedy which the Company may have at law or in equity or under any other document.

(d) THE GRANTOR ACKNOWLEDGES THAT ANY PRIVATE SALE OF THE COLLATERAL MAY RESULT IN PRICES AND OTHER TERMS LESS FAVORABLE TO THE GRANTOR THAN IF SUCH SALE WERE A PUBLIC SALE AND THE GRANTOR AGREES THAT ANY SUCH PRIVATE SALE SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALY REASONABLE MANNER.

SECTION 6. Company Appointed Attorney-in-Fact. Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence and during the continuance of an Event of Default which is not waived by the Company and following an acceleration of the Loans, the Grantor hereby irrevocably makes, constitutes and appoints the Company or any of its officers or designees its true

and lawful attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time after the occurrence and during the continuation of an Event of Default which is not waived by the Company and following an acceleration of the Loans, to take any action, to execute any instruments and to exercise any rights, privileges, elections or power of the Grantor pertaining or relating to the Collateral which the Company may reasonably deem necessary or desirable to preserve and enforce its security interest in the Collateral and otherwise to accomplish the purposes of this Agreement.

SECOND 7. Company May Perform. If the Grantor fails to perform any agreement contained herein, the Company may (but shall not be obligated to) itself perform, or cause performance of, such agreement; provided, however, that the Company shall first have provided to the Grantor five (5) Business Days' prior written notice of the Company's intention so to act (except in cases of emergency when no such notice shall be required). Any sums expended by the Company pursuant to this Section 7 shall be added to the Obligations and secured by the Collateral.

SECTION 8. Amendments, etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by the Grantor therefrom, shall in any event be effective unless the same shall be in writing making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings and signed by the Grantor, the Company and Nationwide, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

SECTION 9. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, (b) be binding upon the Grantor and (c) inure to the benefit of the Company and its successors and assigns. If the Company shall have instituted any proceeding to enforce any right, power or remedy under this instrument by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Company, then and in every such case, the Grantor and the Company shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all right, remedies and powers of the Company shall continue as if no such proceeding had been instituted.

SECTION 10. Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 10. All notices shall be

effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

(a) If to the Grantor:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Department
Telecopier: (310) 652-6490

with required copies to:

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

(b) If to the Company:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Chief Financial Officer
Telecopier No.: (213) 235-2229

with required copies to:

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Telecopier No. (213) 235-2229

Each such notice, request or other communication shall be effective when actually received.

SECTION 11. Governing Law. THIS AGREEMENT HAS BEEN DELIVERED AT, AND SHALL BE EFFECTIVE WHEN EXECUTED BY THE GRANTOR AND THE COMPANY IN, NEW YORK, NEW YORK, WHEREUPON THIS AGREEMENT SHALL BE DEEMED A CONTRACT MADE IN NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 12. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 13. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when executed and delivered, shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

SECTION 14. Benefits. The rights and privileges of the Company hereunder shall inure to the benefit of its successors and assigns and the obligations of the Grantor shall be binding on the Grantor's successors and assigns.

SECTION 15. Powers Coupled With An Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

SECTION 16. Paragraph Headings. The Article and Section headings in this Agreement and the table of contents are for convenience of reference only and shall not affect the construction hereof or be taken into consideration in the interpretation hereof.

SECTION 17. Waiver of Jury Trial. THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE GRANTOR ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 17 HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

SECTION 18. Termination. After the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, this Agreement shall terminate and the Company at the request of the Grantor will execute and deliver to the Grantor a proper instrument or instruments

acknowledging the satisfaction and termination of this Agreement, and will duly assign, transfer and deliver to the Grantor such of the Collateral as may be in the possession of the Company and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement, together with any moneys at the time held by the Company.

SECTION 19. Conflict Of Provisions. In the event of any conflict between any term, covenant or condition of this Agreement and any term, covenant or condition of the Intercreditor Agreement, the provisions of the Intercreditor Agreement shall control and govern.

SECTION 20. Limited Recourse. No recourse for the payment of the principal of, or interest on, the Obligations or obligations of the Grantor hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect member or owner of the Grantor or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect member or owner except as provided in the Pledge Agreement (as defined in the Credit Agreement). Nothing contained in this Section 20 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Collateral, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

SECTION 21. Cumulative Rights; No Waiver. No failure on the part of the Company to exercise, no course of dealing with respect to, and no delay on the part of the Company in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

GRANTOR:

SUTTON HILL CAPITAL, L.L.C.

By: _____

Name:

Title:

COMPANY:

READING INTERNATIONAL, INC.

By: _____

Name:

Title:

EXHIBIT G

AMENDED AND RESTATED INTERCREDITOR AGREEMENT

AMENDED AND RESTATED INTERCREDITOR AGREEMENT

THE INTERCREDITOR AGREEMENT, dated as of July 28, 2000 (the "Original Agreement") as amended, supplemented or modified from time to time, this "Agreement"), entered into by and among: Citadel Holding Corporation, a Nevada corporation now known as Reading International, Inc. (together with its permitted successors and assigns, "Citadel"); Sutton Hill Capital, L.L.C., a New York limited liability company (together with its permitted successors and assigns, "SHC"); and Nationwide Theatres Corp., a California corporation (together with its permitted successors and assigns, "Nationwide") is hereby amended and restated as of January 29, 2002.

R E C I T A L S

WHEREAS, Nationwide is the holder of certain obligations of Sutton Hill Associates, a California general partnership ("Sutton Hill"), which relate to various assets of Sutton Hill or its Affiliates (the "Affected Assets") (such agreements, documents and instruments between Nationwide and Sutton Hill evidencing such obligations and representing a principal indebtedness of \$11,000,000, collectively referred to as the "Existing Nationwide Agreement," the balance of such obligations of Sutton Hill to Nationwide being unaffected by this Agreement and not included in the "Existing Nationwide Agreement");

WHEREAS, pursuant to the Existing Nationwide Agreement, there are outstanding loans in the aggregate principal amount of eleven million Dollars (\$11,000,000);

WHEREAS, the Affected Assets are being transferred from Sutton Hill or its Affiliates to SHC, which is wholly owned by Sutton Hill, and, in connection with such transfer, Sutton Hill desires to amend and modify the Existing Nationwide Agreement;

WHEREAS, SHC and Citadel have entered into an agreement dated as of July 28, 2000 as amended and restated of January 29, 2002 (as amended, restated, modified or supplemented from time to time, the "Citadel Agreement"), pursuant to which Citadel will make available to SHC a standby credit facility in an aggregate principal amount up to eighteen million Dollars (\$18,000,000);

WHEREAS, as a condition precedent of borrowing under the Citadel Agreement, SHC and Citadel must enter into the Subordinated Documents (as hereinafter defined);

WHEREAS, Nationwide required that, in order to satisfy a condition to the amendment and modification of the Existing Nationwide Agreement (the Existing Nationwide Agreement, as so amended and modified, the "Nationwide Agreement"), that the Original Agreement and this Agreement be entered into among the parties hereto; and

WHEREAS, the purpose of this Agreement is to confirm, as between Nationwide and Citadel, their respective rights and priorities with respect to the obligations of SHC and with respect to the Equity Collateral and the Borrower Collateral (as such terms are defined in the Citadel Agreement) now or hereafter held as security by Nationwide in respect of the Nationwide Indebtedness and by Citadel in respect of the Citadel Indebtedness.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Certain Defined Terms. Unless otherwise defined herein, terms that are defined in the Citadel Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Affiliate" of any Person means any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," 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, by contract or otherwise; and the terms "controlling" and "controlled by" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (a) SHC and its Affiliates ("SHC's Affiliates") shall not include Reading, Citadel and their respective direct or indirect Subsidiaries; (b) Reading, Citadel and their respective direct or indirect Subsidiaries, on the one hand, and SHC and SHC's Affiliates, on the other hand, shall not be considered Affiliates of each other; (c) SHC and SHC's Affiliates shall not include Nationwide and its direct or indirect Subsidiaries; (d) none of Nationwide or any of its direct or indirect Subsidiaries, on the one hand, and SHC or any of SHC's Affiliates, on the other hand, shall be considered Affiliates of each other; (e) Citadel and its Affiliates ("Citadel's Affiliates") shall not include Nationwide and its direct or indirect Subsidiaries; (f) Reading and its Affiliates ("Reading's Affiliates") shall not include Nationwide and its direct or indirect Subsidiaries; and (f) none of Nationwide or any of its direct or indirect Subsidiaries, on the one hand, and either Citadel or any of Citadel's Affiliates or Reading and any of Reading's Affiliates, on the other hand, shall be considered Affiliates of each other.

"Agreement" has the meaning specified in the preamble to this Agreement.

"Bad Faith Determination" with respect to a Citadel Proceeding means the entry of one or more Final Orders (i)(a) dismissing such Citadel Proceeding if (I) neither Nationwide

nor SHC consented to such Citadel Proceeding and at least one of Nationwide or SHC opposed such Citadel Proceeding and (II) such Final Order is based on a finding by the court that (A) in the case of a Citadel Proceeding under the Federal bankruptcy laws, the criteria in 11 U.S.C. '303(b) are not satisfied or (B) in any other case, the relevant statutory criteria for bringing such Citadel Proceeding are not satisfied and (b) finding that any Petitioning Creditor in such Citadel Proceeding which is Citadel or a Citadel Affiliate, at the time such petition or other action was filed or taken, initiated such Citadel Proceeding in "bad faith" (or words of similar import) or (ii) granting judgment against a Petitioning Creditor therein which is Citadel or an Affiliate of Citadel under 11 U.S.C. '303(i)(2) (as any such statutory section referenced herein may hereafter be modified, restated or amended).

"Blockage Period" has the meaning specified in Section 2.02(b).

"Change" has the meaning specified in paragraph (b) of Section 2.10.

"Citadel" has the meaning specified in the preamble to this Agreement.

"Citadel Agreement Payment Default" means an Event of Default under Section 9.1(a) of the Citadel Agreement.

"Citadel Event of Default" means an Event of Default as such term is defined in the Citadel Agreement.

"Citadel Indebtedness" means any and all amounts of money from time to time owing by, and any and all obligations and liabilities from time to time of, SHC under the Subordinated Documents, whether now existing or hereafter arising (as limited by the terms of this Agreement), fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for fees, indemnities, costs, expenses or otherwise, including without limitation any rights of indemnification, reimbursement, subrogation or contribution arising under the Subordinated Documents.

"Citadel Proceeding" means an Insolvency or Liquidation Proceeding in which Citadel or any Citadel Affiliate is a Petitioning Creditor; provided, however, that, if the Citadel Indebtedness is transferred, the term Citadel Proceeding shall mean an Insolvency or Liquidation Proceeding in which the holder of the Citadel Indebtedness or an Affiliate of such holder is a Petitioning Creditor.

"Credit Agreement" shall mean each credit agreement, loan agreement, note purchase agreement and each other agreement or arrangement between SHC and a lender or lenders to SHC or other Person or Persons providing credit support to SHC or to debt issued by or on behalf of SHC, as the same may be amended, restated, modified or supplemented from time

to time, including without limitation the Nationwide Agreement and collectively, the Citadel Agreement and the Subordinated Documents.

"Creditor" shall mean each of Nationwide and Citadel, in their respective roles as lender to SHC.

"Final Order" means a judgment by a court of competent jurisdiction, not subject to further appeal or with respect to which the time to appeal has lapsed.

"Fully Paid" means, with respect to the Nationwide Indebtedness, for purposes only of this Agreement, as of any date, that on or before such date (i) the principal of such Nationwide Indebtedness shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide, (ii) all interest accrued on such Nationwide Indebtedness as of such date (including interest accrued after, or that would have accrued but for, the filing of a petition under Title 11 of the United States Code (or any successor statute thereto) or the institution or initiation of any other Insolvency or Liquidation Proceeding, in accordance with the terms of such Nationwide Indebtedness) shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide, and (iii) all fees and expenses and other amounts then due and payable that constitute Nationwide Indebtedness shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide; provided, however, that if, at any time after the Nationwide Indebtedness is determined to be "Fully Paid" for purposes of this Agreement, any other amounts that constitute Nationwide Indebtedness become due and payable, such other Nationwide Indebtedness shall be "Fully Paid" for such purpose only upon satisfaction of the conditions specified in foregoing clause (i), (ii) or (iii), as the case may be, and the provisions of this Agreement shall remain, or shall be revived and thereafter remain, in full force and effect, with respect only to the principal amount of the Citadel Indebtedness then outstanding and accrued interest thereon, and any other amounts payable with respect thereto, then unpaid, until such other Nationwide Indebtedness shall be Fully Paid pursuant hereto.

"Insolvency or Liquidation Proceeding" means (i) any insolvency or bankruptcy case or proceeding (including any case under the Bankruptcy Code), or any receivership, liquidation, reorganization or other similar case or proceeding relative to SHC or all or substantially all of its assets, or (ii) any liquidation, dissolution, reorganization or winding up of SHC, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (iii) any assignment of all or substantially all of the assets of SHC for the benefit of creditors or any other marshaling of assets and liabilities of SHC.

"Nationwide" has the meaning specified in the preamble to this Agreement.

"Nationwide Accrual" means interest on the principal of the Nationwide Indebtedness (i) relating to any period in respect of which either (x) Citadel Cinemas has failed to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) or (y) as a result of the failure by Citadel Cinemas to perform any of its obligations under any of the Operational Documents, SHC has applied Basic Rent received by it to perform such obligations, in each case under clause (x) or (y) limited to the lesser of (a) the amount which Citadel Cinemas failed to so pay or the amount which SHC has so applied, as the case may be, and (b) the amount of such interest, or (ii) which remains unpaid and accruing on such principal (or, but for the filing of a Citadel Proceeding, that would have accrued on such principal) during the pendency of a Citadel Proceeding if there is a Bad Faith Determination with respect to such Citadel Proceeding.

"Nationwide Agreement" has the meaning specified in the recitals to this Agreement, as any document, instrument or agreement comprising the Nationwide Agreement may from time to time be amended, modified or supplemented, and any agreement or other document or instrument pursuant to which any principal of or interest on or other amounts payable in respect of indebtedness thereunder of SHC (or any successor Person to SHC (whether by merger, consolidation, or acquisition of all or substantially all of its assets)) may be renewed, extended, refinanced, restructured, refunded or guaranteed, in each case as permitted in accordance with Section 2.10(c) of this Agreement.

"Nationwide Event of Default" means an Event of Default as such term may be defined in the Nationwide Agreement.

"Nationwide Indebtedness" means any and all indebtedness, obligations and liabilities of SHC from time to time outstanding under the Nationwide Agreement, in a principal amount not to exceed the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal (subject to the aforesaid limitation), premium, interest (including interest accruing before or after the commencement of any Insolvency or Liquidation Proceeding or interest that would have accrued but for the commencement of such Insolvency or Liquidation Proceeding, to the date of payment, even if the claim for such interest is not allowed pursuant to Applicable Law), fees, indemnities, costs, expenses or otherwise.

"Petitioning Creditor" with respect to any Insolvency or Liquidation Proceeding means each of the creditors that filed the petition to commence or otherwise commenced such Insolvency or Liquidation Proceeding.

"Reading" means Reading Entertainment, Inc., a Nevada corporation, and its successors.

"Retained Claims" has the meaning specified in Section 2.11(h) hereof.

"SHC" has the meaning specified in the preamble to this Agreement.

"Subordinated Documents" means the Citadel Agreement and the Note (if and when executed) and all other promissory notes and other instruments, agreements and documents executed at any time pursuant to the Citadel Agreement or in connection therewith between SHC and Citadel, including all other Related Documents, and all amendments, modifications, supplements, extensions, renewals, restatements, refundings and refinancings affecting the Citadel Agreement and all such other notes, instruments, agreements and documents.

"Trigger Event" means the occurrence of any of the following events:

(a) An Insolvency or Liquidation Proceeding excluding such Insolvency or Liquidation Proceeding caused by or in any way resulting from a Tenant Event;

(b) Acceleration of the Nationwide Indebtedness;

(c) Acceleration of the Citadel Indebtedness as a result of a Citadel Agreement Payment Default or a failure to make payment when due under the Nationwide Agreement following the expiration of applicable notice or grace period thereunder; or

(d) The occurrence of an Event of Default under the Citadel Agreement pursuant to Section 9.1(c) thereof arising as a result of a default by SHC under any of Section 6.8, 6.9, 7.1, 7.2, 7.3, 7.4, 7.5, 7.7, 7.9, 7.11, 7.12 or 7.13 thereof.

Section 1.02 Construction. References herein to the plural form include the singular, and the singular include the plural; the word "including" is not limiting; and the word "or" is not exclusive. The words "hereof", "wherein", "hereby", and "hereunder" refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, exhibit and schedule references are to articles and sections of, and exhibits and schedules to, this Agreement, unless otherwise expressly indicated.

ARTICLE II TERMS OF SUBORDINATION

Section 2.0 Subordination of Indebtedness. Citadel, for itself and its successors and assigns, hereby agrees that (a) to the extent and in the manner provided in this Agreement, and under

the circumstances provided in Sections 2.02 and 2.04 hereof, the Citadel Indebtedness is hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Nationwide Indebtedness, (b) the subordination provided herein is for the benefit of Nationwide and its permitted successors and assigns, (c) Nationwide shall be deemed to have extended or acquired the Nationwide Indebtedness, whether now outstanding or hereafter created, incurred, assumed or guaranteed, in reliance upon the covenants and provisions contained in this Agreement, and (d) the provisions of this Agreement apply notwithstanding anything to the contrary in the Subordinated Documents. Notwithstanding anything contained herein or in any other document related hereto to the contrary, however, in no event shall the Citadel Indebtedness be subordinate to a principal amount of Nationwide Indebtedness which exceeds the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement.

Section 2.0 No Payment on Citadel Indebtedness in Certain Circumstances.

(a) Upon the maturity of any Nationwide Indebtedness, whether at the final maturity thereof, by lapse of time, acceleration or otherwise (including the scheduled time of payment (including any mandatory prepayment) of any principal or interest), all principal thereof that is then due and payable (up to the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement) and interest thereon and interest thereafter accruing pursuant to the terms of the Nationwide Agreement (including interest that would have accrued but for the commencement of any Insolvency or Liquidation Proceeding) and other amounts constituting Nationwide Indebtedness that are then due and payable or thereafter accruing in accordance with the Nationwide Agreement and, to the extent so provided for therein or otherwise permitted by law, interest on such other amounts shall first be Fully Paid, before any payment or distribution is made by SHC on account of the Citadel Indebtedness.

(b) Upon the occurrence and during the continuation of a Nationwide Event of Default, no direct or indirect payment or distribution shall be made by SHC on account of any Citadel Indebtedness, for a period (the "Blockage Period") beginning on the date of the occurrence of the Nationwide Event of Default in question and ending upon the earliest to occur of the following: (i) when such Nationwide Event of Default shall have been cured by SHC or waived in writing by Nationwide, (ii) when Nationwide shall have waived in writing the application of this Section 2.02(b) to such Nationwide Event of Default, or (iii) when the Nationwide Indebtedness is Fully Paid.

(c) Except as expressly prohibited in paragraphs (a) and (b) of this Section 2.02, nothing contained herein or in any other document or agreement shall prohibit or restrict SHC from paying the Citadel Indebtedness as and when due.

(d) If Citadel shall have received any payment or distribution in contravention of the provisions of paragraph (a) or (b) of this Section 2.02, such payment or distribution shall be held in trust for Nationwide and shall be promptly paid over to Nationwide for application to the payment of the Nationwide Indebtedness, until any of the events described in Sections 2.02(b)(i), 2.02(b)(ii) and 2.02(b)(iii) shall have occurred.

(e) Each of the Creditors shall give prompt notice to the other Creditor of the occurrence and the type of any Nationwide Event of Default or Citadel Event of Default, as the case may be, or if a payment or distribution would constitute or result in a Nationwide Event of Default or Citadel Event of Default, as the case may be. Nationwide shall confirm in writing, in response to a written request from Citadel or any of its Affiliates, whether or not Nationwide shall have received payment from SHC of any obligation of SHC to Nationwide specified in such request. If such confirmation is not provided within ten (10) Business Days following Nationwide's receipt thereof, the requesting party can assume that such payment(s) had not been made. Failure to give any of such notices in the foregoing sentences shall not affect the subordination of the Citadel Indebtedness to the Nationwide Indebtedness as provided herein.

(f) The provisions of this Section 2.02 shall not modify or limit in any way the application of Section 2.04.

Section 2.03. Actions in Respect of Citadel Indebtedness.

(a) Subject in all cases to the terms of this Agreement, Citadel may (1) accelerate the Citadel Indebtedness in accordance with the terms of the Subordinated Documents; (2) file a claim in respect of the Citadel Indebtedness in any Insolvency or Liquidation Proceeding; and (3) take all other action necessary to enforce and protect its rights with respect to the Citadel Indebtedness.

(b) In the event of a Citadel Agreement Payment Default, Citadel is entitled to exercise all rights and remedies pursuant to the terms of the Citadel Agreement and the Subordinated Documents. In the event of a Citadel Event of Default other than a Citadel Agreement Payment Default, Citadel is entitled to exercise all rights and remedies pursuant to the terms of the Citadel Agreement and the Subordinated Documents following the earliest to occur of the following: (i) Nationwide has waived this provision in writing; (ii) the Nationwide Indebtedness is Fully Paid; (iii) the Nationwide Indebtedness is accelerated; and (iv) the expiration of ninety (90) days from the occurrence of the Citadel Event of Default in question. If the Citadel Event of Default in question is cured within the time period set forth in clause (iv) of this paragraph (b) and prior to the occurrence of the event described in clause (i), (ii) or (iii) above, then, for all purposes of this Agreement, such Citadel Event of Default shall be deemed never to have existed. Nothing contained in this Section 2.03 shall

in any way affect the rights and remedies of the parties contained in the other provisions of this Agreement in the event of an Insolvency or Liquidation Proceeding.

(c) Notwithstanding anything contained herein to the contrary, Nationwide, for itself and its successors and assigns, agrees that (i) it will not voluntarily release, subordinate or surrender, or, except in connection with an assignment of the Nationwide Indebtedness, sell or exchange, its Lien on the Equity Collateral unless and until the Nationwide Indebtedness shall have been Fully Paid or Citadel shall have given its prior consent to such release, and (ii) if Citadel shall be subrogated to the rights and interests of Nationwide pursuant to Section 2.06 hereof or shall acquire the Nationwide Indebtedness pursuant to Section 2.11(h) hereof, Nationwide shall assign to Citadel, without recourse to, or representation or warranty by, Nationwide, Nationwide's Lien on the Equity Collateral and the Borrower Collateral to the extent of such Lien.

Section 2.04 Subordination on Dissolution, Liquidation or Reorganization of SHC. In the event of any Insolvency or Liquidation Proceeding:

(a) Unless Nationwide agrees to a different treatment with respect to its claim for the Nationwide Indebtedness (as to which Nationwide shall have absolutely no obligation), upon any distribution of assets of SHC of any kind or character, whether in cash, securities or other property, arising out of such Insolvency or Liquidation Proceeding, all Nationwide Indebtedness shall be Fully Paid before Citadel is entitled to receive any payment or distribution on account of any Citadel Indebtedness;

(b) Any payment or distribution of assets of SHC of any kind or character, whether in cash, securities or other property (including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of SHC being subordinated to the Citadel Indebtedness), to which Citadel would be entitled except for the provisions of this Section 2.04, shall be paid by SHC, as debtor in possession, or any bankruptcy trustee or other agent or other Person making such payment or distribution directly to Nationwide, until all Nationwide Indebtedness remaining unpaid is Fully Paid, after giving effect to any concurrent payments or distributions to or for Nationwide for application to the payment of the Nationwide Indebtedness, or any of the events described in Section 2.02(b)(i), (ii) or (iii) shall have occurred; and

(c) If, notwithstanding the foregoing provisions of this Section 2.04, Citadel shall have received any payment or distribution of assets of SHC, or the estate created by the commencement of any such Insolvency or Liquidation Proceeding, of any kind or character in respect of the Citadel Indebtedness, whether in cash, securities or other property, before all Nationwide Indebtedness shall have been Fully Paid, such payment or distribution shall be received and held in trust for Nationwide, and shall promptly be paid over or delivered to

Nationwide, for the benefit of Nationwide, until all Nationwide Indebtedness then remaining unpaid is Fully Paid, after giving effect to any concurrent payments or distributions to or for Nationwide for application to the Nationwide Indebtedness, or any of the events described in Section 2.02(b)(i), (ii) or (iii) shall have occurred.

Section 2.05. Liens. The Liens on the Collateral in favor of Citadel shall be subject and subordinate in all respects to the Liens in favor of Nationwide.

Section 2.06 Citadel to Be Subrogated to Rights of Nationwide. Only after the Nationwide Indebtedness shall have been Fully Paid, Citadel, to the extent of any payments or distributions of cash, securities and other assets with respect to the Citadel Indebtedness made to or for Nationwide pursuant to this Agreement, shall be subrogated to the rights of Nationwide to receive any and all payments or distributions of cash, securities and other assets payable with respect to the Nationwide Indebtedness until all amounts owing on the Citadel Indebtedness shall have been paid in full. For the purpose of such subrogation, no such payments or distributions to or for Nationwide that otherwise would have been made to Citadel but for this Agreement shall, as between SHC and Citadel, be deemed to be payment by SHC on account of the Citadel Indebtedness; provided, however, that (x) unless and until, as between Nationwide and Citadel, the Nationwide Indebtedness is Fully Paid, Citadel shall not have the right, ability or power to exercise any rights or remedies in respect of or by reason of such subrogation and (y) such rights of subrogation, and any claims of Citadel with respect thereto, are nevertheless limited by and subject to Section 11.12 of the Citadel Agreement.

Section 2.07. Relative Rights. (a) This Agreement defines the relative rights of Citadel, on the one hand, and Nationwide, on the other hand. Nothing in this Agreement is intended to or shall:

(i) impair, as between SHC and Citadel, the obligation of SHC to pay the amounts payable with respect to the Citadel Indebtedness as and when the same shall become due and payable in accordance with its terms; or

(ii) affect the relative rights against SHC of Citadel and creditors of Citadel other than Nationwide.

(b) Notwithstanding anything herein or elsewhere to the contrary, if SHC fails, because of this Agreement or otherwise, to pay principal of or interest on the Citadel Indebtedness on the due date thereof, such failure shall still be considered an Event of Default under paragraph (a) of Section 9.1 of the Citadel Agreement except as otherwise provided in said paragraph (a).

Section 2.08 Continued Effectiveness of this Agreement.

(a) The terms of this Agreement, the subordination effected hereby, and the rights of Nationwide and the obligations of Citadel arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (i) any amendment, modification or termination of or supplement to the Nationwide Indebtedness or the Nationwide Agreement, or any agreement, instrument or document executed or delivered pursuant thereto; (ii) the validity or enforceability of any such document; (iii) the release, sale, exchange or surrender, in whole or in part, of any collateral security, now or hereafter existing, for any of the Nationwide Indebtedness or any other indebtedness, liability or obligations of SHC to Nationwide, now existing or hereafter arising; (iv) any exercise or non-exercise of any right, power or remedy under or in respect of the Nationwide Indebtedness or any of such instruments and documents referred to in clause (i) above or arising at law; or (v) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, inaction or omission in respect of the Nationwide Indebtedness or any of the agreements, instruments or documents referred to in clause (i) above or in respect of any collateral security for the Nationwide Indebtedness or any other indebtedness, liability or obligation of SHC to Nationwide, now existing or hereafter arising, all whether or not Citadel shall have had notice or knowledge of any of the foregoing and whether or not Citadel shall have consented thereto.

(b) The terms of this Agreement, and the rights of Citadel and the obligations of Nationwide arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (i) any amendment, modification or termination of or supplement to the Citadel Indebtedness or the Subordinated Documents, or any agreement, instrument or document executed or delivered pursuant thereto; (ii) the validity or enforceability of any such document; (iii) the release, sale, exchange or surrender, in whole or in part, of any collateral security, now or hereafter existing, for any of the Citadel Indebtedness or any other indebtedness, liability or obligations of SHC to Citadel, now existing or hereafter arising; (iv) any exercise or non-exercise of any right, power or remedy under or in respect of the Citadel Indebtedness or any of such instruments and documents referred to in clause (i) above or arising at law; or (v) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, inaction or omission in respect of the Citadel Indebtedness or any of the agreements, instruments or documents referred to in clause (i) above or in respect of any collateral security for the Citadel Indebtedness or any other indebtedness, liability or obligation of SHC to Citadel, now existing or hereafter arising, all whether or not Nationwide shall have had notice or knowledge of any of the foregoing and whether or not Nationwide shall have consented thereto.

Section 2.09 Provisions to Effectuate Subordination of Citadel
Indebtedness.

(a) In the event of any Insolvency or Liquidation Proceeding, Nationwide is irrevocably authorized and empowered, in its discretion, to make and present for and on behalf of Citadel such proofs of claim against SHC on account of the Citadel Indebtedness or other motions or pleadings as Nationwide may deem expedient or proper, to vote such proofs of claim in any such Insolvency or Liquidation Proceeding, to the extent permitted by law, and to receive and collect any and all payments or distributions made thereon in whatever form and to apply such payments or distributions on account of any of the Nationwide Indebtedness. Citadel irrevocably authorizes and empowers Nationwide to demand, sue for, collect and receive each of such payments and distributions and to file claims and take such other actions, in the name of Nationwide or Citadel or otherwise, as Nationwide may deem necessary or advisable for the enforcement of this Agreement. To the extent that payments or distributions are made in property other than cash, Citadel authorizes Nationwide to sell such property to such buyers and on such terms as Nationwide, in its reasonable discretion, shall determine. Citadel will execute and deliver to Nationwide such powers of attorney, assignments and other instruments or documents as may be requested by Nationwide in order to enable Nationwide to enforce any and all claims upon or with respect to the Citadel Indebtedness and to collect and receive any and all payments and distributions which may be payable or deliverable at any time with respect thereto.

(b) Nationwide agrees that it will not exercise any of the rights or remedies under paragraph (a) of this Section 2.09 unless Citadel has failed to implement any action in question within ten (10) days prior to when such action is required pursuant to an Insolvency or Liquidation Proceeding.

(c) Citadel specifically waives: unless Nationwide shall otherwise give its prior written consent or the Nationwide Indebtedness is Fully Paid, (i) the right to seek to give its credit (secured or otherwise) to SHC in any way under Section 364 of the Bankruptcy Code unless the same is subordinated in all respects to the Nationwide Indebtedness in accordance with the terms and conditions of this Agreement; (ii) the right to take a position inconsistent with or contrary to that of Nationwide (including a position by Nationwide to take no action) if SHC seeks to use, sell or lease the Collateral under Section 363 of the Bankruptcy Code or seeks to accept or reject any executory contract or lease under Section 365 of the Bankruptcy Code; (iii) the right to receive any collateral (including any "super priority" or equal or "priming" or replacement Lien) for the Citadel Indebtedness, other than the Equity Collateral and the Borrower Collateral, in each case subject to Nationwide's Liens thereon to the extent provided herein; and (iv) the right to seek adequate protection in respect of the Collateral under Section 363 or 361 of the Bankruptcy Code, unless and then only to the extent that

Nationwide does and then only to the extent consistent with the subordinated position of Citadel.

Section 2.10 Subordination not Impaired by Acts or Omissions of SHC or Nationwide. (a) No right of Nationwide to enforce subordination as provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of SHC or, except as provided in Section 2.10(c), by any act or failure to act by Nationwide, or by any noncompliance by SHC with the provisions and covenants of the Nationwide Agreement or the Subordinated Documents, regardless of any knowledge thereof that Nationwide may have or be otherwise charged with and regardless of whether such action or failure to act diminishes or destroys any subrogation or other rights that Citadel may have or reduces or eliminates any eventual recovery in respect of the Citadel Indebtedness. Without in any way limiting the generality of the foregoing, Nationwide may, at any time and from time to time, without the consent of or notice to Citadel, except as provided in Section 2.10(c), without incurring responsibility to Citadel and without impairing or releasing the subordination and other benefits provided in this Agreement or the obligations hereunder of Citadel to Nationwide, do any one or more of the following even if any right to reimbursement or subrogation or other right or remedy of Citadel is affected, impaired or extinguished thereby:

(i) change the manner, place or terms of payment or extend, renew, modify or amend the terms of the Nationwide Indebtedness or any agreement or instrument evidencing, securing or guarantying any Nationwide Indebtedness (including increasing the amount of principal, changing the time and amount of repayments, increasing the rate of interest or otherwise changing the terms of the Nationwide Agreement), exercise or delay in or refrain from exercising any right or remedy against SHC and otherwise deal freely with SHC or any liability of SHC;

(ii) release, exercise or delay in or refrain from exercising any right or remedy against, change the terms of any agreement or instrument with or otherwise deal freely with any guarantor or any other Person liable or contingently liable in any manner for the Nationwide Indebtedness or any such liability or contingent liability;

(iii) settle or compromise any of the Nationwide Indebtedness or any other liability of SHC or any guarantor of the Nationwide Indebtedness to Nationwide and apply any sums by whomsoever paid and however realized to any liability (including, without limitation, the Nationwide Indebtedness) in any manner or order; and

(iv) fail to take or to record or otherwise perfect, for any reason or for no reason, any Lien securing the Nationwide Indebtedness by whomsoever granted, and release, sell, exercise or delay in or refrain from exercising any right or remedy against, exchange, enforce, realize upon, or otherwise deal freely with, in any manner and in any order, any of the Collateral.

(b) Except as provided in Section 2.10(c), Citadel hereby waives any and all notice of the creation, modification, renewal, extension or accrual of any Nationwide Indebtedness and notice of or proof of reliance by Nationwide upon this Agreement, and the Nationwide Indebtedness shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Agreement, and all dealings between SHC and Nationwide shall be deemed to have been consummated in reliance on this Agreement.

(c) Notwithstanding anything contained in this Agreement or any other agreement to the contrary, the consent of Citadel shall be required for (i) any amendment or modification of the Nationwide Agreement (any of the foregoing being a "Change") (A) changing the dates of payment of interest, principal, fees or costs in respect of the Nationwide Indebtedness or shortening the maturity of or requiring the earlier payment of any principal or interest in respect of the Nationwide Indebtedness, (B) increasing the rate of interest or the amount of any payments (including the amount of any fees payable in respect of the Nationwide Indebtedness), except for the increase in rate provided for therein following maturity thereof, whether at stated maturity, by acceleration or otherwise, or (C) adding any requirement for SHC to pay any additional fees in respect of the Nationwide Indebtedness, or (ii) any Change making any material terms and conditions of the Nationwide Agreement more restrictive or burdensome on SHC than the terms and conditions of the Nationwide Agreement delivered to Citadel and in effect on the date hereof. If any Change is made in contravention of this Section 2.10(c), any additional liabilities or obligations to Nationwide imposed thereby on SHC shall not constitute obligations secured by the Collateral and, with respect to such additional liabilities or obligations, Nationwide shall not be entitled to any of the benefits of this Agreement, the Security Agreement or the Pledge Agreement.

Section 2.11 Additional Agreements and Waivers.

(a) Citadel hereby waives (i) any requirement for marshaling of assets by Nationwide in connection with any foreclosure of the Liens of Nationwide on any Collateral or any other realization upon such Collateral, and (ii) any other principle of election of remedies.

(b) Nationwide shall not have any obligation or duty, nor shall Citadel have any right to direct Nationwide, to retain, perfect, protect or release any Collateral (except as provided in Section 2.03(c)), to foreclose or refrain from foreclosing the Lien of Nationwide on any Collateral, to act or refrain from acting with respect to any Nationwide Event of Default, to act or refrain from acting with respect to the collection of any claim from any account debtor, guarantor or any other party, to realize upon any collateral or otherwise to

exercise or refrain from exercising any rights or remedies in respect of such Lien or such Collateral. Except with respect to a violation of Section 2.03(c), Nationwide shall not be subject to any liability on account of taking or refraining from taking any action referred to in this Section 2.11(b), and Citadel waives and agrees to refrain from asserting against Nationwide any claim seeking damages or other relief by way of specific performance, injunction or otherwise, with respect to any action taken or not taken by Nationwide with respect to SHC, the Collateral or any other Person. Without limiting the foregoing, Citadel waives the right to commence or pursue any legal action on account of the exercise or non-exercise of rights, remedies or other conduct of Nationwide under the Nationwide Agreement or any document entered into in connection therewith, including allegations based on a theory of breach of fiduciary obligations of Nationwide, duty of care, duty of good faith, duty of reasonableness, negligence, equitable subordination of claims, interference with contractual relationships, conflicts of interest or otherwise, except for willful misconduct by Nationwide or a violation of Section 2.03(c) hereof.

(c) Solely between Nationwide and Citadel, Citadel assumes responsibility for keeping itself informed as to the condition (financial or otherwise), business, assets and operations of SHC, the condition of the Collateral and all other circumstances that might in any way affect Citadel's risk under the Subordinated Documents and this Agreement (including without limitation the risk of non-payment of the Nationwide Indebtedness), and Nationwide shall have no duty or obligation whatsoever to obtain or disclose to Citadel any information or documents relative to such condition (financial or otherwise), business, assets or operations of SHC, such Collateral or such risk, whether acquired by Nationwide in the course of its relationship with SHC or otherwise. The terms of this Section 2.11(c) shall not impair or affect SHC's obligations arising under any Credit Agreement or any of the Subordinated Documents.

(d) Citadel agrees that the subordination hereunder applies regardless of the validity or enforceability of the Nationwide Indebtedness or the Nationwide Agreement or the validity, perfection or enforceability of the Liens securing the Nationwide Indebtedness.

(e) Citadel agrees not to (i) take any action to challenge the validity, enforceability or amount of any guaranty of the Nationwide Indebtedness given by any other Person, (ii) induce any other Person to take such action, or (iii) cooperate with any other Person in taking such action.

(f) Within fifteen (15) days following the written request from Nationwide or SHC, Citadel shall deliver to SHC and Nationwide an estoppel certificate setting forth (i) the amount of principal and interest then due, if any, and other amounts then payable (to the extent then ascertainable), if any, in respect of the Citadel Indebtedness and (ii) whether or not the Subordinated Documents have been amended since the date hereof or the date of the

last such certificate delivered pursuant hereto, as the case may be, and if so, providing a copy of the relevant amendment documents.

(g) Within fifteen (15) days following the written request from Citadel, each of Nationwide and SHC shall deliver to Citadel an estoppel certificate setting forth (i) the amount of principal and interest then due, and other amounts then payable (to the extent ascertainable), in respect of the Nationwide Indebtedness and (ii) whether or not the Nationwide Agreement has been amended since the date hereof or the date of the last such certificate delivered pursuant hereto, as the case may be, and, if so, providing a copy of the relevant amendment documents. Nationwide confirms that, as of the date hereof, the outstanding principal sum of the Nationwide Indebtedness is eleven million Dollars (\$11,000,000), and no other sums are now accrued or payable under the Nationwide Agreement except accrued interest, not currently due, in accordance with the terms of the Nationwide Agreement.

(h) (i) At any time following a Trigger Event, upon the request of Citadel and upon at least five (5) Business Days' prior written notice to Nationwide, Nationwide will assign to Citadel, without any recourse to, or representation or warranty by, Nationwide, the Nationwide Agreement (other than Nationwide's claims, if any, in respect of interest and other fees and costs thereunder, to the extent not included in the Nationwide Accrual) (the "Retained Claims"), which Retained Claims shall be retained by and remain the property of Nationwide) upon the payment to Nationwide, or as it may direct in writing, of the sum of (x) the principal amount of the Nationwide Indebtedness or \$11,000,000, whichever is less, and (y) the Nationwide Accrual; provided, however, that the Nationwide Indebtedness and the Nationwide Agreement, as assigned, will then be subject to Section 11.12 of the Citadel Agreement. Upon such assignment, this Agreement shall terminate and all rights and obligations between Nationwide and Citadel shall terminate, except as provided in this Section 2.11(h). Upon such assignment, the combined assigned Nationwide Indebtedness and the Citadel Indebtedness shall be treated for purposes of this Agreement as if such combined Indebtedness were the Nationwide Indebtedness and the Retained Claims shall be treated as if such Retained Claims were the Citadel Indebtedness; provided, however, that nothing herein shall affect, limit or impair the right of Nationwide to enforce, collect and retain free from any limitations or restrictions of this Agreement payment of the Retained Claims from any Person other than SHC.

(ii) At Citadel's election, payment to Nationwide or an Affiliate thereof for the amount required to be paid pursuant to subsection 2.11(h)(i) may be made by it or an Affiliate making and delivering a note for the full amount due, payable in full ninety (90) days from its date, with interest thereon payable at the rate of 8.25% monthly in arrears and on the date of payment in full (increasing to 9.75% following maturity thereof, whether at stated maturity, by acceleration or otherwise); provided, however, that Nationwide (or such

Affiliate) may require that the maturity date of the note be extended to such later date, not beyond the expiration of the Initial Term of the Lease Agreement as may be requested by Nationwide (or such Affiliate) in a notice given to Citadel not later than sixty (60) days prior to the originally stated maturity date of such note, in which case the maker of the note and, if applicable, the guarantor thereof shall execute and deliver such additional documents to confirm such extension as may be appropriate. Such note, if made by an Affiliate of Citadel, shall be fully guaranteed as to payment by Citadel, or may in the first instance be made by Citadel (in which case no guaranty shall be required). The note and, if applicable, the guaranty shall be on terms and conditions reasonably satisfactory to Nationwide. The option provided herein in favor of Citadel to pay through delivery of a note and, if applicable, a guaranty shall not be available in connection with the exercise of the Purchase Option pursuant to the Lease Agreement and any such note shall be pre-payable in full upon the closing pursuant to the Purchase Option or the purchase or other acquisition by Citadel (or an Affiliate) of the Membership Interest in SHC.

(iii) Upon the payment to Nationwide of the amount required to be paid to it pursuant to subsection 2.11(h)(i) (whether in cash or by the making and delivery of a note and, if applicable, a guaranty), Nationwide shall, as Citadel may request, either satisfy or assign (without recourse to, or representation or warranty by, Nationwide) as Citadel shall direct any and all Liens securing the Nationwide Indebtedness and any claims (other than the Retained Claims) with respect thereto; provided, however, that such Liens and claims, if so assigned, will be subject to the limitations of Section 11.12 of the Citadel Agreement. Any and all Retained Claims shall be unsecured claims and any judgment thereon shall not be enforced against or be or become Liens on any assets of SHC.

(iv) If the Trigger Event is a Citadel Proceeding and if a Bad Faith Determination is entered with respect thereto, then Citadel shall be liable: (x) to Nationwide, for all costs and expenses (including reasonable fees and expenses of counsel and other professional advisors) incurred by Nationwide in connection with the Citadel Proceeding and in seeking such Bad Faith Determination and for interest (at the Reimbursement Rate) on any taxes paid by Nationwide as a result of the transfer or repayment of the Nationwide Indebtedness for the period from the date such taxes were paid until the date such taxes would have been paid if the Nationwide Indebtedness had been repaid at the maturity date thereof; and (y) to SHC and its Affiliates, for all costs and expenses (including reasonable fees and expenses of counsel and other professional advisors) incurred by SHC and its Affiliates in connection with the Citadel Proceeding and in seeking such Bad Faith Determination. If following the initiation of a Citadel Proceeding either Nationwide or any of its Affiliates or SHC or any of its Affiliates, or any other Person acting in concert with or with the support of any of them, unsuccessfully asserts a claim for a Bad Faith Determination, then Nationwide (if it or any of its Affiliates asserted such claim) or James J. Cotter and Michael R. Forman (if SHC or any of its Affiliates asserted such claim) shall be

liable to Citadel for all costs and expenses (including reasonable fees and expenses of counsel and other professionals) incurred by Citadel in defending against the claim for a Bad Faith Determination.

Section 2.12. Transferees of Creditors; Notice of Subordination.

(a) Each Creditor shall not at any time sell, assign, pledge, hypothecate, or otherwise transfer its Credit Agreement (or any of its respective rights or interests therein), unless and until the transferee, pledgee, or other appropriate party shall have assumed in a writing, reasonably satisfactory to the other, all of the transferring, pledging, or hypothecating Creditor's obligations under this Agreement.

(b) Each Creditor warrants and represents to the other Creditor that it has not previously assigned any interest in its respective Indebtedness, that no party owns an interest in its Indebtedness other than itself and that its entire Indebtedness is owing only to it. Each Creditor covenants that its entire Indebtedness shall continue to be owing only to it, unless assigned or transferred in accordance with the terms of this Agreement.

Section 2.13. Representations and Warranties. (a) Each Creditor hereby represents and warrants for the benefit of the other as follows: (i) the execution, delivery and performance of this Agreement are within its corporate power and authority and have been duly authorized by all necessary corporate action and this Agreement constitutes the legal, valid and binding obligation of each Creditor enforceable against it in accordance with its terms, except as enforceability may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally; and (ii) all consents for, in the case of Nationwide, the amending of the Existing Nationwide Agreement to the Nationwide Agreement and, in the case of Citadel, the funding to SHC pursuant to the Citadel Agreement have been obtained and are in effect (or will be obtained and in effect upon the date of funding).

(b) Nationwide hereby represents to Citadel that, upon the tender in cash of the amount of the Nationwide Indebtedness in the amount and subject to the conditions set forth in Section 2.11(h)(i) hereof, the assignment provided for in said Section 2.11(h)(i) will be provided whether or not Nationwide is then the holder of the Nationwide Indebtedness.

Section 2.14. Restriction on Amendments to Subordinated Documents. Neither SHC nor Citadel shall, without the prior written consent of Nationwide, waive, amend or modify any of the terms and conditions of any Subordinated Document if the effect of such waiver, amendment or modification is to (a) advance maturity dates, (b) increase rates or amounts of payments, (c) change any provision herein, or (d) otherwise make any such terms and conditions more restrictive or burdensome on SHC than the terms and conditions of the Subordinated Documents delivered to Nationwide and in effect on the date hereof or at the time of such amendment or modification.

Section 2.15. Continuing Agreement of Subordination. This is a continuing agreement of subordination and Nationwide may continue, at any time and without notice to Citadel, to extend credit or other financial accommodations to or for the benefit of SHC in reliance hereon. This Agreement shall be effective and may not be terminated or otherwise revoked by Citadel until the Nationwide Indebtedness has been Fully Paid. If Citadel shall have any right under Applicable Law or otherwise to terminate or revoke this Agreement which cannot be waived, then, to the extent permitted by law, such termination or revocation shall not be effective until written notice of such termination or revocation, signed by Citadel, is given to the holder of such Nationwide Indebtedness. Any such termination or revocation shall not affect this Agreement in relation to (a) any Nationwide Indebtedness which arose prior to the receipt thereof, or (b) any of the Nationwide Indebtedness created after receipt thereof, if such Nationwide Indebtedness was incurred either through committed advances or re-advances by Nationwide pursuant to the Nationwide Agreement.

Section 2.16. Further Assurances.

(a) Upon the occurrence and during the continuation of a Nationwide Default, Citadel shall duly and promptly take such action as Nationwide may reasonably request (a) to collect the Citadel Indebtedness for the account of Nationwide and to file appropriate claims or proofs of claims in respect of the Citadel Indebtedness, (b) to execute and deliver to Nationwide such assignments or other instruments as Nationwide may reasonably request in order to enable it to enforce any and all claims with respect to the Citadel Indebtedness and any security interests securing payment of the Citadel Indebtedness, and (c) to collect and receive any and all payments or distributions which may be payable or deliverable with respect to the Citadel Indebtedness.

(b) Nothing contained in this Agreement shall affect Citadel's obligations to make any advances pursuant to the terms of the Citadel Agreement.

ARTICLE III MISCELLANEOUS

Section 3.01 Amendments, Etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by any party hereto therefrom, shall in any event be effective unless the same shall be in writing, making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings signed by or consented to by all the parties hereto, and then such amendment, waiver, modification or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 3.02 Notices, Etc. All notices, offers, acceptances, approvals, waivers, requests, demands and other communications required or permitted hereunder or under any other instrument,

certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 3.02. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to Citadel:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 235-2220
Attention: Chief Financial Officer

with required copies to

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street, Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 235-2229

If to SHC:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Department
Telecopier No.: (310) 652-6490

If to Nationwide:

Nationwide Theatres Corp.
c/o Pacific Theatres
Los Angeles, California 90048
Attention: Legal Department
Telecopier No.: (310) 652-6490

with required copies to

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

Each such notice, request or other communication shall be effective when actually received.

Section 3.03 No Waiver; Remedies. No failure on the part of any party hereto to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 3.04 Costs and Expenses. Each Creditor agrees to pay on demand all costs and expenses of the other Creditor in connection with the successful enforcement of this Agreement against the first Creditor (including without limitation for reasonable fees and expenses of counsel).

Section 3.05 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Section 3.06 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 3.07 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature

page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 3.08 Waiver of Jury Trial. THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 3.09 Evidence of Understanding. Citadel shall, promptly upon the request of Nationwide, and Nationwide shall, promptly upon the request of Citadel, execute and deliver such other documents and instruments as Nationwide or Citadel, as the case may be, may deem reasonably necessary or appropriate (in proper form for recording or filing, if requested) to more fully implement or further evidence the understandings and agreements contained in this Agreement.

Section 3.10 Conflict of Provisions. In the event of any conflict between any term, covenant or condition of this Agreement and any term, covenant or condition of the Nationwide Agreement, the Subordinated Documents, or any documents executed in connection therewith or the indebtedness evidenced thereby, the provisions of this Agreement shall control and govern.

Section 3.11 Respective Rights. This Agreement sets forth the respective rights of Citadel, on the one hand, and Nationwide, on the other hand, and, as such, has not been entered into for the benefit of SHC and may not be enforced by SHC. SHC is executing and delivering this Agreement solely to confirm to the other parties that it is aware that such other parties have entered into this Agreement and that it consents to the other parties' entering into this Agreement (though the foregoing shall not imply that SHC's consent was or is required for the execution and delivery of this Agreement by such other parties, or that its obligations pursuant to the Nationwide Agreement or the Subordinated Documents are affected in any way if an amendment is made hereto, or a waiver is granted hereunder, without SHC's consent).

Section 3.12 Termination. This Agreement shall terminate upon payment in full of the Nationwide Indebtedness and all other amounts due under the Nationwide Agreement.

Section 3.13. Section Headings. The Section headings in this Agreement are for convenience of reference only and shall not affect the interpretation hereof.

Section 3.14. Limited Recourse. SHC's obligations hereunder are intended to be the obligations of the limited liability company only and no recourse for the payment of any amount due hereunder, or for any claim based thereon or otherwise in respect thereof, shall

be had against any member of SHC or any incorporator, member, officer, director or Affiliate, as such, past, present or future of such limited liability company, it being understood that SHC is a limited liability company formed for the purpose of the transactions involved in and relating to the Citadel Agreement on the express understanding aforesaid. Nothing contained in this Section shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement, of the rights and remedies against the limited liability company or the assets of the limited liability company or affect claims under Section 5 of the Pledge Agreement or under the Indemnity Guarantee (as such terms are defined in the Citadel Agreement).

Section 3.15 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

Section 3.16 Bankruptcy. This Agreement shall be applicable both before and after the commencement, whether voluntary or involuntary, of any case under the Bankruptcy Code (or similar state law) involving SHC, and all references herein to SHC shall be deemed to apply to SHC as a debtor-in-possession and to any trustee in bankruptcy for the estate of SHC.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

READING INTERNATIONAL, INC.

By: _____

Name:

Title:

NATIONWIDE THEATRES CORP.,

By: _____

Name:

Title:

SUTTON HILL CAPITAL, L.L.C.,

By: _____

Name:

Title:

FOR PURPOSES OF THE LAST SENTENCE OF
SECTION 2.11(h)(iv) ONLY:

James J. Cotter

Michael R. Forman

EXHIBIT H

THEATRE PROPERTIES

1. The Village East Cinemas located at 181 Second Avenue, New York, New York 10013
2. The Sutton Theatre located at 205 East 57th Street, New York, New York 10022.
3. Cinemas 1, 2 and 3 located at 1001 Third Avenue, New York, New York 10022

EXHIBIT I

SITE LEASES

(a) That certain Indenture of Lease dated as of January 31, 1987 between Senyar Holding Company, as landlord, and M-Square Theaters, Inc., as tenant, covering premises at 181-189 Second Avenue, New York, New York 10003, containing the Village East Theatre, as amended by that certain First Amendment to Lease, dated as of June 15, 1989, between Senyar Holding Company and M-Square Theaters, Inc. and the letter regarding notices, dated December 20, 1993 from Senyar Holding Company to M-Square Theaters, Inc.;

(b) The ground lease dated February 9, 1961 between Andrew C. Mayer, et al., as landlord, and Turtle Bay Theatre Corporation, as tenant, covering premises at 1001, 1003 1005 and 1007 Third Avenue, New York, New York 10022, containing Cinemas 1, 2 and 3, the tenant's interest therein having been assigned to (i) Sutcin Holding Corp. pursuant to that Assignment & Assumption of Lease dated December 31, 1984 between Cinemas 5 Ltd., as successor in liquidation to Turtle Bay Theatre Corporation, and Sutcin Holding Corp., and (ii) Sutton Hill Associates pursuant to that Agreement of Purchase and Sale and related Assignment of Lease, each dated July 3, 1986 between Sutcin Holding Corp. and Sutton Hill Associates; and

(c) That certain Ground Lease dated as of August 16, 1985, between Sutcin Holding Corp., as landlord, and Sutton Hill Associates, as tenant, covering the premises at 205 East 57th Street, New York, New York 10022, containing the Sutton Theater as amended by the First Addendum to Ground Lease, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, Second Addendum to Ground Lease, dated as of January 1, 1995, between Sutcin Holding Corp. and Sutton Hill Associates, Third Addendum to Ground Lease, dated as of July 1, 1996, between Nationwide (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, Fourth Addendum to Ground Lease, dated as of July 28, 2002, between Nationwide and Sutton Hill Associates and Fifth Addendum to Ground Lease, dated as of January 29, 2002 between Nationwide and Sutton Hill Associates.

AMENDED AND RESTATED SECURITY AGREEMENT

THE SECURITY AGREEMENT, dated as of July 28, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), by and between SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (the "Grantor"), and CITADEL HOLDING CORPORATION, a Nevada corporation now known as READING INTERNATIONAL, INC. (the "Company"), is hereby amended and restated as of January 29, 2002.

W I T N E S S E T H:

WHEREAS, the Grantor and the Company have entered into a certain Citadel Standby Credit Facility, dated as of July 28, 2000 as amended and restated as of January 29, 2002 (as the same may be amended, restated, modified, or supplemented from time to time, the "Credit Agreement"), pursuant to which, at the election of the Grantor and upon the satisfaction of certain conditions precedent provided for therein, the Company has agreed to make to the Grantor certain loans in an aggregate principal amount up to eighteen million Dollars (\$18,000,000) (hereinafter referred to as the "Loans"); and

WHEREAS, as an inducement to the Company to make the Loans, if any, to the Grantor, pursuant to the terms of the Credit Agreement, the Grantor has agreed, in accordance with the terms of Section 4.1(f) of the Credit Agreement, to execute and deliver this Agreement pursuant to which the Grantor will pledge the Collateral (as hereinafter defined) in favor of the Company to secure the performance and repayment of the Grantor's Obligations (as hereinafter defined), to the extent and in accordance with the terms hereof;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Unless otherwise defined herein, terms that are defined in the Intercreditor Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Accounts" shall have the meaning assigned to that term in Article 9 of the Code.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation, and its successors or assigns (including successors or assigns as tenant under the Lease Agreement).

"Code" shall mean the Uniform Commercial Code from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to that term in Section 2 of this Agreement.

"Equipment" shall have the meaning assigned to that term in Article 9 of the Code.

"Event of Default" shall mean the occurrence of any of the following events: (1) an Event of Default (as defined in the Credit Agreement), or (2) a default on the part of the Grantor in the due performance or observance of any covenant or obligation of the Grantor contained herein, and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice from the Company to the Grantor; provided, however, that if such default is of a nature that it is capable of being cured but not within such thirty (30) day period and the Grantor shall have proceeded diligently and in good faith to complete curing such default, such thirty (30) day period shall be extended to one hundred eighty (180) days.

"General Intangibles" shall have the meaning assigned to that term in Article 9-106 of the Code.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated as of July 28, 2000, entered into by and among the Grantor, the Company and Nationwide Theatres Corp., a California corporation and its successors and assigns (hereinafter referred to as "Nationwide") as amended and restated as of January 29, 2002.

"Lease Agreement" shall mean the lease agreement between the Grantor, as lessor, and Citadel Cinemas, as lessee, dated as of July 28, 2000, as amended and restated as of January 29, 2002, as amended, modified and supplemented from time to time.

"Lien" shall mean any security interest, mortgage, pledge, hypothecation, assignment as collateral, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Nationwide Security Agreement" shall mean the agreement, dated as of July 28, 2000, entered into between the Grantor and Nationwide, as amended and restated as of January 29, 2002 pursuant to which the Grantor has granted a first security interest in the Collateral to Nationwide.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of the Grantor to the Company from time to time outstanding under the Related Documents to which the Grantor is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operational Agreements" shall have the meaning assigned to that term in the Credit Agreement.

"Proceeds" shall mean all "proceeds" as such term is defined in Section 9-306(1) of the Code on the date hereof and, in any event, shall include, without limitation, any and all collections on the foregoing.

"Properly Contested" shall have the meaning assigned to that term in the Lease Agreement.

"Taxes" shall mean any present or future taxes, levies, imposts, duties, fees, deductions, withholdings or other charges of whatever nature, including income, receipts, excise, property, sales, use, transfer, license, payroll, withholding, social security and franchise taxes now or hereafter imposed or levied by the United States, or any state, local or foreign government or by any department, agency or other political subdivision or taxing authority thereof or therein and all interest, penalties, additions to tax and similar liabilities with respect thereto.

SECTION 2. Grant of Security. As security for the prompt and complete payment when due of the Obligations, the Grantor hereby assigns, pledges, transfers and grants to the Company a continuing security interest (which shall be subject and subordinate to the prior security interest granted to Nationwide pursuant to the Nationwide Security Agreement as and to the extent provided in the Intercreditor Agreement) in, and a lien upon, all of the Grantor's right, title and interest in the following property now owned or at any time hereafter acquired by the Grantor, or in which the Grantor may acquire any right, title or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (collectively, the "Collateral"):

a) all of the Grantor's right, title and interest, whether now owned or hereafter acquired, in and to all Equipment, wherever located, now or hereafter existing, together with any manufacturers' warranties with respect to the foregoing;

b) all Accounts;

c) all General Intangibles;

d) any and all insurance policies, proceeds or benefits thereof related to the Collateral, provided that such policies do not expressly prohibit the grant of such security interest; and

e) to the extent not otherwise included, all Proceeds of any and all of the foregoing.

Notwithstanding the foregoing, "Collateral" shall not include any general intangibles, or other rights, arising under any contracts, licenses or other documents as to which the grant of a security

interest would constitute a violation of a valid and enforceable restriction in favor of a third party on such grant, unless and until any required consents shall have been obtained. The Grantor agrees to use commercially reasonable efforts to obtain any such required consent with respect to any material items of such Collateral.

This Agreement shall create a continuing security interest in the Collateral which shall remain in effect until all the Obligations, now existing or hereafter arising, shall have been paid in full, the Commitments shall have been terminated and the Credit Agreement and the Related Documents shall no longer be in effect.

SECTION 3. Representations and Warranties of Grantor. The Grantor hereby represents and warrants to the Company that: (i) except as otherwise provided in the Operational Agreements, no other Person owns or holds any ownership rights in the Collateral; (ii) the execution, delivery, and performance of this Agreement are not in violation of any indenture, agreement, or undertaking to which the Grantor is a party or by which the Grantor is bound; (iii) the execution, delivery and performance of this Agreement will not result in the creation or imposition of any lien or charge on, security interest in or other encumbrance on any of the assets of the Grantor except as contemplated by this Agreement; (iv) the Grantor's chief executive office and the place where the Grantor keeps its business records is 120 North Robertson Boulevard, Los Angeles, California 90048; and (v) this Agreement will create and grant to the Company (upon the filing of appropriate UCC-1 financing statements) a valid lien on, and a perfected security interest in favor of the Company in, all right, title or interest of the Grantor in or to the Collateral, subject only to the prior lien in favor of Nationwide as provided in the Intercreditor Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Grantor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements.

SECTION 4. Further Assurances; Affirmative Covenants.

The Grantor covenants and agrees that, from and after the date of this Agreement until the Obligations are paid in full and the Commitment is terminated:

a) The Grantor will promptly execute and deliver and will cause to be executed and delivered all further instruments and documents, including, without limitation, financing and continuation statements, and will take all further action and will cause all further action to be taken, that the Company may reasonably request in order to create, preserve, perfect and protect the security interest in the Collateral or to enable the Company to exercise and enforce its rights and remedies hereunder or to preserve, perfect and protect the Company's right, title and interest in and to the Collateral.

b) The Grantor will at all times keep accurate and complete books and records with respect to the Collateral and agrees that the Company or its representative shall have the right at any time and from time to time to call at the Grantor's place of business during normal business hours to inspect and examine the books and records of the Grantor relating to the Collateral and to make extracts therefrom and copies thereof.

c) The Grantor will keep the Collateral free and clear of all security interests, liens and claims other than the security interest and lien herein granted and the security interest and lien granted to Nationwide or otherwise permitted to exist pursuant to the Credit Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Grantor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements, and will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, except by assignment to the Company and Nationwide or the holder of any such other permitted lien.

d) The Grantor will defend the Company's right, title and security interest in and to the Collateral against claims and demands of all persons whomsoever, other than Nationwide.

SECTION 5. Remedies. Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default and an acceleration of the Loans, the Company may, in its sole discretion, exercise with respect to the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the Code or other applicable law, and the Company may also, upon reasonable notice as specified below, sell the Collateral at public or private sale, at any exchange, broker's board or at any of the Company's offices or elsewhere, for cash, on credit or for future delivery, and at such price and upon such other terms as the Company may in good faith deem commercially reasonable. The Company or any of its Affiliates may be the purchaser of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for the Collateral, to use and apply any of the Obligations as a credit on account of the purchase price of the Collateral payable by such Person at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of the Grantor, and the Grantor hereby waives (to the fullest extent permitted by law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Grantor agrees that at least fifteen (15) days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notice. The Company will not be obligated to make any sale regardless of notice of sale having been given. The Company may adjourn any public or private sale from time to time by announcement of the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to

which it was adjourned. The Grantor hereby waives any claims against the Company arising by reason of the fact that the price at which the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale, even if the Company accepts the first offer received and does not offer the Collateral to more than one offeree.

(b) The proceeds of any sale of the Collateral under subsection (a) above shall be applied in the following manner:

(i) FIRST, to the payment of all costs and expenses reasonably incurred in connection with the sale, collection or other realization, including reasonable costs, fees and expenses of the Company and its agents and counsel, all other reasonable expenses, liabilities and advances made or incurred by the Company in connection therewith;

(ii) SECOND, to the payment, in whole or in part, of the Nationwide Indebtedness (as defined in the Intercreditor Agreement).

(iii) THIRD, to the payment, in whole or in part, of the Obligations; and

(iv) FOURTH, the balance, if any, shall be paid to the Grantor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If the Company or any of its Affiliates is the successful bidder at such sale, the amount owing to Nationwide in respect of the Nationwide Indebtedness (as defined in the Intercreditor Agreement) must be paid in full in cash.

(c) The Company has the right to enforce any and all remedies provided in this Agreement, successively and concurrently, and such action will not operate to estop or prevent the Company from pursuing any other remedy which the Company may have at law or in equity or under any other document.

(d) THE GRANTOR ACKNOWLEDGES THAT ANY PRIVATE SALE OF THE COLLATERAL MAY RESULT IN PRICES AND OTHER TERMS LESS FAVORABLE TO THE GRANTOR THAN IF SUCH SALE WERE A PUBLIC SALE AND THE GRANTOR AGREES THAT ANY SUCH PRIVATE SALE SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALY REASONABLE MANNER.

SECTION 6. Company Appointed Attorney-in-Fact. Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence and during the continuance of an Event of Default which is not waived by the Company and following an acceleration of the Loans, the Grantor hereby irrevocably makes, constitutes and appoints the Company or any of its officers or designees its true

and lawful attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time after the occurrence and during the continuation of an Event of Default which is not waived by the Company and following an acceleration of the Loans, to take any action, to execute any instruments and to exercise any rights, privileges, elections or power of the Grantor pertaining or relating to the Collateral which the Company may reasonably deem necessary or desirable to preserve and enforce its security interest in the Collateral and otherwise to accomplish the purposes of this Agreement.

SECOND 7. Company May Perform. If the Grantor fails to perform any agreement contained herein, the Company may (but shall not be obligated to) itself perform, or cause performance of, such agreement; provided, however, that the Company shall first have provided to the Grantor five (5) Business Days' prior written notice of the Company's intention so to act (except in cases of emergency when no such notice shall be required). Any sums expended by the Company pursuant to this Section 7 shall be added to the Obligations and secured by the Collateral.

SECTION 8. Amendments, etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by the Grantor therefrom, shall in any event be effective unless the same shall be in writing making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings and signed by the Grantor, the Company and Nationwide, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

SECTION 9. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, (b) be binding upon the Grantor and (c) inure to the benefit of the Company and its successors and assigns. If the Company shall have instituted any proceeding to enforce any right, power or remedy under this instrument by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Company, then and in every such case, the Grantor and the Company shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all right, remedies and powers of the Company shall continue as if no such proceeding had been instituted.

SECTION 10. Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 10. All notices shall be

effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

(a) If to the Grantor:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Department
Telecopier: (310) 652-6490

with required copies to:

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

(b) If to the Company:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Chief Financial Officer
Telecopier No.: (213) 235-2229

with required copies to:

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Telecopier No. (213) 235-2229

Each such notice, request or other communication shall be effective when actually received.

SECTION 11. Governing Law. THIS AGREEMENT HAS BEEN DELIVERED AT, AND SHALL BE EFFECTIVE WHEN EXECUTED BY THE GRANTOR AND THE COMPANY IN, NEW YORK, NEW YORK, WHEREUPON THIS AGREEMENT SHALL BE DEEMED A CONTRACT MADE IN NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 12. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 13. Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when executed and delivered, shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

SECTION 14. Benefits. The rights and privileges of the Company hereunder shall inure to the benefit of its successors and assigns and the obligations of the Grantor shall be binding on the Grantor's successors and assigns.

SECTION 15. Powers Coupled With An Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

SECTION 16. Paragraph Headings. The Article and Section headings in this Agreement and the table of contents are for convenience of reference only and shall not affect the construction hereof or be taken into consideration in the interpretation hereof.

SECTION 17. Waiver of Jury Trial. THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE GRANTOR ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 17 HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

SECTION 18. Termination. After the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, this Agreement shall terminate and the Company at the request of the Grantor will execute and deliver to the Grantor a proper instrument or instruments

acknowledging the satisfaction and termination of this Agreement, and will duly assign, transfer and deliver to the Grantor such of the Collateral as may be in the possession of the Company and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement, together with any moneys at the time held by the Company.

SECTION 19. Conflict Of Provisions. In the event of any conflict between any term, covenant or condition of this Agreement and any term, covenant or condition of the Intercreditor Agreement, the provisions of the Intercreditor Agreement shall control and govern.

SECTION 20. Limited Recourse. No recourse for the payment of the principal of, or interest on, the Obligations or obligations of the Grantor hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect member or owner of the Grantor or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect member or owner except as provided in the Pledge Agreement (as defined in the Credit Agreement). Nothing contained in this Section 20 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Collateral, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

SECTION 21. Cumulative Rights; No Waiver. No failure on the part of the Company to exercise, no course of dealing with respect to, and no delay on the part of the Company in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

GRANTOR:

SUTTON HILL CAPITAL, L.L.C.

By: _____

Name:

Title:

COMPANY:

READING INTERNATIONAL, INC.

By: _____

Name:

Title:

EXHIBIT G

AMENDED AND RESTATED INTERCREDITOR AGREEMENT

AMENDED AND RESTATED
PLEDGE AGREEMENT

THE PLEDGE AGREEMENT, dated as of July 28, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into by and between SUTTON HILL ASSOCIATES, a California general partnership (the "Pledgor"), and CITADEL HOLDING CORPORATION, a Nevada corporation now known as Reading International, Inc. (together with its permitted successors and assigns, the "Pledgee") is hereby amended and restated as of January 29, 2002.

WITNESSETH:

WHEREAS, the Pledgor is (a) the sole member of Sutton Hill Capital, L.L.C., a limited liability company formed under the laws of the State of New York ("Sutton Hill Capital"), and (b) the legal and beneficial owner of the Membership Interest (as hereinafter defined);

WHEREAS, Sutton Hill Capital and the Pledgee have entered into a certain Citadel Standby Credit Facility, dated as of July 28, 2000 as amended and restated as of January 29, 2002 (as the same may be amended, restated, modified, or supplemented from time to time, the "Credit Agreement"), pursuant to which, at the election of Sutton Hill Capital and upon the satisfaction of certain conditions precedent provided for therein, the Pledgee has agreed to make to Sutton Hill Capital certain loans in an aggregate principal amount up to eighteen million Dollars (\$18,000,000) (hereinafter referred to as the "Loans");

WHEREAS, as an inducement to the Pledgee to make the Loans, if any, to Sutton Hill Capital pursuant to the terms of the Credit Agreement, the Pledgor has agreed, in accordance with the terms of Section 4.1(f) of the Credit Agreement, to execute and deliver this Agreement pursuant to which the Pledgor will pledge the Collateral (as hereinafter defined) in favor of the Pledgee to secure the performance and repayment of Sutton Hill Capital's Obligations (as hereinafter defined), to the extent and in accordance with the terms hereof;

WHEREAS, Sutton Hill Capital has also acquired certain interests in various theatre properties in New York City, including the option (the "Sutton Fee Option") to acquire the fee interests in and to one of such properties (the "Sutton Fee");

WHEREAS, Citadel Cinemas, Inc., a Nevada corporation ("Citadel Cinemas"), has subleased from Sutton Hill Capital certain of the theatre properties, including the improvements and equipment located therein or thereon (collectively, the "Leased Interests"), pursuant to provisions of a certain Lease Agreement, dated as of July 28, 2000, as amended and restated as of January 29, 2002 (the "Lease Agreement"), between Sutton Hill Capital, as lessor, and Citadel Cinemas, as lessee;

WHEREAS, included in the Lease Agreement is an option in favor of Citadel Cinemas (the "Lease Option") to acquire from Sutton Hill Capital the Leased Interests;

WHEREAS, pursuant to an agreement, dated as of July 28, 2000 as amended and restated as of January 29, 2002 (the "Fee Option Agreement"), between Citadel Realty, Inc. ("Fee Sub") and Sutton Hill Capital, Sutton Hill Capital has granted to Fee Sub the right (the "Fee Option Right"), subject to the exercise by Citadel Cinemas of the Lease Option and payment by Citadel Cinemas of the exercise price under the Lease Option, to require Sutton Hill Capital to exercise the Sutton Fee Option and direct the delivery of the Sutton Fee to or as directed by Fee Sub, upon payment by Fee Sub or its designee of the exercise price under the Sutton Fee Option;

WHEREAS, the Collateral will be subject to the prior pledge thereof to Nationwide, as described in a certain Intercreditor Agreement among Nationwide, Sutton Hill Capital and the Pledgee;

WHEREAS, it is the intention of the Pledgor in executing and delivering this Agreement to assure to the Pledgee that, if it forecloses on the pledge of the Membership Interest, the Membership Interest will not be subject to any claims thereto or rights therein arising from any action of Sutton Hill Capital or its Affiliates, except for Pledgor Permitted Liens (as hereinafter defined); and

WHEREAS, it is the Pledgee's expectation that, if it were to foreclose on the pledge of the Membership Interest, Sutton Hill Capital's interest in the Sutton Fee Option and in the Leased Interests would be subject only to Pledgor Permitted Liens;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions. Unless otherwise defined herein, terms that are defined in the Credit Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Accounts" shall have the meaning assigned to that term in Article 9 of the Code.

"Certificate of Title" shall mean a title search or report provided by a title insurance company or agency licensed to do business in the state where the Leased Interests are located.

"Chattel Paper" shall have the meaning assigned to that term in Article 9 of the Code.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation and its successors and assigns (including successors or assigns as tenant under the Lease Agreement).

"Code" shall mean the Uniform Commercial Code from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to that term in Section 2 of this Agreement.

"Cure" (including grammatical alternatives thereof) shall mean (i) the removal of the Lien or Title Impairment in question, either of record or by arrangement for the title company insuring the interest of the transferee to "omit" the Lien or Title Impairment in question, or (ii) the causing of the title company involved to insure against collection or to insure against loss or forfeiture of title with respect to the Lien or Title Impairment in question, provided, that, in the case of a Cure described in clause (ii) hereof, the title company must agree to "omit" such Lien or Title Impairment in question in connection with any mortgagee title insurance policy with respect to any third party financing.

"Designated Payment" shall mean the amounts (if any) required to be paid to satisfy amounts then payable by the Pledgor to Nationwide pursuant to the Nationwide Agreement.

"Event of Default" shall mean the occurrence of any of the following events: (1) an Event of Default (as defined in the Credit Agreement), or (2) a default on the part of the Pledgor in the due performance or observance of any covenant or obligation of the Pledgor contained herein, and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice from the Pledgee to the Pledgor; provided, however, that if such default is of a nature that it is capable of being cured but not within such thirty (30) day period and the Pledgor shall have proceeded diligently and in good faith to complete curing such default, such thirty (30) day period shall be extended to one hundred eighty (180) days.

"Fee Option Agreement" shall have the meaning assigned to that term in the recitals hereto.

"Fee Option Right" shall have the meaning assigned to that term in the recitals hereto.

"General Intangibles" shall have the meaning assigned to that term in Section 9-106 of the Code and shall include, without limitation, the Membership Interest and all rights of the Pledgor to receive, directly or indirectly, moneys or any other rights or benefits therefrom.

"Insolvency or Liquidation Proceeding" of any person shall mean:

(a) The entry of a decree or order for relief in respect of such person by a court having jurisdiction in the premises, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of such person or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against such person of an involuntary case under the Federal bankruptcy

laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or

(b) The commencement by such person of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of such person or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

"Instruments" shall have the meaning assigned to that term in Article 9 of the Code.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated as of July 28, 2000 as amended and restated as of January 29, 2002, entered into by and among the Pledgor, the Pledgee, and Nationwide Theatres Corp., a California corporation and its successors and assigns (hereinafter referred to as "Nationwide") as amended and restated as of January 29, 2002.

"Lease Agreement" shall mean the Lease Agreement between Sutton Hill Capital, as lessor, and Citadel Cinemas, as lessee, dated as of July 28, 2000, as amended and restated as of January 29, 2002 as amended, modified and supplemented from time to time.

"Lease Option" shall have the meaning assigned to that term in the recitals hereto.

"Leased Interests" shall have the meaning assigned to that term in the recitals hereto.

"Legal Requirements" shall mean all laws, judgments, decrees, ordinances and regulations and any other governmental rules, orders and determinations and all requirements having the force of law, now or hereinafter enacted, made or issued, whether or not presently contemplated (including without limitation the Americans with Disabilities Act, 42 U.S.C. " 12181 et seq., and local and state laws of similar impact or effect and rules, regulations and (to the extent Citadel Cinemas receives notice and a copy thereof pursuant to the Lease Agreement) orders issued under any thereof) and all existing recorded agreements, covenants, conditions and restrictions (or any such of which Citadel Cinemas has notice), applicable to any Leased Interest and/or the construction, ownership, operation or use thereof, including, without limitation, compliance with all requirements of labor laws and all federal, state, local and foreign laws, statutes, codes, ordinances, rules, regulations, directives, binding policies, permits or orders relating to or addressing the environment or human health, including, but not limited to, any law, statute, code, ordinance, rule, regulation, directive, binding

policy, permit, authorization or order, compliance with which is required at any time from the date hereof through the Lease Termination Date as such term is defined in the Lease Agreement (or thereafter as therein set forth), if any, whether or not such compliance shall require structural, unforeseen or extraordinary changes to any Leased Interest or the operation, occupancy or use thereof

"Lien" shall mean any security interest, mortgage, pledge, hypothecation, assignment as collateral, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Limited Liability Company Agreement" shall mean the Limited Liability Company Agreement of Sutton Hill Capital, dated as of April 8, 1999, as the same may be amended, restated, modified or supplemented from time to time.

"Membership Interest" shall have the meaning assigned to that term in Section 2 of this Agreement.

"Nationwide Accrued Interest" shall mean any interest that has accrued with respect to the Nationwide Indebtedness so long as such interest has not arisen as a result of a Tenant Event.

"Nationwide Pledge Agreement" shall mean the agreement, dated as of July 28, 2000, entered into between the Pledgor and Nationwide as amended and restated as of January 29, 2002, pursuant to which the Pledgor has granted a first security interest in the Collateral to Nationwide.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of Sutton Hill Capital to the Pledgee from time to time outstanding under the Related Documents to which Sutton Hill Capital is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operational Agreements" shall have the meaning assigned to that term in the Credit Agreement.

"Pledgor Permitted Liens" shall mean (a) with respect to the Membership Interest, the Lien created pursuant to the Nationwide Agreement or any Lien resulting from or attributable to a Tenant Event and (b) with respect to the Leased Interests and the Sutton Fee Option, the following Liens and other matters affecting the title thereto: (i) Liens securing the payment of taxes, assessments and other governmental charges or levies which are not yet delinquent to the extent not the obligations of Citadel Cinemas pursuant to the Lease Agreement; (ii) Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions, easements, rights-of-way, licenses, reservations,

covenants, conditions, waivers, or restrictions on the use of any material component of real estate comprising the Leased Interests, which exist on the date hereof and either are set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement or are not disclosed therein; (iii) encroachments or irregularities of title none of which materially impairs the current use or value of the affected Leased Interests; (iv) the Liens created pursuant to the Nationwide Agreement provided that such Liens are paid with the applicable Designated Payment; (v) leases and licenses in effect with respect to any Leased Interest which are permitted by the Lease Agreement; (vi) mechanics' and materialmen's liens or Liens not disclosed in the title insurance policy and existing on the date hereof; (vii) exceptions to the title of any material component of real estate comprising the Leased Interests, of the Sutton Fee or of the Sutton Fee Option, as the case may be, as set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement; (viii) existing Liens listed on Exhibit A attached hereto; (ix) any Lien which is or results from a Tenant Event or is approved by Citadel Cinemas for purposes of the Lease Agreement; (x) Liens, including Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions and any of the matters affecting title, which result from acts of any agency, department, court or other administrative, legislative or regulatory authority of any Federal, state, local or foreign governmental body from and after the date hereof not caused by or resulting from a Landlord Act (as such term is defined in the Lease Agreement); and (xi) such other or additional matters as may be approved in writing by Citadel Cinemas in its sole discretion.

"Proceeds" shall mean all "proceeds" as such term is defined in Section 9-306(1) of the Code on the date hereof and, in any event, shall include, without limitation, all dividends or other income from the Membership Interest and any and all collections on the foregoing or distributions with respect to the foregoing.

"Sutton Fee" shall have the meaning assigned to that term in the recitals hereto.

"Sutton Fee Option" shall have the meaning assigned to that term in the recitals hereto.

"Taxes" shall mean any present or future taxes, levies, imposts, duties, fees, assessments, deductions, withholdings or other charges of whatever nature, including income, receipts, excise, property, sales, use, transfer, license, payroll, withholding, social security and franchise taxes now or hereafter imposed or levied by the United States, or any state, local or foreign government or by any department, agency or other political subdivision or taxing authority thereof or therein and all interest, penalties, additions to tax and similar liabilities with respect thereto.

"Title Impairment" shall mean a claim, charge or other matter affecting title to an Asset or interest therein, other than a Lien, which materially impairs the intended use or value of the Asset (or interest therein) in question excluding, however, the matters affecting title as of the date hereof, the Site Leases and the terms and conditions thereof and matters which constitute Tenant Events.

SECTION 2. Grant of Security. As security for the prompt and complete payment when due of the Obligations, the Pledgor hereby assigns, pledges, transfers and grants to the Pledgee a

continuing security interest (which shall be subject and subordinate to the prior security interest granted to Nationwide pursuant to the Nationwide Pledge Agreement as and to the extent provided in the Intercreditor Agreement) in, and a lien upon, all of the Pledgor's right, title and interest in the following property now owned or at any time hereafter acquired by the Pledgor, or in which the Pledgor may acquire any right, title or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (collectively, the "Collateral"):

a) any and all of its membership interest in Sutton Hill Capital, including, without limitation, all its rights, title and interest to participate in the operation or management of Sutton Hill Capital and all its rights to properties, assets and distributions under the Limited Liability Company Agreement, and all certificates evidencing any of such membership interests (collectively, the "Membership Interest");

b) all Accounts arising out of the Limited Liability Company Agreement in respect of the Membership Interest;

c) all General Intangibles arising out of or constituted by the Limited Liability Company Agreement in respect of the Membership Interest; and

d) to the extent not otherwise included, all Proceeds of any and all of the foregoing.

This Agreement shall create a continuing security interest in the Collateral which shall be subject and subordinate to the prior security interest granted to Nationwide as provided in the Intercreditor Agreement and shall remain in effect until all the Obligations, now existing or hereafter arising, shall have been paid in full, the Commitments shall have been terminated and the Credit Agreement and the Related Documents shall no longer be in effect.

SECTION 3. Representations and Warranties of Pledgor. The Pledgor hereby represents and warrants to the Pledgee that: (i) the Pledgor is the sole member of Sutton Hill Capital and no other Person owns or holds any other ownership rights in the Membership Interest; (ii) the execution, delivery, and performance of this Agreement are not in violation of any indenture, agreement, or undertaking to which the Pledgor is a party or by which the Pledgor is bound; (iii) the execution, delivery and performance of this Agreement will not result in the creation or imposition of any lien or charge on, security interest in or other encumbrance on any of the assets of the Pledgor except as contemplated by this Agreement; (iv) the Pledgor's chief executive office and the place where the Pledgor keeps its business records is 120 North Robertson Boulevard, Los Angeles, California 90048; and (v) this Agreement will create and grant to the Pledgee (upon the filing of appropriate UCC-1 financing statements) a valid lien on, and a perfected security interest in favor of the Pledgee in, all right, title or interest of the Pledgor in or to the Collateral, subject to the prior lien in favor of Nationwide as provided in the Intercreditor Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the

Pledgor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements.

The Pledgor agrees that the foregoing representations and warranties shall be deemed to have been made by it on each date of a Notice of Borrowing on or after the date hereof by Sutton Hill Capital under the Credit Agreement on and as of such date as though made hereunder on and as of such date.

SECTION 4. Further Assurances; Affirmative Covenants.

The Pledgor covenants and agrees that, from and after the date of this Agreement until the Obligations are paid in full and the Commitment is terminated:

a) The Pledgor will promptly execute and deliver and will cause to be executed and delivered all further instruments and documents, including, without limitation, financing and continuation statements, and will take all further action and will cause all further action to be taken, that the Pledgee may reasonably request in order to create, preserve, perfect and protect the security interest in the Collateral or to enable the Pledgee to exercise and enforce its rights and remedies hereunder or to preserve, perfect and protect the Pledgee's right, title and interest in and to the Collateral.

b) The Pledgor will at all times keep accurate and complete books and records with respect to the Collateral and agrees that the Pledgee or its representative shall have the right at any time and from time to time to call at the Pledgor's place of business during normal business hours to inspect and examine the books and records of the Pledgor relating to the Collateral and to make extracts therefrom and copies thereof.

c) The Pledgor will keep the Collateral free and clear of all security interests, liens and claims other than the security interest and lien herein granted and the security interest and lien granted to Nationwide, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Pledgor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements, and will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, except by assignment to the Pledgee and Nationwide.

d) The Pledgor will defend the Pledgee's right, title and security interest in and to the Collateral against claims and demands of all persons whomsoever, other than Nationwide.

e) If the Pledgor shall, as a result of its ownership of the Collateral, receive any certificate representing its ownership of the Membership Interest and all of the Nationwide Indebtedness now or hereafter owing has been paid in full in accordance with the terms of the Nationwide Agreement, the Pledgor shall accept the same as the agent of the Pledgee, hold the same in trust for the Pledgee and deliver the same forthwith to the Pledgee in the exact form received, duly indorsed by the Pledgor to the Pledgee, if required.

f) The Pledgor will at all times remain the sole member of Sutton Hill Capital and will allow no other Person to own or hold any other ownership rights in the Membership Interest; provided, however, that the failure to comply with the terms hereof shall not constitute a breach hereunder if the failure to comply arises as a result of any action or inaction of, or any condition or event relating to, Citadel Cinemas or any of its Affiliates.

SECTION 5. Lien or Title Impairment.

a) Subject to the limitations set forth in Section 19 hereof, if, at the time of the exercise by the Pledgee of its rights and remedies involving the Membership Interest, title thereto or to any of the Leased Interests or the Sutton Fee Option shall be subject to a Lien or to a Title Impairment other than a Pledgor Permitted Lien, the Pledgor shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

b) Not less than ten days prior to the date of the anticipated exercise described in the preceding sentence, the Pledgee shall deliver to the Pledgor a lien search with respect to the Membership Interest and a Certificate of Title with respect to the Leased Interests and the Sutton Fee Option, indicating whether or not any Liens encumbering such Membership Interest or the interest of Sutton Hill Capital in such other assets constitute such Liens other than Pledgor Permitted Liens and whether there exists as to Sutton Hill Capital's title to any of such assets any such Title Impairment, each as described in the preceding paragraph.

c) If by reason of the occurrence of an Insolvency or Liquidation Proceeding of Sutton Hill Capital, Pledgee shall be prevented from foreclosing on the Membership Interest or its security interest under the Security Agreement (as defined in the Credit Agreement), Pledgor shall cause such Insolvency or Liquidation Proceeding to be terminated or otherwise to be resolved as promptly as practicable and in a manner such that the applicable transaction can be consummated in accordance with its terms. All times referred to in Section 5(d) hereof shall be determined without regard to any additional time that may be permitted or authorized under any statute or order entered in or applicable to such Insolvency or Liquidation Proceeding.

d) In the event the Pledgor does not timely perform any of the obligations set forth in paragraphs (a), (b) or (c) of this Section 5, the Pledgee may, after written demand to perform has been served upon the Pledgor and the Pledgor has been given 15 days to perform, perform said obligations at the Pledgor's sole cost and expense; provided, however, that the Pledgee shall not exercise its option to perform said obligations for up to 90 days if within said 15-day period the Pledgor has commenced to perform the obligation or obligations in question and thereafter to the reasonable satisfaction of the Pledgee continues to perform such obligation or obligations with reasonable diligence. The Pledgor shall, upon written demand from the Pledgee, reimburse the Pledgee for all costs, including reasonable attorney's fees and out-of-pocket expenses, and all liabilities incurred by the Pledgee by reason of the foregoing set forth in this Section 5, with interest thereon at the rate of eleven and one quarter percent (11.25%) per annum.

e) The obligations of the Pledgor under this Section 5 hereof and with respect to the Nationwide Accrued Interest shall be unlimited, with full recourse to all of the assets of the Pledgor and its partners. The Pledgor and its partners agree not to request or permit, in any Insolvency or Liquidation Proceeding of the Pledgor, (i) any plan of reorganization, or confirmation order with respect thereto, which would include a provision that would discharge the partners of Pledgor from their obligations to Pledgee under this Section 5 or (ii) any party in interest to obtain an injunction that would enjoin or limit the Pledgee's rights against the partners of the Pledgee or their assets.

SECTION 6. Remedies. (a) Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default and an acceleration of the Loans, the Pledgee may, in its sole discretion, exercise with respect to the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the New York Uniform Commercial Code or other applicable law, and the Pledgee may also, upon reasonable notice as specified below, sell the Collateral at public or private sale, at any exchange, broker's board or at any of the Pledgee's offices or elsewhere, for cash, on credit or for future delivery, and at such price and upon such other terms as the Pledgee may in good faith deem commercially reasonable. The Pledgee or any of its Affiliates may be the purchaser of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for the Collateral, to use and apply any of the Obligations as a credit on account of the purchase price of the Collateral payable by such Person at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of the Pledgor, and the Pledgor hereby waives (to the fullest extent permitted by law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Pledgor agrees that at least fifteen (15) days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notice. The Pledgee will not be obligated to make any sale regardless of notice of sale having been given. The Pledgee may adjourn any public or private sale from time to time by announcement of the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. The Pledgor

hereby waives any claims against the Pledgee arising by reason of the fact that the price at which the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale, even if the Pledgee accepts the first offer received and does not offer the Collateral to more than one offeree.

(b) The proceeds of any sale of the Collateral under subsection (a) above shall be applied in the following manner:

i. FIRST, to the payment of all costs and expenses reasonably incurred in connection with the sale, collection or other realization, including reasonable costs, fees and expenses of the Pledgee and its agents and counsel, all other reasonable expenses, liabilities and advances made or incurred by the Pledgee in connection therewith;

ii. SECOND, to the payment, in whole or in part, of the Nationwide Indebtedness (as defined in the Intercreditor Agreement);

iii. THIRD, to the payment, in whole or in part, of the Obligations; and

iv. FOURTH, the balance, if any, shall be paid to the Pledgor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If the Pledgee or any of its Affiliates is the successful bidder at such sale, the amount owing to Nationwide must be paid in cash.

(c) The Pledgee has the right to enforce any and all remedies provided in this Agreement, successively and concurrently, and such action will not operate to estop or prevent the Pledgee from pursuing any other remedy which the Pledgee may have at law or in equity or under any other document.

(d) THE PLEDGOR ACKNOWLEDGES THAT ANY PRIVATE SALE OF THE COLLATERAL MAY RESULT IN PRICES AND OTHER TERMS LESS FAVORABLE TO THE PLEDGOR THAN IF SUCH SALE WERE A PUBLIC SALE AND THE PLEDGOR AGREES THAT ANY SUCH PRIVATE SALE SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALY REASONABLE MANNER.

SECTION 7. Pledgee Appointed Attorney-in-Fact.

Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence and during the continuance of an Event of Default which is not waived by the Pledgee and following an acceleration of the Loans, the Pledgor hereby irrevocably makes, constitutes and appoints the Pledgee or any of its officers or designees its true and lawful attorney-in-fact, with full authority in

the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time after the occurrence and during the continuation of an Event of Default which is not waived by the Pledgee and following an acceleration of the Loans, to take any action, to execute any instruments and to exercise any rights, privileges, elections or power of the Pledgor pertaining or relating to the Collateral which the Pledgee may reasonably deem necessary or desirable to preserve and enforce its security interest in the Collateral and otherwise to accomplish the purposes of this Agreement.

SECTION 8. Pledgee May Perform. If the Pledgor fails to perform any agreement contained herein other than any agreement set forth in Section 5 hereof, the Pledgee may (but shall not be obligated to) itself perform, or cause performance of, such agreement; provided, however, that the Pledgee shall first have provided to the Pledgor five (5) Business Days' prior written notice of the Pledgee's intention so to act (except in cases of emergency when no such notice shall be required). Any sums expended by the Pledgee pursuant to this Section 7 shall be added to the Obligations and secured by the Collateral.

SECTION 9. Amendments, etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by the Pledgor therefrom, shall in any event be effective unless the same shall be in writing making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings and signed by the Pledgor, the Pledgee and Nationwide, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

SECTION 10. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral and shall (a) except with respect to the provisions in Section 5 hereof, remain in full force and effect until the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, (b) be binding upon the Pledgor and (c) inure to the benefit of the Pledgee and its successors and assigns. If the Pledgee shall have instituted any proceeding to enforce any right, power or remedy under this instrument by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Pledgee, then and in every such case, the Pledgor and the Pledgee shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all right, remedies and powers of the Pledgee shall continue as if no such proceeding had been instituted.

SECTION 11. Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 10. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be

effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

- (a) If to the Pledgor:
Sutton Hill Associates
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Department
Telecopier: (310) 652-6490

with required copies to:

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

- (b) If to the Pledgee:
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Chief Financial Officer
Telecopier No.: (213) 235-2229

with required copies to:

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Telecopier No. (213) 235-2229

Each such notice, request or other communication shall be effective when actually received.

AMENDED AND RESTATED INTERCREDITOR AGREEMENT

THE INTERCREDITOR AGREEMENT, dated as of July 28, 2000 (the "Original Agreement") as amended, supplemented or modified from time to time, this "Agreement"), entered into by and among: Citadel Holding Corporation, a Nevada corporation now known as Reading International, Inc. (together with its permitted successors and assigns, "Citadel"); Sutton Hill Capital, L.L.C., a New York limited liability company (together with its permitted successors and assigns, "SHC"); and Nationwide Theatres Corp., a California corporation (together with its permitted successors and assigns, "Nationwide") is hereby amended and restated as of January 29, 2002.

R E C I T A L S

WHEREAS, Nationwide is the holder of certain obligations of Sutton Hill Associates, a California general partnership ("Sutton Hill"), which relate to various assets of Sutton Hill or its Affiliates (the "Affected Assets") (such agreements, documents and instruments between Nationwide and Sutton Hill evidencing such obligations and representing a principal indebtedness of \$11,000,000, collectively referred to as the "Existing Nationwide Agreement," the balance of such obligations of Sutton Hill to Nationwide being unaffected by this Agreement and not included in the "Existing Nationwide Agreement");

WHEREAS, pursuant to the Existing Nationwide Agreement, there are outstanding loans in the aggregate principal amount of eleven million Dollars (\$11,000,000);

WHEREAS, the Affected Assets are being transferred from Sutton Hill or its Affiliates to SHC, which is wholly owned by Sutton Hill, and, in connection with such transfer, Sutton Hill desires to amend and modify the Existing Nationwide Agreement;

WHEREAS, SHC and Citadel have entered into an agreement dated as of July 28, 2000 as amended and restated of January 29, 2002 (as amended, restated, modified or supplemented from time to time, the "Citadel Agreement"), pursuant to which Citadel will make available to SHC a standby credit facility in an aggregate principal amount up to eighteen million Dollars (\$18,000,000);

WHEREAS, as a condition precedent of borrowing under the Citadel Agreement, SHC and Citadel must enter into the Subordinated Documents (as hereinafter defined);

WHEREAS, Nationwide required that, in order to satisfy a condition to the amendment and modification of the Existing Nationwide Agreement (the Existing Nationwide Agreement, as so amended and modified, the "Nationwide Agreement"), that the Original Agreement and this Agreement be entered into among the parties hereto; and

WHEREAS, the purpose of this Agreement is to confirm, as between Nationwide and Citadel, their respective rights and priorities with respect to the obligations of SHC and with respect to the Equity Collateral and the Borrower Collateral (as such terms are defined in the Citadel Agreement) now or hereafter held as security by Nationwide in respect of the Nationwide Indebtedness and by Citadel in respect of the Citadel Indebtedness.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Certain Defined Terms. Unless otherwise defined herein, terms that are defined in the Citadel Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Affiliate" of any Person means any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," 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, by contract or otherwise; and the terms "controlling" and "controlled by" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (a) SHC and its Affiliates ("SHC's Affiliates") shall not include Reading, Citadel and their respective direct or indirect Subsidiaries; (b) Reading, Citadel and their respective direct or indirect Subsidiaries, on the one hand, and SHC and SHC's Affiliates, on the other hand, shall not be considered Affiliates of each other; (c) SHC and SHC's Affiliates shall not include Nationwide and its direct or indirect Subsidiaries; (d) none of Nationwide or any of its direct or indirect Subsidiaries, on the one hand, and SHC or any of SHC's Affiliates, on the other hand, shall be considered Affiliates of each other; (e) Citadel and its Affiliates ("Citadel's Affiliates") shall not include Nationwide and its direct or indirect Subsidiaries; (f) Reading and its Affiliates ("Reading's Affiliates") shall not include Nationwide and its direct or indirect Subsidiaries; and (f) none of Nationwide or any of its direct or indirect Subsidiaries, on the one hand, and either Citadel or any of Citadel's Affiliates or Reading and any of Reading's Affiliates, on the other hand, shall be considered Affiliates of each other.

"Agreement" has the meaning specified in the preamble to this Agreement.

"Bad Faith Determination" with respect to a Citadel Proceeding means the entry of one or more Final Orders (i)(a) dismissing such Citadel Proceeding if (I) neither Nationwide

nor SHC consented to such Citadel Proceeding and at least one of Nationwide or SHC opposed such Citadel Proceeding and (II) such Final Order is based on a finding by the court that (A) in the case of a Citadel Proceeding under the Federal bankruptcy laws, the criteria in 11 U.S.C. '303(b) are not satisfied or (B) in any other case, the relevant statutory criteria for bringing such Citadel Proceeding are not satisfied and (b) finding that any Petitioning Creditor in such Citadel Proceeding which is Citadel or a Citadel Affiliate, at the time such petition or other action was filed or taken, initiated such Citadel Proceeding in "bad faith" (or words of similar import) or (ii) granting judgment against a Petitioning Creditor therein which is Citadel or an Affiliate of Citadel under 11 U.S.C. '303(i)(2) (as any such statutory section referenced herein may hereafter be modified, restated or amended).

"Blockage Period" has the meaning specified in Section 2.02(b).

"Change" has the meaning specified in paragraph (b) of Section 2.10.

"Citadel" has the meaning specified in the preamble to this Agreement.

"Citadel Agreement Payment Default" means an Event of Default under Section 9.1(a) of the Citadel Agreement.

"Citadel Event of Default" means an Event of Default as such term is defined in the Citadel Agreement.

"Citadel Indebtedness" means any and all amounts of money from time to time owing by, and any and all obligations and liabilities from time to time of, SHC under the Subordinated Documents, whether now existing or hereafter arising (as limited by the terms of this Agreement), fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for fees, indemnities, costs, expenses or otherwise, including without limitation any rights of indemnification, reimbursement, subrogation or contribution arising under the Subordinated Documents.

"Citadel Proceeding" means an Insolvency or Liquidation Proceeding in which Citadel or any Citadel Affiliate is a Petitioning Creditor; provided, however, that, if the Citadel Indebtedness is transferred, the term Citadel Proceeding shall mean an Insolvency or Liquidation Proceeding in which the holder of the Citadel Indebtedness or an Affiliate of such holder is a Petitioning Creditor.

"Credit Agreement" shall mean each credit agreement, loan agreement, note purchase agreement and each other agreement or arrangement between SHC and a lender or lenders to SHC or other Person or Persons providing credit support to SHC or to debt issued by or on behalf of SHC, as the same may be amended, restated, modified or supplemented from time

to time, including without limitation the Nationwide Agreement and collectively, the Citadel Agreement and the Subordinated Documents.

"Creditor" shall mean each of Nationwide and Citadel, in their respective roles as lender to SHC.

"Final Order" means a judgment by a court of competent jurisdiction, not subject to further appeal or with respect to which the time to appeal has lapsed.

"Fully Paid" means, with respect to the Nationwide Indebtedness, for purposes only of this Agreement, as of any date, that on or before such date (i) the principal of such Nationwide Indebtedness shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide, (ii) all interest accrued on such Nationwide Indebtedness as of such date (including interest accrued after, or that would have accrued but for, the filing of a petition under Title 11 of the United States Code (or any successor statute thereto) or the institution or initiation of any other Insolvency or Liquidation Proceeding, in accordance with the terms of such Nationwide Indebtedness) shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide, and (iii) all fees and expenses and other amounts then due and payable that constitute Nationwide Indebtedness shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide; provided, however, that if, at any time after the Nationwide Indebtedness is determined to be "Fully Paid" for purposes of this Agreement, any other amounts that constitute Nationwide Indebtedness become due and payable, such other Nationwide Indebtedness shall be "Fully Paid" for such purpose only upon satisfaction of the conditions specified in foregoing clause (i), (ii) or (iii), as the case may be, and the provisions of this Agreement shall remain, or shall be revived and thereafter remain, in full force and effect, with respect only to the principal amount of the Citadel Indebtedness then outstanding and accrued interest thereon, and any other amounts payable with respect thereto, then unpaid, until such other Nationwide Indebtedness shall be Fully Paid pursuant hereto.

"Insolvency or Liquidation Proceeding" means (i) any insolvency or bankruptcy case or proceeding (including any case under the Bankruptcy Code), or any receivership, liquidation, reorganization or other similar case or proceeding relative to SHC or all or substantially all of its assets, or (ii) any liquidation, dissolution, reorganization or winding up of SHC, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (iii) any assignment of all or substantially all of the assets of SHC for the benefit of creditors or any other marshaling of assets and liabilities of SHC.

"Nationwide" has the meaning specified in the preamble to this Agreement.

"Nationwide Accrual" means interest on the principal of the Nationwide Indebtedness (i) relating to any period in respect of which either (x) Citadel Cinemas has failed to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) or (y) as a result of the failure by Citadel Cinemas to perform any of its obligations under any of the Operational Documents, SHC has applied Basic Rent received by it to perform such obligations, in each case under clause (x) or (y) limited to the lesser of (a) the amount which Citadel Cinemas failed to so pay or the amount which SHC has so applied, as the case may be, and (b) the amount of such interest, or (ii) which remains unpaid and accruing on such principal (or, but for the filing of a Citadel Proceeding, that would have accrued on such principal) during the pendency of a Citadel Proceeding if there is a Bad Faith Determination with respect to such Citadel Proceeding.

"Nationwide Agreement" has the meaning specified in the recitals to this Agreement, as any document, instrument or agreement comprising the Nationwide Agreement may from time to time be amended, modified or supplemented, and any agreement or other document or instrument pursuant to which any principal of or interest on or other amounts payable in respect of indebtedness thereunder of SHC (or any successor Person to SHC (whether by merger, consolidation, or acquisition of all or substantially all of its assets)) may be renewed, extended, refinanced, restructured, refunded or guaranteed, in each case as permitted in accordance with Section 2.10(c) of this Agreement.

"Nationwide Event of Default" means an Event of Default as such term may be defined in the Nationwide Agreement.

"Nationwide Indebtedness" means any and all indebtedness, obligations and liabilities of SHC from time to time outstanding under the Nationwide Agreement, in a principal amount not to exceed the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal (subject to the aforesaid limitation), premium, interest (including interest accruing before or after the commencement of any Insolvency or Liquidation Proceeding or interest that would have accrued but for the commencement of such Insolvency or Liquidation Proceeding, to the date of payment, even if the claim for such interest is not allowed pursuant to Applicable Law), fees, indemnities, costs, expenses or otherwise.

"Petitioning Creditor" with respect to any Insolvency or Liquidation Proceeding means each of the creditors that filed the petition to commence or otherwise commenced such Insolvency or Liquidation Proceeding.

"Reading" means Reading Entertainment, Inc., a Nevada corporation, and its successors.

"Retained Claims" has the meaning specified in Section 2.11(h) hereof.

"SHC" has the meaning specified in the preamble to this Agreement.

"Subordinated Documents" means the Citadel Agreement and the Note (if and when executed) and all other promissory notes and other instruments, agreements and documents executed at any time pursuant to the Citadel Agreement or in connection therewith between SHC and Citadel, including all other Related Documents, and all amendments, modifications, supplements, extensions, renewals, restatements, refundings and refinancings affecting the Citadel Agreement and all such other notes, instruments, agreements and documents.

"Trigger Event" means the occurrence of any of the following events:

(a) An Insolvency or Liquidation Proceeding excluding such Insolvency or Liquidation Proceeding caused by or in any way resulting from a Tenant Event;

(b) Acceleration of the Nationwide Indebtedness;

(c) Acceleration of the Citadel Indebtedness as a result of a Citadel Agreement Payment Default or a failure to make payment when due under the Nationwide Agreement following the expiration of applicable notice or grace period thereunder; or

(d) The occurrence of an Event of Default under the Citadel Agreement pursuant to Section 9.1(c) thereof arising as a result of a default by SHC under any of Section 6.8, 6.9, 7.1, 7.2, 7.3, 7.4, 7.5, 7.7, 7.9, 7.11, 7.12 or 7.13 thereof.

Section 1.02 Construction. References herein to the plural form include the singular, and the singular include the plural; the word "including" is not limiting; and the word "or" is not exclusive. The words "hereof", "wherein", "hereby", and "hereunder" refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, exhibit and schedule references are to articles and sections of, and exhibits and schedules to, this Agreement, unless otherwise expressly indicated.

ARTICLE II TERMS OF SUBORDINATION

Section 2.0 Subordination of Indebtedness. Citadel, for itself and its successors and assigns, hereby agrees that (a) to the extent and in the manner provided in this Agreement, and under

the circumstances provided in Sections 2.02 and 2.04 hereof, the Citadel Indebtedness is hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Nationwide Indebtedness, (b) the subordination provided herein is for the benefit of Nationwide and its permitted successors and assigns, (c) Nationwide shall be deemed to have extended or acquired the Nationwide Indebtedness, whether now outstanding or hereafter created, incurred, assumed or guaranteed, in reliance upon the covenants and provisions contained in this Agreement, and (d) the provisions of this Agreement apply notwithstanding anything to the contrary in the Subordinated Documents. Notwithstanding anything contained herein or in any other document related hereto to the contrary, however, in no event shall the Citadel Indebtedness be subordinate to a principal amount of Nationwide Indebtedness which exceeds the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement.

Section 2.0 No Payment on Citadel Indebtedness in Certain Circumstances.

(a) Upon the maturity of any Nationwide Indebtedness, whether at the final maturity thereof, by lapse of time, acceleration or otherwise (including the scheduled time of payment (including any mandatory prepayment) of any principal or interest), all principal thereof that is then due and payable (up to the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement) and interest thereon and interest thereafter accruing pursuant to the terms of the Nationwide Agreement (including interest that would have accrued but for the commencement of any Insolvency or Liquidation Proceeding) and other amounts constituting Nationwide Indebtedness that are then due and payable or thereafter accruing in accordance with the Nationwide Agreement and, to the extent so provided for therein or otherwise permitted by law, interest on such other amounts shall first be Fully Paid, before any payment or distribution is made by SHC on account of the Citadel Indebtedness.

(b) Upon the occurrence and during the continuation of a Nationwide Event of Default, no direct or indirect payment or distribution shall be made by SHC on account of any Citadel Indebtedness, for a period (the "Blockage Period") beginning on the date of the occurrence of the Nationwide Event of Default in question and ending upon the earliest to occur of the following: (i) when such Nationwide Event of Default shall have been cured by SHC or waived in writing by Nationwide, (ii) when Nationwide shall have waived in writing the application of this Section 2.02(b) to such Nationwide Event of Default, or (iii) when the Nationwide Indebtedness is Fully Paid.

(c) Except as expressly prohibited in paragraphs (a) and (b) of this Section 2.02, nothing contained herein or in any other document or agreement shall prohibit or restrict SHC from paying the Citadel Indebtedness as and when due.

(d) If Citadel shall have received any payment or distribution in contravention of the provisions of paragraph (a) or (b) of this Section 2.02, such payment or distribution shall be held in trust for Nationwide and shall be promptly paid over to Nationwide for application to the payment of the Nationwide Indebtedness, until any of the events described in Sections 2.02(b)(i), 2.02(b)(ii) and 2.02(b)(iii) shall have occurred.

(e) Each of the Creditors shall give prompt notice to the other Creditor of the occurrence and the type of any Nationwide Event of Default or Citadel Event of Default, as the case may be, or if a payment or distribution would constitute or result in a Nationwide Event of Default or Citadel Event of Default, as the case may be. Nationwide shall confirm in writing, in response to a written request from Citadel or any of its Affiliates, whether or not Nationwide shall have received payment from SHC of any obligation of SHC to Nationwide specified in such request. If such confirmation is not provided within ten (10) Business Days following Nationwide's receipt thereof, the requesting party can assume that such payment(s) had not been made. Failure to give any of such notices in the foregoing sentences shall not affect the subordination of the Citadel Indebtedness to the Nationwide Indebtedness as provided herein.

(f) The provisions of this Section 2.02 shall not modify or limit in any way the application of Section 2.04.

Section 2.03. Actions in Respect of Citadel Indebtedness.

(a) Subject in all cases to the terms of this Agreement, Citadel may (1) accelerate the Citadel Indebtedness in accordance with the terms of the Subordinated Documents; (2) file a claim in respect of the Citadel Indebtedness in any Insolvency or Liquidation Proceeding; and (3) take all other action necessary to enforce and protect its rights with respect to the Citadel Indebtedness.

(b) In the event of a Citadel Agreement Payment Default, Citadel is entitled to exercise all rights and remedies pursuant to the terms of the Citadel Agreement and the Subordinated Documents. In the event of a Citadel Event of Default other than a Citadel Agreement Payment Default, Citadel is entitled to exercise all rights and remedies pursuant to the terms of the Citadel Agreement and the Subordinated Documents following the earliest to occur of the following: (i) Nationwide has waived this provision in writing; (ii) the Nationwide Indebtedness is Fully Paid; (iii) the Nationwide Indebtedness is accelerated; and (iv) the expiration of ninety (90) days from the occurrence of the Citadel Event of Default in question. If the Citadel Event of Default in question is cured within the time period set forth in clause (iv) of this paragraph (b) and prior to the occurrence of the event described in clause (i), (ii) or (iii) above, then, for all purposes of this Agreement, such Citadel Event of Default shall be deemed never to have existed. Nothing contained in this Section 2.03 shall

in any way affect the rights and remedies of the parties contained in the other provisions of this Agreement in the event of an Insolvency or Liquidation Proceeding.

(c) Notwithstanding anything contained herein to the contrary, Nationwide, for itself and its successors and assigns, agrees that (i) it will not voluntarily release, subordinate or surrender, or, except in connection with an assignment of the Nationwide Indebtedness, sell or exchange, its Lien on the Equity Collateral unless and until the Nationwide Indebtedness shall have been Fully Paid or Citadel shall have given its prior consent to such release, and (ii) if Citadel shall be subrogated to the rights and interests of Nationwide pursuant to Section 2.06 hereof or shall acquire the Nationwide Indebtedness pursuant to Section 2.11(h) hereof, Nationwide shall assign to Citadel, without recourse to, or representation or warranty by, Nationwide, Nationwide's Lien on the Equity Collateral and the Borrower Collateral to the extent of such Lien.

Section 2.04 Subordination on Dissolution, Liquidation or Reorganization of SHC. In the event of any Insolvency or Liquidation Proceeding:

(a) Unless Nationwide agrees to a different treatment with respect to its claim for the Nationwide Indebtedness (as to which Nationwide shall have absolutely no obligation), upon any distribution of assets of SHC of any kind or character, whether in cash, securities or other property, arising out of such Insolvency or Liquidation Proceeding, all Nationwide Indebtedness shall be Fully Paid before Citadel is entitled to receive any payment or distribution on account of any Citadel Indebtedness;

(b) Any payment or distribution of assets of SHC of any kind or character, whether in cash, securities or other property (including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of SHC being subordinated to the Citadel Indebtedness), to which Citadel would be entitled except for the provisions of this Section 2.04, shall be paid by SHC, as debtor in possession, or any bankruptcy trustee or other agent or other Person making such payment or distribution directly to Nationwide, until all Nationwide Indebtedness remaining unpaid is Fully Paid, after giving effect to any concurrent payments or distributions to or for Nationwide for application to the payment of the Nationwide Indebtedness, or any of the events described in Section 2.02(b)(i), (ii) or (iii) shall have occurred; and

(c) If, notwithstanding the foregoing provisions of this Section 2.04, Citadel shall have received any payment or distribution of assets of SHC, or the estate created by the commencement of any such Insolvency or Liquidation Proceeding, of any kind or character in respect of the Citadel Indebtedness, whether in cash, securities or other property, before all Nationwide Indebtedness shall have been Fully Paid, such payment or distribution shall be received and held in trust for Nationwide, and shall promptly be paid over or delivered to

Nationwide, for the benefit of Nationwide, until all Nationwide Indebtedness then remaining unpaid is Fully Paid, after giving effect to any concurrent payments or distributions to or for Nationwide for application to the Nationwide Indebtedness, or any of the events described in Section 2.02(b)(i), (ii) or (iii) shall have occurred.

Section 2.05. Liens. The Liens on the Collateral in favor of Citadel shall be subject and subordinate in all respects to the Liens in favor of Nationwide.

Section 2.06 Citadel to Be Subrogated to Rights of Nationwide. Only after the Nationwide Indebtedness shall have been Fully Paid, Citadel, to the extent of any payments or distributions of cash, securities and other assets with respect to the Citadel Indebtedness made to or for Nationwide pursuant to this Agreement, shall be subrogated to the rights of Nationwide to receive any and all payments or distributions of cash, securities and other assets payable with respect to the Nationwide Indebtedness until all amounts owing on the Citadel Indebtedness shall have been paid in full. For the purpose of such subrogation, no such payments or distributions to or for Nationwide that otherwise would have been made to Citadel but for this Agreement shall, as between SHC and Citadel, be deemed to be payment by SHC on account of the Citadel Indebtedness; provided, however, that (x) unless and until, as between Nationwide and Citadel, the Nationwide Indebtedness is Fully Paid, Citadel shall not have the right, ability or power to exercise any rights or remedies in respect of or by reason of such subrogation and (y) such rights of subrogation, and any claims of Citadel with respect thereto, are nevertheless limited by and subject to Section 11.12 of the Citadel Agreement.

Section 2.07. Relative Rights. (a) This Agreement defines the relative rights of Citadel, on the one hand, and Nationwide, on the other hand. Nothing in this Agreement is intended to or shall:

(i) impair, as between SHC and Citadel, the obligation of SHC to pay the amounts payable with respect to the Citadel Indebtedness as and when the same shall become due and payable in accordance with its terms; or

(ii) affect the relative rights against SHC of Citadel and creditors of Citadel other than Nationwide.

(b) Notwithstanding anything herein or elsewhere to the contrary, if SHC fails, because of this Agreement or otherwise, to pay principal of or interest on the Citadel Indebtedness on the due date thereof, such failure shall still be considered an Event of Default under paragraph (a) of Section 9.1 of the Citadel Agreement except as otherwise provided in said paragraph (a).

Section 2.08 Continued Effectiveness of this Agreement.

(a) The terms of this Agreement, the subordination effected hereby, and the rights of Nationwide and the obligations of Citadel arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (i) any amendment, modification or termination of or supplement to the Nationwide Indebtedness or the Nationwide Agreement, or any agreement, instrument or document executed or delivered pursuant thereto; (ii) the validity or enforceability of any such document; (iii) the release, sale, exchange or surrender, in whole or in part, of any collateral security, now or hereafter existing, for any of the Nationwide Indebtedness or any other indebtedness, liability or obligations of SHC to Nationwide, now existing or hereafter arising; (iv) any exercise or non-exercise of any right, power or remedy under or in respect of the Nationwide Indebtedness or any of such instruments and documents referred to in clause (i) above or arising at law; or (v) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, inaction or omission in respect of the Nationwide Indebtedness or any of the agreements, instruments or documents referred to in clause (i) above or in respect of any collateral security for the Nationwide Indebtedness or any other indebtedness, liability or obligation of SHC to Nationwide, now existing or hereafter arising, all whether or not Citadel shall have had notice or knowledge of any of the foregoing and whether or not Citadel shall have consented thereto.

(b) The terms of this Agreement, and the rights of Citadel and the obligations of Nationwide arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (i) any amendment, modification or termination of or supplement to the Citadel Indebtedness or the Subordinated Documents, or any agreement, instrument or document executed or delivered pursuant thereto; (ii) the validity or enforceability of any such document; (iii) the release, sale, exchange or surrender, in whole or in part, of any collateral security, now or hereafter existing, for any of the Citadel Indebtedness or any other indebtedness, liability or obligations of SHC to Citadel, now existing or hereafter arising; (iv) any exercise or non-exercise of any right, power or remedy under or in respect of the Citadel Indebtedness or any of such instruments and documents referred to in clause (i) above or arising at law; or (v) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, inaction or omission in respect of the Citadel Indebtedness or any of the agreements, instruments or documents referred to in clause (i) above or in respect of any collateral security for the Citadel Indebtedness or any other indebtedness, liability or obligation of SHC to Citadel, now existing or hereafter arising, all whether or not Nationwide shall have had notice or knowledge of any of the foregoing and whether or not Nationwide shall have consented thereto.

Section 2.09 Provisions to Effectuate Subordination of Citadel
Indebtedness.

(a) In the event of any Insolvency or Liquidation Proceeding, Nationwide is irrevocably authorized and empowered, in its discretion, to make and present for and on behalf of Citadel such proofs of claim against SHC on account of the Citadel Indebtedness or other motions or pleadings as Nationwide may deem expedient or proper, to vote such proofs of claim in any such Insolvency or Liquidation Proceeding, to the extent permitted by law, and to receive and collect any and all payments or distributions made thereon in whatever form and to apply such payments or distributions on account of any of the Nationwide Indebtedness. Citadel irrevocably authorizes and empowers Nationwide to demand, sue for, collect and receive each of such payments and distributions and to file claims and take such other actions, in the name of Nationwide or Citadel or otherwise, as Nationwide may deem necessary or advisable for the enforcement of this Agreement. To the extent that payments or distributions are made in property other than cash, Citadel authorizes Nationwide to sell such property to such buyers and on such terms as Nationwide, in its reasonable discretion, shall determine. Citadel will execute and deliver to Nationwide such powers of attorney, assignments and other instruments or documents as may be requested by Nationwide in order to enable Nationwide to enforce any and all claims upon or with respect to the Citadel Indebtedness and to collect and receive any and all payments and distributions which may be payable or deliverable at any time with respect thereto.

(b) Nationwide agrees that it will not exercise any of the rights or remedies under paragraph (a) of this Section 2.09 unless Citadel has failed to implement any action in question within ten (10) days prior to when such action is required pursuant to an Insolvency or Liquidation Proceeding.

(c) Citadel specifically waives: unless Nationwide shall otherwise give its prior written consent or the Nationwide Indebtedness is Fully Paid, (i) the right to seek to give its credit (secured or otherwise) to SHC in any way under Section 364 of the Bankruptcy Code unless the same is subordinated in all respects to the Nationwide Indebtedness in accordance with the terms and conditions of this Agreement; (ii) the right to take a position inconsistent with or contrary to that of Nationwide (including a position by Nationwide to take no action) if SHC seeks to use, sell or lease the Collateral under Section 363 of the Bankruptcy Code or seeks to accept or reject any executory contract or lease under Section 365 of the Bankruptcy Code; (iii) the right to receive any collateral (including any "super priority" or equal or "priming" or replacement Lien) for the Citadel Indebtedness, other than the Equity Collateral and the Borrower Collateral, in each case subject to Nationwide's Liens thereon to the extent provided herein; and (iv) the right to seek adequate protection in respect of the Collateral under Section 363 or 361 of the Bankruptcy Code, unless and then only to the extent that

Nationwide does and then only to the extent consistent with the subordinated position of Citadel.

Section 2.10 Subordination not Impaired by Acts or Omissions of SHC or Nationwide. (a) No right of Nationwide to enforce subordination as provided herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of SHC or, except as provided in Section 2.10(c), by any act or failure to act by Nationwide, or by any noncompliance by SHC with the provisions and covenants of the Nationwide Agreement or the Subordinated Documents, regardless of any knowledge thereof that Nationwide may have or be otherwise charged with and regardless of whether such action or failure to act diminishes or destroys any subrogation or other rights that Citadel may have or reduces or eliminates any eventual recovery in respect of the Citadel Indebtedness. Without in any way limiting the generality of the foregoing, Nationwide may, at any time and from time to time, without the consent of or notice to Citadel, except as provided in Section 2.10(c), without incurring responsibility to Citadel and without impairing or releasing the subordination and other benefits provided in this Agreement or the obligations hereunder of Citadel to Nationwide, do any one or more of the following even if any right to reimbursement or subrogation or other right or remedy of Citadel is affected, impaired or extinguished thereby:

(i) change the manner, place or terms of payment or extend, renew, modify or amend the terms of the Nationwide Indebtedness or any agreement or instrument evidencing, securing or guarantying any Nationwide Indebtedness (including increasing the amount of principal, changing the time and amount of repayments, increasing the rate of interest or otherwise changing the terms of the Nationwide Agreement), exercise or delay in or refrain from exercising any right or remedy against SHC and otherwise deal freely with SHC or any liability of SHC;

(ii) release, exercise or delay in or refrain from exercising any right or remedy against, change the terms of any agreement or instrument with or otherwise deal freely with any guarantor or any other Person liable or contingently liable in any manner for the Nationwide Indebtedness or any such liability or contingent liability;

(iii) settle or compromise any of the Nationwide Indebtedness or any other liability of SHC or any guarantor of the Nationwide Indebtedness to Nationwide and apply any sums by whomsoever paid and however realized to any liability (including, without limitation, the Nationwide Indebtedness) in any manner or order; and

(iv) fail to take or to record or otherwise perfect, for any reason or for no reason, any Lien securing the Nationwide Indebtedness by whomsoever granted, and release, sell, exercise or delay in or refrain from exercising any right or remedy against, exchange, enforce, realize upon, or otherwise deal freely with, in any manner and in any order, any of the Collateral.

(b) Except as provided in Section 2.10(c), Citadel hereby waives any and all notice of the creation, modification, renewal, extension or accrual of any Nationwide Indebtedness and notice of or proof of reliance by Nationwide upon this Agreement, and the Nationwide Indebtedness shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Agreement, and all dealings between SHC and Nationwide shall be deemed to have been consummated in reliance on this Agreement.

(c) Notwithstanding anything contained in this Agreement or any other agreement to the contrary, the consent of Citadel shall be required for (i) any amendment or modification of the Nationwide Agreement (any of the foregoing being a "Change") (A) changing the dates of payment of interest, principal, fees or costs in respect of the Nationwide Indebtedness or shortening the maturity of or requiring the earlier payment of any principal or interest in respect of the Nationwide Indebtedness, (B) increasing the rate of interest or the amount of any payments (including the amount of any fees payable in respect of the Nationwide Indebtedness), except for the increase in rate provided for therein following maturity thereof, whether at stated maturity, by acceleration or otherwise, or (C) adding any requirement for SHC to pay any additional fees in respect of the Nationwide Indebtedness, or (ii) any Change making any material terms and conditions of the Nationwide Agreement more restrictive or burdensome on SHC than the terms and conditions of the Nationwide Agreement delivered to Citadel and in effect on the date hereof. If any Change is made in contravention of this Section 2.10(c), any additional liabilities or obligations to Nationwide imposed thereby on SHC shall not constitute obligations secured by the Collateral and, with respect to such additional liabilities or obligations, Nationwide shall not be entitled to any of the benefits of this Agreement, the Security Agreement or the Pledge Agreement.

Section 2.11 Additional Agreements and Waivers.

(a) Citadel hereby waives (i) any requirement for marshaling of assets by Nationwide in connection with any foreclosure of the Liens of Nationwide on any Collateral or any other realization upon such Collateral, and (ii) any other principle of election of remedies.

(b) Nationwide shall not have any obligation or duty, nor shall Citadel have any right to direct Nationwide, to retain, perfect, protect or release any Collateral (except as provided in Section 2.03(c)), to foreclose or refrain from foreclosing the Lien of Nationwide on any Collateral, to act or refrain from acting with respect to any Nationwide Event of Default, to act or refrain from acting with respect to the collection of any claim from any account debtor, guarantor or any other party, to realize upon any collateral or otherwise to

exercise or refrain from exercising any rights or remedies in respect of such Lien or such Collateral. Except with respect to a violation of Section 2.03(c), Nationwide shall not be subject to any liability on account of taking or refraining from taking any action referred to in this Section 2.11(b), and Citadel waives and agrees to refrain from asserting against Nationwide any claim seeking damages or other relief by way of specific performance, injunction or otherwise, with respect to any action taken or not taken by Nationwide with respect to SHC, the Collateral or any other Person. Without limiting the foregoing, Citadel waives the right to commence or pursue any legal action on account of the exercise or non-exercise of rights, remedies or other conduct of Nationwide under the Nationwide Agreement or any document entered into in connection therewith, including allegations based on a theory of breach of fiduciary obligations of Nationwide, duty of care, duty of good faith, duty of reasonableness, negligence, equitable subordination of claims, interference with contractual relationships, conflicts of interest or otherwise, except for willful misconduct by Nationwide or a violation of Section 2.03(c) hereof.

(c) Solely between Nationwide and Citadel, Citadel assumes responsibility for keeping itself informed as to the condition (financial or otherwise), business, assets and operations of SHC, the condition of the Collateral and all other circumstances that might in any way affect Citadel's risk under the Subordinated Documents and this Agreement (including without limitation the risk of non-payment of the Nationwide Indebtedness), and Nationwide shall have no duty or obligation whatsoever to obtain or disclose to Citadel any information or documents relative to such condition (financial or otherwise), business, assets or operations of SHC, such Collateral or such risk, whether acquired by Nationwide in the course of its relationship with SHC or otherwise. The terms of this Section 2.11(c) shall not impair or affect SHC's obligations arising under any Credit Agreement or any of the Subordinated Documents.

(d) Citadel agrees that the subordination hereunder applies regardless of the validity or enforceability of the Nationwide Indebtedness or the Nationwide Agreement or the validity, perfection or enforceability of the Liens securing the Nationwide Indebtedness.

(e) Citadel agrees not to (i) take any action to challenge the validity, enforceability or amount of any guaranty of the Nationwide Indebtedness given by any other Person, (ii) induce any other Person to take such action, or (iii) cooperate with any other Person in taking such action.

(f) Within fifteen (15) days following the written request from Nationwide or SHC, Citadel shall deliver to SHC and Nationwide an estoppel certificate setting forth (i) the amount of principal and interest then due, if any, and other amounts then payable (to the extent then ascertainable), if any, in respect of the Citadel Indebtedness and (ii) whether or not the Subordinated Documents have been amended since the date hereof or the date of the

last such certificate delivered pursuant hereto, as the case may be, and if so, providing a copy of the relevant amendment documents.

(g) Within fifteen (15) days following the written request from Citadel, each of Nationwide and SHC shall deliver to Citadel an estoppel certificate setting forth (i) the amount of principal and interest then due, and other amounts then payable (to the extent ascertainable), in respect of the Nationwide Indebtedness and (ii) whether or not the Nationwide Agreement has been amended since the date hereof or the date of the last such certificate delivered pursuant hereto, as the case may be, and, if so, providing a copy of the relevant amendment documents. Nationwide confirms that, as of the date hereof, the outstanding principal sum of the Nationwide Indebtedness is eleven million Dollars (\$11,000,000), and no other sums are now accrued or payable under the Nationwide Agreement except accrued interest, not currently due, in accordance with the terms of the Nationwide Agreement.

(h) (i) At any time following a Trigger Event, upon the request of Citadel and upon at least five (5) Business Days' prior written notice to Nationwide, Nationwide will assign to Citadel, without any recourse to, or representation or warranty by, Nationwide, the Nationwide Agreement (other than Nationwide's claims, if any, in respect of interest and other fees and costs thereunder, to the extent not included in the Nationwide Accrual) (the "Retained Claims"), which Retained Claims shall be retained by and remain the property of Nationwide) upon the payment to Nationwide, or as it may direct in writing, of the sum of (x) the principal amount of the Nationwide Indebtedness or \$11,000,000, whichever is less, and (y) the Nationwide Accrual; provided, however, that the Nationwide Indebtedness and the Nationwide Agreement, as assigned, will then be subject to Section 11.12 of the Citadel Agreement. Upon such assignment, this Agreement shall terminate and all rights and obligations between Nationwide and Citadel shall terminate, except as provided in this Section 2.11(h). Upon such assignment, the combined assigned Nationwide Indebtedness and the Citadel Indebtedness shall be treated for purposes of this Agreement as if such combined Indebtedness were the Nationwide Indebtedness and the Retained Claims shall be treated as if such Retained Claims were the Citadel Indebtedness; provided, however, that nothing herein shall affect, limit or impair the right of Nationwide to enforce, collect and retain free from any limitations or restrictions of this Agreement payment of the Retained Claims from any Person other than SHC.

(ii) At Citadel's election, payment to Nationwide or an Affiliate thereof for the amount required to be paid pursuant to subsection 2.11(h)(i) may be made by it or an Affiliate making and delivering a note for the full amount due, payable in full ninety (90) days from its date, with interest thereon payable at the rate of 8.25% monthly in arrears and on the date of payment in full (increasing to 9.75% following maturity thereof, whether at stated maturity, by acceleration or otherwise); provided, however, that Nationwide (or such

Affiliate) may require that the maturity date of the note be extended to such later date, not beyond the expiration of the Initial Term of the Lease Agreement as may be requested by Nationwide (or such Affiliate) in a notice given to Citadel not later than sixty (60) days prior to the originally stated maturity date of such note, in which case the maker of the note and, if applicable, the guarantor thereof shall execute and deliver such additional documents to confirm such extension as may be appropriate. Such note, if made by an Affiliate of Citadel, shall be fully guaranteed as to payment by Citadel, or may in the first instance be made by Citadel (in which case no guaranty shall be required). The note and, if applicable, the guaranty shall be on terms and conditions reasonably satisfactory to Nationwide. The option provided herein in favor of Citadel to pay through delivery of a note and, if applicable, a guaranty shall not be available in connection with the exercise of the Purchase Option pursuant to the Lease Agreement and any such note shall be pre-payable in full upon the closing pursuant to the Purchase Option or the purchase or other acquisition by Citadel (or an Affiliate) of the Membership Interest in SHC.

(iii) Upon the payment to Nationwide of the amount required to be paid to it pursuant to subsection 2.11(h)(i) (whether in cash or by the making and delivery of a note and, if applicable, a guaranty), Nationwide shall, as Citadel may request, either satisfy or assign (without recourse to, or representation or warranty by, Nationwide) as Citadel shall direct any and all Liens securing the Nationwide Indebtedness and any claims (other than the Retained Claims) with respect thereto; provided, however, that such Liens and claims, if so assigned, will be subject to the limitations of Section 11.12 of the Citadel Agreement. Any and all Retained Claims shall be unsecured claims and any judgment thereon shall not be enforced against or be or become Liens on any assets of SHC.

(iv) If the Trigger Event is a Citadel Proceeding and if a Bad Faith Determination is entered with respect thereto, then Citadel shall be liable: (x) to Nationwide, for all costs and expenses (including reasonable fees and expenses of counsel and other professional advisors) incurred by Nationwide in connection with the Citadel Proceeding and in seeking such Bad Faith Determination and for interest (at the Reimbursement Rate) on any taxes paid by Nationwide as a result of the transfer or repayment of the Nationwide Indebtedness for the period from the date such taxes were paid until the date such taxes would have been paid if the Nationwide Indebtedness had been repaid at the maturity date thereof; and (y) to SHC and its Affiliates, for all costs and expenses (including reasonable fees and expenses of counsel and other professional advisors) incurred by SHC and its Affiliates in connection with the Citadel Proceeding and in seeking such Bad Faith Determination. If following the initiation of a Citadel Proceeding either Nationwide or any of its Affiliates or SHC or any of its Affiliates, or any other Person acting in concert with or with the support of any of them, unsuccessfully asserts a claim for a Bad Faith Determination, then Nationwide (if it or any of its Affiliates asserted such claim) or James J. Cotter and Michael R. Forman (if SHC or any of its Affiliates asserted such claim) shall be

liable to Citadel for all costs and expenses (including reasonable fees and expenses of counsel and other professionals) incurred by Citadel in defending against the claim for a Bad Faith Determination.

Section 2.12. Transferees of Creditors; Notice of Subordination.

(a) Each Creditor shall not at any time sell, assign, pledge, hypothecate, or otherwise transfer its Credit Agreement (or any of its respective rights or interests therein), unless and until the transferee, pledgee, or other appropriate party shall have assumed in a writing, reasonably satisfactory to the other, all of the transferring, pledging, or hypothecating Creditor's obligations under this Agreement.

(b) Each Creditor warrants and represents to the other Creditor that it has not previously assigned any interest in its respective Indebtedness, that no party owns an interest in its Indebtedness other than itself and that its entire Indebtedness is owing only to it. Each Creditor covenants that its entire Indebtedness shall continue to be owing only to it, unless assigned or transferred in accordance with the terms of this Agreement.

Section 2.13. Representations and Warranties. (a) Each Creditor hereby represents and warrants for the benefit of the other as follows: (i) the execution, delivery and performance of this Agreement are within its corporate power and authority and have been duly authorized by all necessary corporate action and this Agreement constitutes the legal, valid and binding obligation of each Creditor enforceable against it in accordance with its terms, except as enforceability may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally; and (ii) all consents for, in the case of Nationwide, the amending of the Existing Nationwide Agreement to the Nationwide Agreement and, in the case of Citadel, the funding to SHC pursuant to the Citadel Agreement have been obtained and are in effect (or will be obtained and in effect upon the date of funding).

(b) Nationwide hereby represents to Citadel that, upon the tender in cash of the amount of the Nationwide Indebtedness in the amount and subject to the conditions set forth in Section 2.11(h)(i) hereof, the assignment provided for in said Section 2.11(h)(i) will be provided whether or not Nationwide is then the holder of the Nationwide Indebtedness.

Section 2.14. Restriction on Amendments to Subordinated Documents. Neither SHC nor Citadel shall, without the prior written consent of Nationwide, waive, amend or modify any of the terms and conditions of any Subordinated Document if the effect of such waiver, amendment or modification is to (a) advance maturity dates, (b) increase rates or amounts of payments, (c) change any provision herein, or (d) otherwise make any such terms and conditions more restrictive or burdensome on SHC than the terms and conditions of the Subordinated Documents delivered to Nationwide and in effect on the date hereof or at the time of such amendment or modification.

Section 2.15. Continuing Agreement of Subordination. This is a continuing agreement of subordination and Nationwide may continue, at any time and without notice to Citadel, to extend credit or other financial accommodations to or for the benefit of SHC in reliance hereon. This Agreement shall be effective and may not be terminated or otherwise revoked by Citadel until the Nationwide Indebtedness has been Fully Paid. If Citadel shall have any right under Applicable Law or otherwise to terminate or revoke this Agreement which cannot be waived, then, to the extent permitted by law, such termination or revocation shall not be effective until written notice of such termination or revocation, signed by Citadel, is given to the holder of such Nationwide Indebtedness. Any such termination or revocation shall not affect this Agreement in relation to (a) any Nationwide Indebtedness which arose prior to the receipt thereof, or (b) any of the Nationwide Indebtedness created after receipt thereof, if such Nationwide Indebtedness was incurred either through committed advances or re-advances by Nationwide pursuant to the Nationwide Agreement.

Section 2.16. Further Assurances.

(a) Upon the occurrence and during the continuation of a Nationwide Default, Citadel shall duly and promptly take such action as Nationwide may reasonably request (a) to collect the Citadel Indebtedness for the account of Nationwide and to file appropriate claims or proofs of claims in respect of the Citadel Indebtedness, (b) to execute and deliver to Nationwide such assignments or other instruments as Nationwide may reasonably request in order to enable it to enforce any and all claims with respect to the Citadel Indebtedness and any security interests securing payment of the Citadel Indebtedness, and (c) to collect and receive any and all payments or distributions which may be payable or deliverable with respect to the Citadel Indebtedness.

(b) Nothing contained in this Agreement shall affect Citadel's obligations to make any advances pursuant to the terms of the Citadel Agreement.

ARTICLE III
MISCELLANEOUS

Section 3.01 Amendments, Etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by any party hereto therefrom, shall in any event be effective unless the same shall be in writing, making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings signed by or consented to by all the parties hereto, and then such amendment, waiver, modification or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 3.02 Notices, Etc. All notices, offers, acceptances, approvals, waivers, requests, demands and other communications required or permitted hereunder or under any other instrument,

certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 3.02. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to Citadel:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 235-2220
Attention: Chief Financial Officer

with required copies to

S. Craig Tompkins
Reading International, Inc.
550 South Hope Street, Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 235-2229

If to SHC:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Department
Telecopier No.: (310) 652-6490

If to Nationwide:

Nationwide Theatres Corp.
c/o Pacific Theatres
Los Angeles, California 90048
Attention: Legal Department
Telecopier No.: (310) 652-6490

with required copies to

Ira Levin
Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490

Each such notice, request or other communication shall be effective when actually received.

Section 3.03 No Waiver; Remedies. No failure on the part of any party hereto to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 3.04 Costs and Expenses. Each Creditor agrees to pay on demand all costs and expenses of the other Creditor in connection with the successful enforcement of this Agreement against the first Creditor (including without limitation for reasonable fees and expenses of counsel).

Section 3.05 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Section 3.06 Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

Section 3.07 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature

page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 3.08 Waiver of Jury Trial. THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 3.09 Evidence of Understanding. Citadel shall, promptly upon the request of Nationwide, and Nationwide shall, promptly upon the request of Citadel, execute and deliver such other documents and instruments as Nationwide or Citadel, as the case may be, may deem reasonably necessary or appropriate (in proper form for recording or filing, if requested) to more fully implement or further evidence the understandings and agreements contained in this Agreement.

Section 3.10 Conflict of Provisions. In the event of any conflict between any term, covenant or condition of this Agreement and any term, covenant or condition of the Nationwide Agreement, the Subordinated Documents, or any documents executed in connection therewith or the indebtedness evidenced thereby, the provisions of this Agreement shall control and govern.

Section 3.11 Respective Rights. This Agreement sets forth the respective rights of Citadel, on the one hand, and Nationwide, on the other hand, and, as such, has not been entered into for the benefit of SHC and may not be enforced by SHC. SHC is executing and delivering this Agreement solely to confirm to the other parties that it is aware that such other parties have entered into this Agreement and that it consents to the other parties' entering into this Agreement (though the foregoing shall not imply that SHC's consent was or is required for the execution and delivery of this Agreement by such other parties, or that its obligations pursuant to the Nationwide Agreement or the Subordinated Documents are affected in any way if an amendment is made hereto, or a waiver is granted hereunder, without SHC's consent).

Section 3.12 Termination. This Agreement shall terminate upon payment in full of the Nationwide Indebtedness and all other amounts due under the Nationwide Agreement.

Section 3.13. Section Headings. The Section headings in this Agreement are for convenience of reference only and shall not affect the interpretation hereof.

Section 3.14. Limited Recourse. SHC's obligations hereunder are intended to be the obligations of the limited liability company only and no recourse for the payment of any amount due hereunder, or for any claim based thereon or otherwise in respect thereof, shall

be had against any member of SHC or any incorporator, member, officer, director or Affiliate, as such, past, present or future of such limited liability company, it being understood that SHC is a limited liability company formed for the purpose of the transactions involved in and relating to the Citadel Agreement on the express understanding aforesaid. Nothing contained in this Section shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement, of the rights and remedies against the limited liability company or the assets of the limited liability company or affect claims under Section 5 of the Pledge Agreement or under the Indemnity Guarantee (as such terms are defined in the Citadel Agreement).

Section 3.15 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provisions in any other jurisdiction.

Section 3.16 Bankruptcy. This Agreement shall be applicable both before and after the commencement, whether voluntary or involuntary, of any case under the Bankruptcy Code (or similar state law) involving SHC, and all references herein to SHC shall be deemed to apply to SHC as a debtor-in-possession and to any trustee in bankruptcy for the estate of SHC.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

READING INTERNATIONAL, INC.

By: _____

Name:

Title:

NATIONWIDE THEATRES CORP.,

By: _____

Name:

Title:

SUTTON HILL CAPITAL, L.L.C.,

By: _____

Name:

Title:

FOR PURPOSES OF THE LAST SENTENCE OF
SECTION 2.11(h)(iv) ONLY:

James J. Cotter

Michael R. Forman

EXHIBIT H

THEATRE PROPERTIES

1. The Village East Cinemas located at 181 Second Avenue, New York, New York 10013
2. The Sutton Theatre located at 205 East 57th Street, New York, New York 10022.
3. Cinemas 1, 2 and 3 located at 1001 Third Avenue, New York, New York 10022

EXHIBIT I

SITE LEASES

(a) That certain Indenture of Lease dated as of January 31, 1987 between Senyar Holding Company, as landlord, and M-Square Theaters, Inc., as tenant, covering premises at 181-189 Second Avenue, New York, New York 10003, containing the Village East Theatre, as amended by that certain First Amendment to Lease, dated as of June 15, 1989, between Senyar Holding Company and M-Square Theaters, Inc. and the letter regarding notices, dated December 20, 1993 from Senyar Holding Company to M-Square Theatres, Inc.;

(b) The ground lease dated February 9, 1961 between Andrew C. Mayer, et al., as landlord, and Turtle Bay Theatre Corporation, as tenant, covering premises at 1001, 1003 1005 and 1007 Third Avenue, New York, New York 10022, containing Cinemas 1, 2 and 3, the tenant's interest therein having been assigned to (i) Sutcin Holding Corp. pursuant to that Assignment & Assumption of Lease dated December 31, 1984 between Cinemas 5 Ltd., as successor in liquidation to Turtle Bay Theatre Corporation, and Sutcin Holding Corp., and (ii) Sutton Hill Associates pursuant to that Agreement of Purchase and Sale and related Assignment of Lease, each dated July 3, 1986 between Sutcin Holding Corp. and Sutton Hill Associates; and

(c) That certain Ground Lease dated as of August 16, 1985, between Sutcin Holding Corp., as landlord, and Sutton Hill Associates, as tenant, covering the premises at 205 East 57th Street, New York, New York 10022, containing the Sutton Theater as amended by the First Addendum to Ground Lease, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, Second Addendum to Ground Lease, dated as of January 1, 1995, between Sutcin Holding Corp. and Sutton Hill Associates, Third Addendum to Ground Lease, dated as of July 1, 1996, between Nationwide (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, Fourth Addendum to Ground Lease, dated as of July 28, 2002, between Nationwide and Sutton Hill Associates and Fifth Addendum to Ground Lease, dated as of January 29, 2002 between Nationwide and Sutton Hill Associates.

GUARANTY

This Guaranty, made as of this 28th day of July, 2000, by Michael R. Forman and James J. Cotter (collectively, the "Guarantors") in favor of Citadel Cinemas, Inc. (including its successors and assigns, "Citadel Cinemas"), and Citadel Realty, Inc. (including its successors and assigns, "FeeSub" and, together with Citadel Cinemas, the "Beneficiaries").

W I T N E S S E T H:

WHEREAS, Sutton Hill Capital, L.L.C. ("SHC") is acquiring certain interests in various theatre properties in New York City, including the option (the "Sutton/Murray Hill Fee Option") to acquire the fee interests in and to two of such properties (the "Sutton & Murray Hill Fees");

WHEREAS, Citadel Cinemas is subleasing from SHC certain of the theatre properties, including the improvements and equipment located therein or thereon (collectively, the "Leased Interests"), pursuant to the provisions of a certain Lease Agreement, dated as of the date hereof (the "Lease Agreement"), between SHC, as lessor, and Citadel Cinemas, as lessee;

WHEREAS, included in the Lease Agreement is an option in favor of Citadel Cinemas (the "Lease Option") to acquire from SHC the Leased Interests;

WHEREAS, pursuant to an agreement, dated the date hereof (the "Fee Option Agreement"), between FeeSub and SHC, SHC is granting to FeeSub the right (the "Fee Option Right"), subject to the exercise by Citadel Cinemas of the Lease Option and payment by Citadel Cinemas of the exercise price under the Lease Option, to require SHC to exercise the Sutton/Murray Hill Fee Option and direct the delivery of title to the Sutton & Murray Hill Fees to or as directed by FeeSub, upon payment by FeeSub or its designee of the exercise price under the Sutton/Murray Hill Fee Option;

WHEREAS, the Guarantors are indirect owners of the membership interest in SHC and will benefit by the execution and delivery by SHC of the Lease Agreement and the Fee Option Agreement;

WHEREAS, it is the intention of the Guarantors in executing and delivering this Guaranty to (i) assure to Citadel Cinemas, if it exercises the Lease Option, that it will acquire title to the Leased Interests subject only to the Permitted Liens (as hereinafter defined) and (ii) assure to FeeSub, if it exercises the Fee Option Right, that no Insolvency or Liquidation Proceeding (as hereinafter defined) will cause to be stayed or otherwise impede such exercise and that, when and if it acquires title to the Sutton & Murray Hill Fees, there will be no Liens arising from any action of SHC or its Affiliates, except for Liens existing on the date hereof listed on Exhibit A attached hereto or liens resulting from a Tenant Event;

NOW, THEREFORE, the Guarantors hereby agree, for the benefit of the Beneficiaries, as follows:

1. Unless otherwise defined herein, terms that are defined in the Lease Agreement and used herein are so used as so defined. In addition, the following terms shall have the following meanings:

"Bad Faith Determination" with respect to a Beneficiary Proceeding means the entry of one or more Final Orders (i) (a) dismissing such Beneficiary Proceeding if (I) neither Nationwide nor SHC consented to such Beneficiary Proceeding and at least one of Nationwide or SHC opposed such Beneficiary Proceeding and (II) such Final Order is based on a finding by the court that (A) in the case of a Beneficiary Proceeding under the Federal bankruptcy laws, the criteria in 11 U.S.C. ss.303(b) are not satisfied or (B) in any other case, the relevant statutory criteria for bringing such Beneficiary Proceeding are not satisfied and (b) finding that the Beneficiary or Beneficiaries or Affiliate of any Beneficiary which is a Petitioning Creditor in such Beneficiary Proceeding, at the time such petition or other action was filed or taken, initiated such Beneficiary Proceeding in "bad faith" (or words of similar import) or (ii) granting judgment against a Petitioning Creditor therein which is a Beneficiary under 11 U.S.C. ss.303(i)(2) (as any such statutory section referenced herein may hereafter be modified, restated or amended).

"Beneficiaries" has the meaning set forth in the recitals hereto.

"Beneficiary Proceeding" means an Insolvency or Liquidation Proceeding in which a Beneficiary or any Affiliate of a Beneficiary is a Petitioning Creditor.

"Certificate of Title" means a title search or report provided by a title insurance company or agency licensed to do business in the state where the Leased Interests are located.

"Citadel Cinemas" means Citadel Cinemas, Inc., a Nevada corporation, and its successors and assigns.

"Covered Asset" means any material component of real estate comprising the Leased Interests and the Sutton & Murray Hill Fees, if to be transferred as herein described.

"Cure" (including grammatical alternatives thereof) means (i) the removal of the Lien or Title Impairment in question, either of record or by arrangement for the title company insuring the interest of the transferee to "omit" the Lien or Title Impairment in question, or (ii) the causing of the title company involved to insure against collection or to insure against loss or forfeiture of title with respect to the Lien or Title Impairment in question, provided, that, in the case of a Cure described in clause (ii) hereof, the title company must agree to "omit" such Lien or Title Impairment in question in connection with any mortgagee title insurance policy with respect to any third party financing.

"Designated Payments" means the amounts (if any) required to be paid to satisfy the principal amount of the Nationwide Indebtedness.

"Fee Option Agreement" has the meaning set forth in the recitals hereto.

"Fee Option Right" has the meaning set forth in the recitals hereto.

"FeeSub" means Citadel Realty, Inc., a Nevada corporation, and its successors and assigns.

"Final Order" means a judgment by a court of competent jurisdiction, not subject to further appeal or with respect to which the time to appeal has lapsed.

"Insolvency or Liquidation Proceeding" means:

(i) the entry of a decree or order for relief in respect of SHC by a court having jurisdiction in the premises, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against SHC of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or

(ii) the commencement by SHC of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

"Lease Agreement" has the meaning set forth in the recitals hereto.

"Leased Interests" has the meaning set forth in the recitals hereto.

"Lease Option" has the meaning set forth in the recitals hereto.

"Nationwide Accrual" means interest on the principal of the Nationwide Indebtedness (i) relating to any period in respect of which either (A) Citadel Cinemas has failed to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) or (B) as a result of the failure by Citadel Cinemas to perform any of its obligations under the Lease Agreement or any of the Other Lease Documents, SHC has applied Basic Rent received by it to perform such obligations, in each case under clause (A) or (B) limited to the lesser of (x) the amount which Citadel Cinemas has failed to so pay or the amount which SHC has so applied, as the case may be, and (y) the amount of

such interest, or (ii) which remains unpaid and accruing on such principal (or, but for the filing of a Beneficiary Proceeding, that would have accrued on such principal) during the pendency of a Beneficiary Proceeding if there is a Bad Faith Determination with respect to such Beneficiary Proceeding.

"Permitted Liens" means the following Liens and other matters affecting the title of any Leased Interest: (i) Liens securing the payment of taxes, assessments and other governmental charges or levies which are not yet delinquent to the extent not the obligations of the Tenant pursuant to the Lease Agreement; (ii) Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions, easements, rights-of-way, licenses, reservations, covenants, conditions, waivers, or restrictions on the use of any Covered Asset which exist on the date hereof and either are set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement or are not disclosed therein; (iii) encroachments or irregularities of title none of which materially impairs the current use or value of the affected Theatre Property; (iv) the Liens created pursuant to the Nationwide Agreement, provided that the amount secured by such Liens shall not exceed the sum of (A) \$11,300,000 or the principal amount of the Nationwide Indebtedness, whichever is less, and (B) the Nationwide Accrual, and provided, further, that the principal amount of the Nationwide Indebtedness secured by such Liens is paid with the applicable Designated Payment; (v) leases and licenses in effect with respect to any Theatre Property which are permitted by the Lease Agreement; (vi) mechanics' and materialmen's liens or Liens not disclosed in the title insurance policy and existing on the date hereof; (vii) exceptions to the title of any such Covered Asset as set forth in the title insurance policy delivered to Citadel Cinemas hereunder or in connection with the Lease Agreement; (viii) existing Liens listed on Exhibit A attached hereto; (ix) any Lien which is or results from a Tenant Event or is approved by the Tenant for purposes of the Lease Agreement; (x) Liens, including Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions and any of the matters affecting title, which result from acts of Governmental Authority from and after the date hereof not caused by or resulting from a Landlord Act; and (xi) such other or additional matters as may be approved in writing by Citadel Cinemas in its sole discretion.

"Petitioning Creditor" with respect to any Insolvency or Liquidation Proceeding means the creditors that filed the petition to commence or otherwise commenced such Insolvency or Liquidation Proceeding.

"Prepared" means that the Person in question is ready, willing and able to consummate the transaction in question, recognizing that such Person shall be Prepared to close even if such Person must satisfy typical closing conditions for a financing to provide a portion of the price so long as such Person can show its ability to comply with such conditions in the ordinary course.

"SHC" means Sutton Hill Capital, L.L.C., a New York limited liability company and its successors and assigns, including without limitation any trustee in bankruptcy, receiver, debtor-in-possession, or other person or entity controlling any of the foregoing.

"Sutton & Murray Hill Fees" has the meaning set forth in the recitals hereto.

"Sutton/Murray Hill Fee Option" has the meaning set forth in the recitals hereto.

"Title Impairment" means a claim, charge or other matter affecting title to an Asset or interest therein, other than a Lien, which materially impairs the intended use or value of the Asset (or interest therein) in question excluding, however, the matters affecting title as of the date hereof, the Site Leases and the terms and conditions thereof and matters which constitute Tenant Events.

2.(a) (i) If, at the time title to the Leased Interests is to be conveyed by SHC to or as directed by Citadel Cinemas by reason of the timely and proper exercise of the Lease Option (or if, at the time notice of such exercise would be required to be given, such timely and proper exercise is stayed by an Insolvency or Liquidation Proceeding), title to any Covered Asset shall be subject to a Lien other than a Permitted Lien or to a Title Impairment and provided the Beneficiaries are able to provide to the Guarantors evidence reasonably satisfactory to the Guarantors that the respective Beneficiaries are then Prepared to close, then the Guarantors shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

(ii) Not less than ten days prior to the date of the anticipated transfer described in paragraph (i) of this Section 2, Citadel Cinemas shall deliver to the Guarantors a Certificate of Title with respect to the asset or assets to be transferred indicating whether or not any Liens encumbering such title constitute Liens other than Permitted Liens and whether there exist any Title Impairments, together with evidence that Citadel Cinemas is then Prepared to close as aforesaid. At the Closing (as such term is defined in the Lease Agreement), the Guarantors shall have the right to instruct the transferee to pay, to or as the Guarantors may direct, any excess of the cash amount paid by Citadel Cinemas as part of the Acquisition Cost (such cash amount having given effect to any offsets to which Citadel Cinemas is entitled) over that amount necessary to satisfy Designated Payments.

(b)(i) If, at the time title to the Sutton & Murray Hill Fees is to be conveyed to or as directed by FeeSub by reason of the timely and proper exercise of the Fee Option Right (or if, at the time notice of such exercise would be required to be given, such timely and proper exercise is stayed by an Insolvency or Liquidation Proceeding), title to any part of the Sutton & Murray Hill Fees shall be subject to a Lien or to a Title Impairment, in either case arising solely from or relating to any action or omission by SHC or an Affiliate which is not a Tenant Event and provided the Beneficiaries are able to provide to the Guarantors evidence reasonably satisfactory to the Guarantors that the respective Beneficiaries are then Prepared to close, then the Guarantors shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

(ii) Not less than ten days prior to the date of the anticipated transfer described in paragraph (b)(i) of this Section 2, FeeSub shall deliver to the Guarantors a Certificate of Title with respect to the asset or assets to be transferred indicating whether or not any Liens encumbering such title constitute such Liens other than Permitted Liens and whether there exist any such Title Impairments, each as described in paragraph (b)(i) of this Section 2, together with evidence of FeeSub's ability to close as aforesaid.

(c) If by reason of the occurrence of an Insolvency or Liquidation Proceeding, (i) SHC shall fail to convey or cause to be conveyed title to any of the Leased Interests, at the time provided in the Lease Agreement, (ii) Citadel Cinemas shall be stayed from exercising the Lease Option on a timely basis, (iii) SHC shall fail to cause the Sutton/Murray Hill Fee Option to be exercised on a timely basis or to cause the Sutton & Murray Hill Fees to be delivered to or as directed by FeeSub at the time provided in the Sutton/Murray Hill Fee Option and the Fee Option Agreement, or (iv) FeeSub shall be stayed from exercising the Fee Option Right on a timely basis, then, provided all conditions to such transfer or exercise, as the case may be, which then should have been satisfied by Citadel Cinemas or FeeSub, as the case may be, have been satisfied (excluding, however, those conditions which could not have been satisfied by reason of such Insolvency or Liquidation Proceeding), the Guarantors shall cause such Insolvency or Liquidation Proceeding to be terminated or otherwise to be resolved as promptly as practicable and in a manner such that, or take such other actions as may be necessary so that, the applicable transaction can be consummated in accordance with its terms. Any such action may include causing SHC to apply to any liability or claim, or distribute to its member for application to any liability or claim of, funds available or to be available to SHC in connection with consummation of the applicable transactions or otherwise, after payment of any obligations owing by it to either Beneficiary or any Affiliates of either Beneficiary. All times referred to in this Section 2(c) shall be determined without regard to any additional time that may be permitted or authorized under any statute or order entered in or applicable to such Insolvency or Liquidation Proceeding.

(d) Any provisions of subsection 2(c) or Section 3 hereof to the contrary notwithstanding, if an Insolvency or Liquidation Proceeding is a Beneficiary Proceeding, then (i) each of the Beneficiaries shall defer claims or actions hereunder against either of the Guarantors and the exercise of its rights pursuant to said Section 3 until the earliest of (A) the issuance of a Final Order in connection with such Insolvency or Liquidation Proceeding precluding, or with the result of precluding, the consummation of the Closing with respect to the transfer of the Leased Interest or the Sutton & Murray Hill Fees, as the case may be, or otherwise declaring as null and void or otherwise unenforceable the Lease Option or the Fee Option Agreement (assuming in any such instance that the applicable Beneficiary had properly exercised its rights pursuant to the Lease Option or the Fee Option Agreement, as applicable, or had been stayed from so doing by reason of the filing of the Insolvency or Liquidation Proceeding), (B) the rejection of the Lease Option or the Fee Option Agreement as an executory obligation of SHC, (C) the issuance of a Final Order inconsistent with a Bad Faith Determination, (D) 30 days after such Insolvency or Liquidation Proceeding is dismissed, (E) such Insolvency or Liquidation Proceeding is converted, (F) a plan is confirmed in any such Insolvency or Liquidation Proceeding (unless such plan provides for the consummation of the Closing of the transfer of the Leased Interest or the Sutton & Murray Hill Fees, or both, as the case may be), and (G) the termination of the term of the Lease Agreement (after giving effect to any extension of the Lease Term, so long as the periods to exercise and consummate the transactions contemplated by the Lease Option and Fee Option Agreement have also been extended for the same period) and (ii) any statute of limitations or similar defense applicable to such deferred claims or actions against the Guarantors hereunder is deemed tolled during such Insolvency or Liquidation Proceeding; provided, however, that, if a Bad Faith Determination is issued with respect to such

Beneficiary Proceeding, then the statute of limitations and similar defenses will not be deemed tolled.

3. In the event the Guarantors do not timely perform any of the above obligations, any Beneficiary may, after written demand to perform has been served upon the Guarantors and the Guarantors have been given 15 days to perform, perform said obligations at the Guarantors' sole cost and expense; provided, however, that no Beneficiary shall exercise its option to perform said obligations for up to 90 days if within said 15-day period the Guarantors have commenced to perform the obligation or obligations in question and thereafter to the reasonable satisfaction of such Beneficiary continue to perform such obligation or obligations with reasonable diligence; and provided, further, that such 15-day period, and the preceding proviso, shall not apply if such Beneficiary reasonably concludes that delay in exercising its right hereunder would materially and adversely affect the ability of the parties to consummate the closing on a timely basis in accordance with the Lease Agreement or the closing of the transfer of the Sutton & Murray Hill Fees in accordance with the Fee Option Agreement or the Sutton/Murray Hill Fee Option. The Beneficiaries' exercise of or failure to exercise their rights under this Section 3 shall not relieve the Guarantors of their obligations under this Agreement. The Guarantors shall, upon written demand from a Beneficiary, reimburse such Beneficiary for all costs, including reasonable attorney's fees and out-of-pocket expenses, and all liabilities incurred by such Beneficiary by reason of the foregoing, with interest thereon at the Reimbursement Rate.

4. The obligations, covenants, agreements and duties of the Guarantors under this Agreement shall in no way be affected or impaired by reason of the occurrence from time to time of any of the following with respect to the Lease Agreement, the Fee Option Agreement or this Agreement, even though notice may not have been given to, or received from, the Guarantors or the further consent of either Guarantor thereto may not have been obtained: (a) any amendment, modification, waiver or termination of or supplement to the Lease Agreement, or the Fee Option Agreement or any agreement, instrument or document executed or delivered pursuant thereto or in connection therewith (collectively the "Documents"); (b) the validity or enforceability of any of the Documents; or (c) any exercise or non-exercise of any right, power or remedy under or in respect of any of the Documents or arising at law.

5. Except as expressly set forth herein, the agreements of each of the Guarantors set forth in this Agreement constitute the absolute, present, primary, continuing, irrevocable, unlimited and unconditional obligations of the Guarantors in accordance with the terms hereof, without limitation, and are not conditioned or contingent upon any effort to attempt to seek payment or performance from the other Guarantor or any other person or entity (whether or not pursuant to this Agreement) or upon any other condition or contingency; provided, however, that nothing herein shall obligate the Guarantors hereunder if Citadel Cinemas or FeeSub, as applicable, shall fail to satisfy the conditions for proper and timely exercise of the Lease Option or the Fee Option Right, as applicable (excepting only those conditions which cannot reasonably be satisfied by reason of an Insolvency or Liquidation Proceeding). The obligations of the Guarantors set forth herein constitute full recourse obligations of each Guarantor enforceable against him to the full extent of all his assets and properties, notwithstanding any provision in the Lease Agreement or Fee Option Agreement

limiting the liability of any Person. Without limiting the foregoing, it is agreed and understood that repeated and successive demands for performance hereunder may be made and this Agreement shall remain in full force and effect and shall apply to each and every subsequent event to which it applies by its terms. The Guarantors assume full responsibility for being and staying informed as to all facts and circumstances bearing upon the risk of nonperformance of the obligations guaranteed hereunder, and the Guarantors agree that the Beneficiaries shall have no obligation to advise the Guarantors or any of them of information known to the Beneficiaries regarding such condition or any other circumstance.

6. The Guarantors irrevocably waive (i) any and every right they may have to injunctive relief, (ii) any and every right they may have to have any suit, action or proceeding brought by the Beneficiaries on this Agreement consolidated with any other or separate suit, action or proceeding, and (iii) the right, in such suit, action, proceeding or counterclaim, to interpose any counterclaims (except to the extent that such counterclaims are compulsory and may not be brought in a separate action) or setoffs of any kind or description.

7 Except as to applicable statutes of limitation, no delay on the part of any Beneficiary in exercising any power or right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any power or right hereunder or the failure to exercise same in any instance preclude other or further exercise thereof or the exercise of any other power or right; nor shall any Beneficiary be liable for exercising or failing to exercise any such power or right. The rights and remedies hereunder expressly specified are cumulative and not exclusive of any rights or remedies which any Beneficiary may or will otherwise have.

8 The obligations of the Guarantors hereunder shall be joint and several obligations.

9 In case any Document or obligation thereunder shall be terminated or rejected by any trustee, receiver or liquidating agent of SHC or any of its properties in any Insolvency or Liquidation Proceeding, the Guarantors' obligations hereunder shall continue to the same extent as if such Document had not been so rejected or terminated. The Guarantors agree that this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment or performance by SHC is rescinded or must otherwise be returned as a result of any Insolvency or Liquidation Proceeding.

10 The obligations of the Guarantors hereunder shall not be subject to any counterclaim, setoff, deduction or defense (other than payment, performance or affirmative discharge, release or termination of this Agreement by the Beneficiaries in writing) based upon any claim the Guarantors or SHC may have against any Beneficiary (except for claims that may not be asserted in a separate action or proceeding) or the Guarantors may have against SHC or any other Person and shall remain in full force and effect without regard to, and shall not be released, discharged, reduced or in any way affected by, any circumstance or condition (whether or not the Guarantors shall have any knowledge or notice thereof) whatsoever which might constitute a legal or equitable discharge or defense; provided, however, that the Guarantors shall not be precluded from asserting, whether by way of defense or otherwise, the failure by Citadel Cinemas or FeeSub, as applicable, to satisfy the conditions to the proper and timely exercise of the Lease Option or the Fee Option Right, as the case

may be (excepting those conditions which could not be so satisfied by reason of an Insolvency or Liquidation Proceeding).

11 Except as specifically provided herein, the Guarantors unconditionally waive: (a) notice of any of the matters referred to in Section 4 or 10 hereof; (b) all notices which may be required by statute, rule of law or otherwise to preserve any rights against the Guarantors hereunder, including notice of the acceptance of this Agreement; (c) except as otherwise specifically set forth herein, any requirement for the enforcement, assertion or exercise of any right, remedy, power or privilege under or in respect of any Document, including diligence in collection or protection of or realization upon any obligations or any part thereof or any collateral therefor; (d) any requirement of diligence; (e) any requirement to mitigate the damages resulting from a default under any Document, except that this shall not relieve the Beneficiaries of any such obligation; or (f) the occurrence of every other condition precedent to which the Guarantors or SHC may otherwise be entitled, except as provided in any Document.

12 Any Beneficiary may, at its election, exercise any right or remedy it might have against SHC or any security held by such Beneficiary, including the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of the Guarantors hereunder, and the Guarantors waive any defense arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of the Guarantors against SHC or any such security, whether resulting from such election by a Beneficiary or otherwise. The Guarantors waive any defense arising by reason of any disability or other defense of SHC (which may nevertheless be asserted in a separate action or proceeding against the Beneficiaries or any other party), or by reason of the cessation from any cause whatsoever of the liability, either in whole or in part, of SHC to a Beneficiary (other than as a result of payment, performance or affirmative discharge, release or termination of this Agreement by the Beneficiaries).

13 The Guarantor understands that the Beneficiaries' exercise of certain rights and remedies contained in the Documents may affect or eliminate the Guarantors' rights of subrogation against SHC and that the Guarantors may therefore incur partially or totally nonreimbursable liability hereunder; nevertheless, the Guarantors hereby authorize and empower the Beneficiaries to exercise, in its or their sole discretion, any rights and remedies, or any combination thereof, which may then be available, it being the purpose and intent of each Guarantor that its obligations hereunder shall be absolute, independent and unconditional under any and all circumstances.

14 Each Guarantor represents and warrants to the Beneficiaries that, as to himself, the following statements are true and correct in all material respects as of the date hereof:

(a) Guarantor has full power and authority to execute, deliver and perform its obligations under this Agreement. No consent of any other person, and no authorization of, notice to, or other act by or in respect of the Guarantor by or with any Governmental Authority, is required in connection with the execution, delivery, performance, validity or enforceability of this Agreement. This Agreement has been duly executed and delivered by the Guarantor and constitutes a legal, valid and binding obligation of the Guarantor,

enforceable against the Guarantor in accordance with its terms, except as the enforceability of this Agreement may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and by general principles of equity.

(b) Neither the execution, delivery or performance by the Guarantor of this Agreement will violate any provision or any existing Law applicable to the Guarantor or any order or decree applicable to the Guarantor of any court, arbitrator or governmental authority, or of any mortgage, indenture, lease, contract or other agreement or undertaking to which the Guarantor is a party or by which the Guarantor or any of his properties or assets is bound, or will result in the creation or imposition of any lien, charge, encumbrance or security interest on any of the properties or assets of the Guarantor pursuant to the provisions of any of the foregoing.

(c) There is no action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal now pending or threatened in writing against or affecting the Guarantor or any property or rights of the Guarantor or questioning the enforceability of this Agreement which, if adversely determined, could reasonably be expected to have a material adverse effect on (a) the business, assets, properties, revenues, financial condition, operations or prospects of the Guarantor or (b) the ability of the Guarantor to perform its obligations under this Agreement in a timely manner.

15 In no event shall the Guarantors have any liability to any Beneficiary hereunder for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise). The parties further agree that no claim for direct damages by a party hereunder shall include any amounts for which such party has been reimbursed or is entitled to be reimbursed under any insurance required to be obtained under the Lease Agreement or acquired in connection therewith.

16 Except as provided in the last sentence of Section 9 hereof, this Agreement, and the obligations of the Guarantors hereunder, shall expire, terminate and be of no further force and effect on and after the earlier of the end of the Initial Term or the date of the Closing provided SHC complies with its obligations in respect thereof.

17 The Guarantor will not exercise any rights which it may acquire by way of subrogation hereunder, by any payment made hereunder or otherwise, until all of the obligations of SHC to the Beneficiaries under the Documents have been indefeasibly paid in full in cash and performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all of such obligations shall not have been paid in full in cash, such amount shall be held in trust for the benefit of the Beneficiaries and shall forthwith be paid as provided herein to be credited and applied upon such obligations, in accordance with the terms of the Documents.

18 All covenants and agreements made herein and in statements or certificates delivered pursuant hereto shall survive any investigation or inspection made by or on behalf of the Beneficiaries and shall continue in full force and effect until all of the obligations of the Guarantors under this Agreement shall be fully performed in accordance with the terms hereof.

19 THIS AGREEMENT HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE GUARANTORS AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAWS OF THE STATE OF NEW YORK, THIS AGREEMENT, AND THE RIGHTS AND DUTIES OF THE GUARANTORS HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

20 EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS, FOR HIMSELF AND HIS PROPERTIES, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS AGREEMENT, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH GUARANTOR HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT HE IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS AGREEMENT OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE ANY BENEFICIARY FROM OBTAINING JURISDICTION OVER THE GUARANTORS IN ANY COURT OTHERWISE HAVING JURISDICTION.

21 TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH GUARANTOR AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. EACH GUARANTOR AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

EACH GUARANTOR AND EACH BENEFICIARY EXPRESSLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM

RELATED TO THIS AGREEMENT. THE GUARANTORS AND BENEFICIARIES ACKNOWLEDGE THAT THE PROVISIONS OF SECTIONS 19, 20 AND 21 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

22 All notices or other communications required or permitted to be given hereunder shall be deemed to have been satisfactorily given or served for all purposes when sent by United States registered mail, return receipt requested, postage prepaid as follows:

If to the Guarantors:

Michael R. Forman
120 North Robertson Boulevard
Los Angeles, California 90048

James J. Cotter
120 North Robertson Boulevard
Los Angeles, California 90048

With a copy of all notices under this Section 22 to a Guarantor to be simultaneously sent to the following addresses:

Howard Peskoe, Esq.
Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10166

If to Citadel Cinemas:

Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548
Attention: President

If to FeeSub:

Citadel Realty, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548
Attention: President

With a copy of all notices under this Section 22 to a Guarantor to be simultaneously sent to the following addresses:

Michael Margulis, Esq.
Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, New York 10168

or to such other address with respect to any party as such party or holder shall notify the other in writing. All such notices shall be deemed given three (3) Business Days after delivery to the United States Post Office registry clerk.

23 This Agreement shall bind the Guarantors and their respective successors and assigns and shall inure to the benefit of the Beneficiaries and their respective successors and assigns (including, without limitation, (a) any successor to Citadel Cinemas as tenant under the Lease Agreement, and (b) any person to whom FeeSub shall assign the Fee Option Right).

24 This instrument represents the entire agreement between the parties with respect to the subject matter hereof and may not be modified or amended except by a writing duly executed by the party sought to be charged.

25 Neither this Agreement nor any uncertainty or ambiguity herein shall be construed against any particular party, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties and their counsel and shall be construed and interpreted according to the ordinary meaning of the words so used as to fairly accomplish the purposes and intentions of all parties hereto.

26 In the event that a Beneficiary for any reason whatsoever shall deem it necessary to refer this Agreement to an attorney for the enforcement thereof or of any rights hereunder, by suit or otherwise and prevails therein, there shall be immediately due from the Guarantors to such Beneficiary, in addition to the sums due and payable hereunder, reasonable attorneys' fees and disbursements, together with all costs and expenses of such action, which costs, expenses, fees and disbursement shall be deemed part of the obligation hereunder. If such Beneficiary initiates such legal action and does not prevail in such action, the Guarantors shall be entitled to recover from such Beneficiary all of such costs incurred by Guarantors in connection therewith.

27 In the event that any provision of this Agreement or the application thereof to a Guarantor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties, jurisdictions or circumstances other than to whom or to which it is held invalid or unenforceable, shall not be affected thereby nor shall same affect the validity or enforceability of any other provision of this Agreement.

28 This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, this Agreement was duly executed and delivered by the undersigned as of the 28th day of July, 2000.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

CITADEL REALTY, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

GUARANTORS:

/s/ James J. Cotter

James J. Cotter

/s/ Michael R. Forman

Michael R. Forman

AMENDED AND RESTATED
AGREEMENT WITH RESPECT TO FEE OPTION

The Agreement originally made on the 28th day of July, 2000, by and between Sutton Hill Capital, L.L.C., a New York limited liability company, having an office at 120 North Robertson Boulevard, Los Angeles, California 90048 ("Option Holder"), and Citadel Realty, Inc., a Nevada corporation, having an office at 550 South Hope Street, Suite 1825, Los Angeles, CA 90071 ("Optionee") (as amended, modified and supplemented from time to time, the "Agreement") is hereby amended and restated as of this 29th day of January, 2002.

WHEREAS:

(A) Option Holder has entered into a certain Lease Agreement ("Lease Agreement"), dated as of July 28, 2000, with Citadel Cinemas, Inc., as tenant (the "Tenant"), pursuant to which the Tenant has leased from the Option Holder certain Theatre Properties, including the Sutton Theatre and Murray Hill Theatre as amended and restated as of January 29, 2002;

(B) Option Holder holds an option ("Fee Option") to purchase the land described on Exhibit "A", being the land underlying the Sutton Theatre (the "Underlying Fee");

(C) Pursuant to the provisions of the Lease Agreement, the Tenant has a Purchase Option to acquire the Purchased Assets;

(D) Option Holder has agreed that, if the Tenant exercises the Purchase Option pursuant to the Lease Agreement and closes thereunder in accordance with the terms thereof and if Optionee complies with the terms hereof, Optionee shall have an option to purchase the Underlying Fee in connection with and at the time of the closing of the Purchase Option pursuant to the Lease Agreement; and

(E) Certain capitalized terms are defined in Section 8 hereof.

NOW, THEREFORE, in consideration of the premises and for other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Purchase Option; Fee Price. Subject to the satisfaction of the Conditions Precedent (as defined in Section 4 hereof), Optionee shall have the option ("Optionee Fee Option") to acquire the Underlying Fee by funding the Purchase Price of the Fee Option.

2. Procedure for Exercise of Purchase Option. (a) To exercise the Optionee Fee Option, Optionee shall give written notice ("Notice") to Option Holder by January 5, 2010 but no earlier than the date on which the Tenant gives notice to the Option Holder pursuant to the Lease Agreement of the exercise by Tenant of the Purchase Option thereunder.

(b) Upon the receipt by Option Holder of the Notice, Option Holder shall provide notice to the owner of the Underlying Fee of the exercise by Option Holder of the Fee Option.

3. Closing. (a) The closing of the acquisition of the Underlying Fee shall occur simultaneously with the closing on the Purchased Assets pursuant to the Purchase Option (the "Closing"). At the Closing, Option Holder shall direct the transferor of the Underlying Fee to deliver title thereto directly to Optionee; provided, however, at the election of Optionee, exercised by written notice to Option Holder given not less than 5 days prior to the anticipated date of the Closing, Option Holder shall direct the transferor of the Underlying Fee to deliver title to the Underlying Fee as the Optionee shall direct in such notice.

(b) At the Closing, title to the Underlying Fee will be transferred in accordance with the Fee Option. The transfer of the Underlying Fee shall be on an as-is, non-installment sale basis, without warranty by, or recourse to, the Option Holder, except that such title shall be free of any Liens resulting from the Option Holder's act or omission; provided, however, that nothing herein shall obligate the Option Holder to cause any such Lien to be removed or cured if arising from a Tenant Event.

(c) The Optionee shall pay the Purchase Price of the Fee Option at the Closing by wire transfer or certified funds, as the Option Holder shall determine in its sole discretion by notice to Optionee no less than two days prior to the anticipated date of the Closing.

4. Conditions Precedents to Optionee's Rights. (A) OPTIONEE RECOGNIZES, ACKNOWLEDGES AND AGREES THAT, SUBJECT TO PARAGRAPH 4(B), IF THE FOLLOWING TWO CONDITIONS ARE NOT STRICTLY ADHERED TO TIMELY (THE "CONDITIONS PRECEDENT"), OPTIONEE SHALL HAVE NO RIGHT TO ACQUIRE THE UNDERLYING FEE IF THE TENANT UNDER THE LEASE AGREEMENT: (1) DOES NOT EXERCISE ITS PURCHASE OPTION THEREUNDER OR DOES NOT HAVE THE RIGHT TO EXERCISE THE PURCHASE OPTION BY REASON OF THE OCCURRENCE OF A DEFAULT UNDER SECTION 18(F) OF THE LEASE AGREEMENT OR (2) EXERCISES ITS PURCHASE OPTION, AND IS NOT IN DEFAULT UNDER SECTION 18(F) OF THE LEASE AGREEMENT BUT FAILS TO SATISFY ITS OBLIGATIONS TO CLOSE IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE LEASE AGREEMENT.

(b) If, at any time during the Term of the Lease Agreement an Affiliate of the Optionee shall succeed to the interest of the Option Holder under the Lease Agreement, then the Conditions Precedent shall be deemed of no further force and effect.

5. Relationship of Optionee to Tenant. Optionee recognizes and acknowledges that, while it is now an Affiliate of the Tenant, there is no assurance or requirement that it will in fact be an Affiliate of the Tenant at the time the Optionee Fee Option is exercised and, even if it is then not an Affiliate of the Tenant, Optionee does not have an independent right to exercise the Optionee Fee Option unless and until, as described in paragraph 4(a) hereof (but subject to paragraph 4(b) hereof), the Tenant (whether or not then an Affiliate of Optionee) duly and properly exercises the Purchase Option and, as aforesaid, consummates the transaction and closes.

6. SS 1031 "Like-Kind" Exchange. Option Holder hereby notifies Optionee that, if Optionee exercises the Optionee Fee Option in accordance with this Agreement, the Underlying Fee may be sold pursuant to the like kind exchange provisions of the Code. Optionee agrees to execute at the Closing all reasonable and customary documents necessary to accomplish the sale under the like kind exchange rules as prepared by Option Holder's attorney, provided, however, that Optionee shall not be required to execute any document that would or might require Optionee to incur any cost or expense; require Optionee to take title to any property other than the Underlying Fee (except for the Purchased Assets); or require Optionee to incur any liability, whether current, accrued or contingent. Option Holder shall be responsible for all costs of such documentation and guarantees that no terms or conditions in this Agreement shall change due to the execution of the like kind exchange documents, nor shall Closing be delayed thereby. As aforesaid, Optionee will not be required to purchase any property (other than the Underlying Fee and Purchased Assets), but may be required to pay the Purchase Price (or some portion thereof, as the Option Holder may direct prior to the Closing) into an escrow fund established for the purpose of the like kind exchange. Option Holder shall defend, indemnify and save Optionee harmless from any loss, expense, claims or damages in connection with Optionee executing any such documents. The provisions of this Section 6 shall survive Closing.

7. Notice. Any notices, consents, or other communications between Option Holder and Optionee may be oral or in writing, so long as the Option Holder remains Sutton Hill Capital, L.L.C. or an Affiliate thereof and the Optionee remains an Affiliate or a direct or indirect Subsidiary of Reading International, Inc.; provided, however, that, if this Agreement specifically provides that a notice, consent or communication must be in writing, then such provision controls. Subject to the preceding sentence, all notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder or under any other instrument, certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 7. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of

notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to the Option Holder:
Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, California 90048
Attention: Legal Department
Telecopy: (310) 652-6490

With a copy of all notices under this Section 7 to be simultaneously given, delivered or served to Ira Levin, at the following address:

Pacific Theatres
120 North Robertson Boulevard
Los Angeles, CA 90048
Telecopier: (310) 652-6490
Attention: Ira Levin

If to the Optionee:
Citadel Realty, Inc.
550 South Hope Street
Suite 1825
Los Angeles, California 90071;
Attention: President
Telecopy: (213) 235-2229

With a copy of all notices under this Section 7 to be simultaneously given, delivered or served to:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, California 90071;
Attention: Chief Financial Officer
Telecopy: (213) 235-2229

and to S. Craig Tompkins. at the following address:

Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, California 90071;
Telecopy: (213) 235-2229

8. Certain Definitions. As used herein the following terms shall have the respective meanings as set forth below:

(a) "Affiliate" of any Person means any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," 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, by contract or otherwise; and the terms "controlling" and "controlled" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (i) the Option Holder and its Affiliates (the "Option Holder's Affiliates") shall not include Reading International, Inc. and its direct or indirect Subsidiaries; (ii) Reading International, Inc. and its direct or indirect Subsidiaries (including the Tenant), on the one hand, and the Option Holder and the Option Holder's Affiliates, on the other hand, shall not be considered Affiliates of each other; and (iii) Nationwide and its Affiliates shall not be considered an Affiliate of any of Reading International, Inc. or any of its direct or indirect Subsidiaries or the Tenant or any of its Affiliates.

(b) "[Intentionally Omitted]"

(c) "Contract" shall mean any contract, agreement, indenture, loan or credit agreement, receivable sales or financing agreement, capital note, mortgage, security agreement, bond or note (or any guarantee of any of the foregoing).

(d) "Code" means the Internal Revenue Code of 1986, as heretofore and hereafter amended from time to time, or any successor code as in effect from time to time.

(e) "Indemnity Guarantee" means the guarantee, dated as of July 28, 2000, entered into by and among the Messrs. Forman and Cotter, Citadel Cinemas, Inc. and Optionee.

(f) "Insolvency or Liquidation Proceeding" means:

(i) The entry of a decree or order for relief in respect of SHC by a court having jurisdiction in the premises, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal

or state bankruptcy, insolvency or other similar law; or the commencement against SHC of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or

(ii) The commencement by SHC of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

(g) "Lien" means any security interest, mortgage, pledge, hypothecation, assignment, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing).

(h) "Nationwide" means Nationwide Theatres Corp., a California corporation, and its successors.

(i) "Nationwide Agreement" means the agreements, documents and instruments evidencing or securing the Nationwide Indebtedness, as any thereof may be amended, restated, modified or supplemented from time to time.

(j) "Nationwide Indebtedness" means any and all indebtedness, obligations and liabilities of Option Holder from time to time outstanding under the Nationwide Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, premium, interest, fees, indemnities, costs, expenses or otherwise.

(k) "Person" means any individual, corporation, partnership, limited liability company, private limited company, joint venture, association, joint-stock company, trust, unincorporated organization of government or any agency or political subdivision thereof.

(l) "Pledge Agreement" means the agreement, dated as of July 28, 2000, entered into between Sutton Hill Associates, as pledgor, and Reading International, Inc., as pledgee, as amended and restated as of January 29, 2002 as the same may be amended, restated, modified or supplemented from time to time.

(m) "Purchased Assets" has the meaning set forth in paragraph (a) of Section 12 of the Lease Agreement.

(n) "Purchase Option" means Tenant's right to purchase the Purchased Assets as set forth in paragraph (a) of Section 12 of the Lease Agreement.

(o) "Purchase Price" means four million dollars (\$4,000,000).

(p) "Subsidiary" of any Person shall mean any corporation, partnership, limited liability company, joint venture, trust or estate of which (or in which) more than 50% of

(i) the outstanding capital stock having voting power to elect a majority of the board of directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency),

(ii) the interest in the capital or profits of such partnership or joint venture, or

(iii) the beneficial interest of such trust or estate

is at the time directly or indirectly owned by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's Subsidiaries.

(q) "Tenant Event" shall mean an event arising from or attributable to an action or inaction of, or a condition or event relating to, Tenant or any of its Affiliates (or the agents, officers, directors or employees of the Tenant or any such Affiliate), or initiated by Tenant or any of its Affiliates (or any such Person), unless such action, inaction, or event was or resulted from an action by Tenant or any of its Affiliates to enforce any rights or remedies under the Lease Agreement or any other Contract or Applicable Law so long as such action so to enforce was initiated in good faith.

(r) "Underlying Lease" shall mean that certain Ground Lease dated as of August 16, 1985, between Sutcin Holding Corp., as landlord, and Sutton Hill Associates, as tenant, covering the premises at 205 East 57th Street, New York, New York 10022, containing the Sutton Theatre, as amended by the First Addendum to Ground Lease, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, Second Addendum to Ground Lease, dated as of January 1, 1995, between Sutcin Holding Corp. and Sutton Hill Associates, Third Addendum to Ground Lease, dated as of July 1, 1996, between Nationwide (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, and Fourth Addendum to Ground Lease, dated as of July 28, 2000,

between Nationwide and Sutton Hill Associates, and Fifth Addendum to Ground Lease dated as of January 29, 2002, between Nationwide and Sutton Hill Associates.

9. Representations and Warranties

(a) Option Holder hereby represents and warrants to Optionee that as of the date hereof:

(i) The signatory for Option Holder hereto is in all respects authorized and qualified to enter into this Agreement on behalf of Option Holder and Option Holder has authorized the assumption of the obligations described herein.

(ii) Option Holder has previously delivered a true and correct copy of the option agreement to which Option Holder has been granted the Fee Option. The Fee Option is in full force and effect. To the knowledge of Option Holder, there is no default under the Fee Option.

(b) Optionee hereby represents and warrants to Option Holder that as of the date hereof:

(i) The signatory for Optionee hereto is in all respects authorized and qualified to enter into this Agreement on behalf of Optionee and Optionee has authorized the assumption of the obligations described herein.

10. Indemnities.

(a) Option Holder shall and hereby does indemnify, defend, protect and hold harmless Optionee, any successor or successors and any Affiliate of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants from and against all liabilities, losses, obligations, claims, penalties, causes of action, suits, demands, damages, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) or judgments of any nature arising out of or otherwise in respect of a breach of any (i) representation or (ii) covenant or agreement made by Option Holder hereunder.

(b) Notwithstanding anything to the contrary contained herein, all claims for indemnification under paragraph (a) of this Section 10 shall be made in accordance with the procedures set forth in Section 11 of the Lease, shall, in the case of claims under clause (i) of such paragraph (a), be included in computing claims for indemnification subject to the limitations set forth in paragraph (c) of Section 11 of the Lease Agreement, which limits claims brought under clause (ii) of paragraph (b) of Section 11 of the Lease Agreement, and shall be subject to the other provisions of paragraph (h) of said Section 11.

(c) Optionee shall and hereby does indemnify, defend, protect and hold harmless Option Holder, any successor or successors and any Affiliate of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants from and against all liabilities, losses, obligations, claims, penalties, causes of action, suits, demands,

damages, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) or judgments of any nature arising out of or otherwise in respect of (A) the use or occupancy of the Underlying Fee or any Element (as such term is defined in the Lease Agreement) of any thereof by the Optionee or any Person claiming under the Optionee; (B) any activity, work, or thing done or permitted by the Optionee in or about any of the Underlying Fee; (C) any acts, omissions, or negligence of the Optionee, or any Person claiming under the Optionee, or the employees, agents, contractors, invitees or visitors of the Optionee or any such Person; (D) any breach, violation, or nonperformance by the Optionee, or any Person claiming under the Optionee, or the employees, agents, contractors, invitees, or visitors of the Optionee or any such Person, of any term, covenant or provision of this Agreement, the Underlying Lease to the extent the performance of obligations thereunder has become an obligation of the Optionee pursuant to the terms hereof or any law, ordinance or governmental requirement of any kind; or (E) any injury or damage to the Person, property, or business of the Optionee, its employees, agents, contractors, invitees, visitors or any other Person entering upon any of the Underlying Fee, as to all of the foregoing to the extent arising from and after the Closing.

11. Miscellaneous

(a) All agreements, indemnities, representations and warranties shall survive the expiration or other termination hereof.

(b) This Agreement and the instruments, documents or agreements referred to herein constitute the entire agreement between the parties relating to the subject matter hereof and no representations, warranties, promises, guarantees or agreements, oral or written, express or implied, have been made by any party hereto with respect to this Agreement.

(c) This Agreement may not be amended, modified or terminated, nor may any obligation hereunder be waived orally, and no such amendment, modification, termination or waiver shall be effective for any purpose unless it is in writing, signed by the party against whom enforcement thereof is sought. The consent or approval by the Option Holder to or of any act by the Optionee requiring the Option Holder's consent or approval shall not be deemed to have been waived by the Option Holder unless such waiver is in writing signed by the Option Holder waiving such covenant or condition.

(d) The captions in this Agreement are for convenience of reference only, and shall not be deemed to affect the meaning or construction of any of the provisions hereof. Any provision of this Agreement which is prohibited by law or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and the parties hereto shall negotiate in good faith appropriate modifications to reflect such changes as may be required by law, and, as nearly as possible, to produce the same economic, financial and tax effects as the provision which is prohibited or unenforceable; and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the Option Holder and the Optionee hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

(e) THIS AGREEMENT HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE OPTION HOLDER AND THE OPTIONEE AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAW OF THE STATE OF NEW YORK, THIS AGREEMENT, AND THE RIGHTS AND DUTIES OF THE OPTION HOLDER AND THE OPTIONEE HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK IN ALL RESPECTS, INCLUDING, WITHOUT LIMITATION, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. EACH OF THE OPTION HOLDER AND THE OPTIONEE HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND TO THE

EXTENT PERMITTED BY APPLICABLE LAW, HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS AGREEMENT OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE EITHER PARTY FROM OBTAINING JURISDICTION OVER THE OTHER IN ANY COURT OTHERWISE HAVING JURISDICTION. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE OPTION HOLDER AND THE OPTIONEE AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. EACH OF THE OPTION HOLDER AND THE OPTIONEE AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

(f) THE OPTION HOLDER AND THE OPTIONEE HEREBY WAIVE THEIR RESPECTIVE RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, COUNTERCLAIM OR CROSS COMPLAINT IN ANY ACTION, PROCEEDING AND/OR HEARING BROUGHT BY EITHER THE OPTION HOLDER AGAINST THE OPTIONEE OR THE OPTIONEE AGAINST THE OPTION HOLDER ON ANY MATTER WHATSOEVER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, OR THE RELATIONSHIP OF THE OPTION HOLDER AND THE OPTIONEE, OR ANY CLAIM OF INJURY OR DAMAGE, OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY LAW, STATUTE OR REGULATION, EMERGENCY OR OTHERWISE, NOW OR HEREAFTER IN EFFECT. THE OPTION HOLDER AND THE OPTIONEE ACKNOWLEDGE THAT THE PROVISIONS OF THIS PARAGRAPH (F) OF SECTION 11 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

(g) This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) One or more waivers of any covenant or condition by the Option Holder shall not be construed as a waiver of a subsequent breach of the same covenant or condition. The giving by the Option Holder of any consent or approval hereunder (whether affirmatively or by inaction) shall not be deemed a waiver of the requirement for Optionee to seek such consent or approval in the future

for the same or a dissimilar event. Each and every covenant contained herein shall be deemed separate and independent and not dependent upon other provisions of this Lease.

(i) This Agreement has been prepared by the Option Holder and its professional advisors and reviewed by the Optionee and its professional advisors. The Option Holder, the Optionee and their separate advisors believe that this Agreement is the product of all of their efforts, that it expresses their agreement, and that it should not be interpreted in favor of either the Option Holder or the Optionee or against the Option Holder or the Optionee merely because of their efforts in preparing it.

(j) This Agreement shall be binding on the parties hereto and their respective successors and assigns but the foregoing shall not affect, alter or limit the provisions of Section 5 hereof.

(k) This Agreement shall expire and become unenforceable against Option Holder if the Optionee Fee Option is not exercised on or before the earlier to occur of (i) February 1, 2010 (subject to extension if the Optionee is precluded from exercising by reason of an Insolvency or Liquidation Proceeding affecting Option Holder and in such event is extended until the time when such exercise is not longer so precluded and for five days thereafter) or (ii) the termination of the Lease Agreement.

(l) Except to the extent of and under the circumstances specifically provided for in Section 5 of the Pledge Agreement and the Indemnity Guarantee, no recourse hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect partner or owner of the Option Holder or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect partner. Nothing contained in this paragraph (l) shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the assets of the limited liability company, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

IN WITNESS WHEREOF, the Option Holder and the Optionee have caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first above written.

Option Holder: Sutton Hill Capital, L.L.C., a New York
limited liability company

By: _____
Name: James J. Cotter
Title: Operating Manager

Optionee: Citadel Realty, Inc., a
Nevada corporation

By: _____
Name: Andrzej Matyczynski
Title: Chief Financial Officer

EXHIBIT "A"
Legal Description of Underlying Fee

The Sutton Theatre
205 East 57th Street
Block 1331, Lot 3
New York City, New York

THEATER MANAGEMENT AGREEMENT

This theater management agreement (the "AGREEMENT") is entered into effective as of the 1st day of January 2002, by and between Liberty Theaters, Inc., a New York corporation ("OWNER"), and OBI, LLC. ("MANAGER") with reference to the following facts:

WHEREAS, Owner is in the business of owning and, through its subsidiaries (the "OPERATING SUBSIDIARIES"), operating Off-Broadway style live theaters in Manhattan and Chicago,

WHEREAS, Manager is in the business of providing various executive management, booking and public relations services, and

WHEREAS, Owner desires to retain Manager to perform such executive management, booking and public relations services for the benefit of the theaters owned by the Owner and operated by the Operating Subsidiaries,

the parties hereto, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, do hereby agree as follows:

1. DEFINITIONS. The following terms have the meanings set forth below:

MANAGEMENT SERVICES means and includes the following services:

(a) The executive management of each of the Theaters. The Theaters are currently managed by separate management companies owned by the Owner, which are responsible for the day-to-day operations of the Theaters and which employ all personnel used in connection with the operation of the Theaters, including, without limitation, ushers, maintenance employees, concession stand employees, and box office employees. Manager will be responsible for the executive supervision of these employees. A designee of the Manager, acceptable to the Owner, will serve at the pleasure of the Board of Directors of the respective Operating Subsidiaries, as the Chief Executive Officer of each of the Operating Subsidiaries, and at the pleasure of the Board of Directors of the Owner, as the President of the Owner. This individual (the "DESIGNATED OBI EXECUTIVE ") will receive no compensation or other employee benefits

for serving in such capacities, other than such compensation as he or she may receive from the Manager, and will not be deemed to be an employee of the Owner, or any of its subsidiaries, for any purpose. This individual will initially be Ms. Margaret Cotter.

(b) The negotiation of terms with respect to and the recommendation to the Owner of productions for the Theaters and for the use of the Theaters for ancillary revenue generation purposes;

(c) The publicity of the Theaters and the maintenance of appropriate community relations between the Theaters and their neighbors;

(d) The oversight of the general condition and repair of the Theaters, including the making of recommendations to the Owner with respect to any needed maintenance and repair of the Theaters and, upon the direction of the Owner, the retention and oversight of appropriate persons to affect such maintenance and to make such repairs as may be so approved by the Owner;

(e) The preparation, in conjunction with the Owner, of an annual operating budget for each of the Theaters; and

(f) Such other duties as the parties may from time to time determine, and memorialize in a writing signed by both parties to this Agreement.

PRODUCTION OCCUPANCY PERIOD has the meaning set forth in clause 3.1(b), below.

SERVICE PACKAGE PERIOD has the meaning set forth in clause 3.1(a), below.

TERM. This Agreement will have an initial term of through and including December 31, 2003, and thereafter, unless earlier terminated pursuant to the provisions of Section 4, will automatically renew for additional twelve month terms, [unless notice to terminate is given by either party to the other not less than six months prior to the expiration of the then existing term of such party's determination not to renew this Agreement.]

THEATERS means the Minetta Lane, Orpheum, and Union Square Theaters located in Manhattan and the Royal George Theater Complex in Chicago, and such additional theaters as the parties may specify from time to time by amendment to this agreement.

THEATER CASH FLOW means the earnings before income taxes, depreciation and amortization from any particular theater (or in the case of the Royal George, from the entire theater complex), calculated in accordance with generally accepted accounting principles, applied on a consistent basis, and before deduction of the incentive fee applicable to that theater or theater complex. Notwithstanding the above, in the case of any capital expenditures with respect to any particular theatre made during the term of this Agreement, Theatre Cash Flow will be determined after deduction of the cost of the depreciation of such capital expenditure as calculated for book purposes in accordance with generally accepted accounting principles consistently applied. Furthermore, Theater Cash Flow for each Theater will also include all profits and losses made by the Owner (or any one or more of its corporate affiliates) in its capacity as the "producer" or "financier" of any play appearing in such Theater, calculated as follows;

- First, 100% of cash flow paid to the Owner and/or such one or more affiliates will be applied against the Owner's investment in such play, until such investment has been fully recouped.
- Thereafter, 100% of cash flow paid to Owner and/or such one or more affiliates will be treated as Theater Cash Flow.
- In the event that the Owner and/or such one or more affiliates, at the time of the closing of the play, has not recouped its investment, such loss will be deducted from Theater Cash flow for the year in which such show closes.

2. RETENTION OF MANAGER.

2.1. Performance of Management Services: Owner hereby retains the Manager, as an independent contractor, to perform and Manager hereby covenants to perform, again as an independent contractor, the Management Services for the Theaters for the Term of this Agreement, pursuant to the terms and provisions set forth in this Agreement. Manager agrees, in performing the Management Services, to act in good faith in the best interests of the Owner as such interests are reasonably understood by the Manager, and to use the same degree of care and to exercise the same level of loyalty as would be required by an executive officer of a corporation organized under the laws of the State of Delaware.

2.2. Key Employees: It is acknowledged and agreed that Margaret Cotter is a Key Employees, and that Manager will make Ms. Cotter available to the Company on a full time basis and that Ms. Cotter will serve, at the pleasure of the Owner, as the Designated OBI Executive.

2.3. Exclusivity: It is acknowledged and agreed that Manager will serve on an exclusive basis for the areas of Metropolitan New York and Chicago. Manager is free to represent other theater interests in other areas. However, in the event that Manager learns of any opportunities for the acquisition of live theaters in other areas, it will promptly advise the Owner of such fact. Further, Manager will keep Owner advised as to the identities of any other theaters for which it may from time be performing services. This provision will not be interpreted from preventing Manager, or its employees, from engaging in other aspects of the live theater business, including, by way of example, the production of plays.

2.4. Confidentiality: Manager agrees that all information it obtains in the course of its performance of services under this Agreement and which is not already or at such time otherwise publicly available will be maintained in confidence by Manager and its employees to the same extent as though such information were the confidential information of the Manager.

2.5. Participation in Productions: Except to the extent of its right to participate in Theater Cash Flow, as provided in this Agreement, neither the Manager, nor any of its personnel or affiliates, will make any investment in, or participate in the profits or in the cash flow or in any other benefits from any production or person utilizing the Theaters, without the prior written approval of the Owner.

2.6. Bank Accounts: All revenues generated by the Theaters shall be deposited as directed by the Owner in bank accounts maintained in the name of and for the benefit of the Owner. The Operating Subsidiaries and Manager will be paid directly by the Owner. The Owner will have complete discretion over the signatories to such accounts.

2.7. Nature of Relationship Between the Parties: The parties acknowledge and agree that the services being performed by Manager hereunder are those of an independent contractor, that the relationship between the parties is not that of a partnership or joint venture, and that the Manager shall not hold itself out as having any power or authority to

bind the Owner or any of the Operating Subsidiaries or any of the Theaters. All agreements pertaining to the use or occupancy of any of the Theaters or the provision of any services to or for the benefit of the Owner or any of the Theaters must be signed, and will only be valid if signed or otherwise authorized, by an executive officer designated by the Owner from time to time (the "Designated Owner Executive") or by another duly authorized officer of the Owner or the Operating Subsidiary, as the case may be. The Designated Owner Executive shall initially be James J. Cotter. Nothing in this Agreement shall be deemed to grant to the Manager any rights with respect to or interest in the Theater or in any contract or agreement relating to the Theater, and nothing in this Agreement shall be in any way binding upon any successor in interest to any one or more of the Theaters.

3. COMPENSATION. In consideration of the performance of the Management Services, the Owner will pay to the Manager the following amounts:

3.1. Orpheum Theater:

(a) A weekly pay package of \$900 per week, to be adjusted on a pro rata basis for any partial week, for each week, or portion thereof, to the extent that the production leasing the Theater pays a weekly service package to the Theater sufficient to cover (i) such amount plus (ii) wages and benefits paid to persons employed at the Theater with respect to such period (the "SERVICE PACKAGE PERIOD").

(b) A monthly pay package of \$1,578 per month, to be adjusted on a pro rata basis for any partial month, for each month, or portion thereof, that a production is in occupancy of the Theater, including the load-in, rehearsal, performance and load-out periods (the "PRODUCTION OCCUPANCY PERIOD").

(c) An incentive fee equal to 20% of the Theater Cash Flow, if any, after a breakpoint of \$208,686.

3.2. Union Square Theater:

(a) A weekly package of \$900 per week, to be adjusted on a pro rata basis for any partial week, during the Service Package Period to the extent that the production leasing the Theater pays a weekly

service package to the Theater sufficient to cover (i) such amount plus (ii) wages and benefits paid to persons employed at the Theater with respect to such period.

(b) A monthly package of \$2,186 per week, to be adjusted on a pro rata basis for any partial month, during the Production Occupancy Period.

(c) An incentive fee equal to 20% of the Theater Cash Flow, after a breakpoint of \$307,144.

3.3. Minetta Lane Theater:

(a) A weekly package of \$900 per week, to be adjusted on a pro rata basis for any partial week, during the Service Package Period to the extent that the production leasing the Theater pays a weekly service package to the Theater sufficient to cover (i) such amount plus (ii) wages and benefits paid to persons employed at the Theater with respect to such period.

(b) A monthly package of \$2,294 per month, to be adjusted on a pro rata basis for any partial month, during the Production Occupancy Period.

(c) An incentive fee equal to 20% of the Theater Cash Flow, after a breakpoint of \$302,863.

3.4. Royal George Theater Complex.

(a) An annual base fee of \$35,000 (payable in arrears in equal monthly installments).

(b) An incentive fee equal to 20% of the Theater Cash Flow, if any, after a breakpoint of \$300,000.

(c) Manager will be entitled to reimbursement for the reasonable costs of transportation between Chicago and New York and meals and lodging in Chicago, to the extent such costs are incurred in connection with the execution of Manager's duties and responsibilities with respect to the Royal George Theater Complex. Reimbursed costs must be in accordance with the Owner's travel

reimbursement policies, as the same may be amended from time to time, upon reasonable notice to the Manager. A copy of the Owners current travel reimbursement policies has been previously provided to the Manager.

3.5. Certain Provisions Relating to Payment of Incentive Compensation:

(a) Incentive Compensation shall be calculated in all cases on a calendar year basis.

(b) Owner may, but shall be under no obligation to, allow for advances against such Incentive Compensation, in its discretion.

(c) All weekly and monthly packages and all annual base fees, and in the case of any incentive fee, the amount of the breakpoint, will be adjusted annually to reflect any increase, in the consumer price index, all urban consumers, for the city in which the Theater in question is located; but only to the extent that the license fees charged with respect to such one or more Theaters have been likewise adjusted. The first adjustment will be made effective January 1, 2003, and shall be adjusted, (i) with respect to the New York Theaters, by the difference between the Northeast Urban Consumer Price Index between the period November 30, 2000 and November 30, 2002 and (ii) with respect to the Chicago Theater, by the difference between the Midwest Urban Consumer Price Index between the period November 30, 2000 and November 30, 2002. Thereafter, subject to the limitations specified above, such amounts will be increased annually by the increase in such index between the November 30 immediately prior to and immediately following the date of the last adjustment.

3.6. Expenses: Manager will be responsible for all of Manager's general and administrative costs and expenses with respect to the booking of plays into the Theaters. Direct costs related to the operation of the Theaters will be treated as direct expenses of and be paid directly by the relevant Operating Subsidiary or charged back to the relevant Operating Subsidiary against delivery of appropriate documentation.

3.7 Use of Village East Office Facilities: During the term of this Agreement, and so long as such facilities are not required for other use by the Owner or its affiliates, Manager will be permitted to make use, without

charge, of the office facilities located at the Village East Cinemas. Owner agrees, so long as Manager maintains offices at the Village East Office Facilities, to reimburse to Manager an amount equal to 50% of the salary and other employee benefits of one full-time administrative employee to be employed by Manager, and officed at the Village East Office Facilities, provided that not less than 50% of the time of such individual is dedicated specifically to the management of the Theaters and that the costs of such individual are mutually agreeable to the parties.

4. TERMINATION. This Agreement can be terminated at any time, as follows:

4.1. Termination by the Owner:

(a) For Cause: This Agreement may be terminated at any time by the Owner for cause; provided, however, that in the event of any cause not exposing the Owner, in its determination, to material loss, damage or liability, Owner shall allow Manager a reasonable period of time to cure such default, following notice and demand for cure. No such notice or cure period need be allowed, however, for persistent or repetitive breach. Such termination will be effective upon the date specified by the Owner in its notice of termination.

(b) Without Cause: This Agreement also may be terminated at any time by the Owner without cause. Such termination will be effective upon the date specified by the Owner in its notice of termination. However, any such termination without cause will not relieve the Owner of its obligations under Section 3.1 through 3.6 of this Agreement with respect to that period of time between the effective date of such termination and the date on which this Agreement would have terminated had either party timely exercised its right to terminate the contract as of the end of its initial or any then applicable renewal term. The amounts payable under Section 3 of this Agreement will be paid on a monthly basis, for the remainder of such initial or renewal term, as the case may be.

(c) In the event of the sale of a Theater: Notwithstanding any other provision of this Agreement, this Agreement may be terminated on 60 days notice with respect to any Theater which is sold to a third party.

(d) In the event of any termination by the Owner without cause,

or any failure of the Owner to renew this Agreement, other than for cause, Manager will be entitled to continue to receive the incentive fees set out in Section 3 with respect to any production booked into a Theater during the term of this Agreement.

4.2. Termination by Manager:

(a) For Cause: This Agreement may be terminated at any time by the Manager for cause, provided, however, that in the event of immaterial breach, Manager shall allow Owner a reasonable period of time to cure such default, following notice and demand for cure. No such notice or cure period need be allowed, however, for persistent or repetitive breach. Such termination will be effective upon the date specified by the Manager in its notice of termination.

(b) Without Cause: Manager will have no right to terminate this Agreement without cause, except on not less than ninety (90) day's prior written notice, provided that Owner may at any time after the receipt of any such notice immediately terminate this Agreement without further liability to the Manager.

4.3. Effect of Termination: No termination of this Agreement will relieve any party from liability to the other party (a) for antecedent breach or (b) under any indemnity provided for under this Agreement, to the extent that the act or omission giving rise to such claim of indemnity occurred prior to the date of such termination.

5. INDEMNITY.

5.1. Indemnity by Owner:

(a) Insurance: Owner will acquire and maintain in full force and effect the insurance described in Schedule 5 to this Agreement (the "INSURANCE POLICIES"), and will maintain Manager and its, owners, officers, directors and employees (collectively "the COVERED PERSONS"), as additional insureds under such policies, with provisions for waiver of subrogation. Manager will not engage in any conduct or course of action, or to do or refrain from doing any act, and will not permit any persons under its supervision or control to engage in any conduct or course of action, or to do or refrain from doing any act, which creates a risk of increase in the cost of any one or more

of the Insurance Policies or the cancellation of any one or more of the Insurance Policies.

(b) Indemnity: To the extent of any liability not covered by the Insurance Policies, which is the result of any act or omission on the part of the Owner, its owners, officers, directors, employees, agents or contractors ("OWNERS' AGENTS"), Owner will indemnify and hold the Covered Persons harmless against any such liability, except to the extent that such liability was the result of the default, negligence or willful misconduct of such Covered Person.

(c) Indemnity Procedures: Manager will give the Owner prompt notice of any claim for indemnity under this Agreement (provided that the failure to give such notice on a timely basis will not relieve the Owner of its obligations under this section in the absence of actual prejudice resulting from such delay).

(d) Owner, at its election, will be entitled to provide a defense for any Covered Person(s) claiming a right to indemnity under this Agreement, and by providing such defense will not be deemed to have conceded any obligation on its part to indemnify such person with respect to such claim, so long as the Owner gives notice in writing to such person of such reservation of rights.

5.2. Indemnity by Manager: Manager will indemnify Owner against any and all liabilities resulting from its breach of this Agreement.

6. GENERAL PROVISIONS.

6.1. Choice of Law; Attorney's Fees. This Agreement shall be interpreted in accordance with the Laws of the State of New York, as those laws pertain to contracts made and to be performed entirely within such state. In the event of any litigation between the parties with respect to this Agreement, the prevailing party shall be entitled to recover its reasonable attorneys fees.

6.2. Assignment. The rights and obligations of the parties to this Agreement are not assignable.

6.3. Notices: All notices required or permitted to be given under this Agreement shall be in writing, and shall be deemed given (a) when

personally delivered to the other party, or (2) two business days after deposit, delivery fees prepaid, with a nationally recognized courier service, or (c) five business day after deposit in the US Mail if sent certified or registered mail, postage prepaid, or (d) immediately upon receipt by the other party if sent by fax or by E-Mail, provided that the transmitting party receives a verification of receipt of such fax or E-Mail transmission. Any such notices shall be directed as follows:

If to Owner:

Liberty Theaters, Inc.
550 S. Hope Street
Los Angeles, California 90071

Attention: Chief Financial Officer

If to Manager

OBI, LLC
189 Second Avenue, Suite 3S
New York, New York 10003

Provided, that the above addresses may be changed at any time by such party, pursuant to notice given pursuant to this section.

6.4. Counterparts: This Agreement may be signed in counterparts.

6.5. No Third Party Beneficiaries: There are no third party beneficiaries to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be entered into as of the date first set forth above.

LIBERTY THEATERS, INC.,

OBI, LLC

By: /s/Andrzej Matyczynski

By: /s/ Margaret Cotter

Its: Chief Financial Officer/Treasurer

Its: President

READING INTERNATIONAL, INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT ("this Agreement") is made and entered into as of this 11th day of July 2002, by and between READING INTERNATIONAL, INC., a Nevada corporation (the "Company"), and JAMES J. COTTER ("Mr. Cotter"),

W I T N E S S E T H

NOW, THEREFORE, in consideration of the mutual promises and covenants made herein and the mutual benefits to be derived herefrom, the parties hereto agree as follows:

1. Grant of Option. The Company grants to Mr. Cotter the right and option to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of 975,000 shares (the "Shares") of the Class A Non-Voting Common Stock (the "Class A Common Stock") of the Company at an exercise price (the "Exercise Price") of \$3.80 per Share (the "Option"), such option to have a term of three (3) years, exercisable from time to time subject to the provisions of this Agreement prior to the close of business on July 11, 2005 (the "Expiration Date"). The Option is intended to be a nonqualified stock option. The parties acknowledge that, at the present time, the Company has two classes of common stock outstanding: The Class A Common Stock and the Class B Voting Common Stock, which two classes of common stock are referred to here generally and without distinction as "Common Stock."

2. Exercisability of Option. Except as otherwise provided in this Agreement, 575,000 shares shall vest immediately, 200,000 shares shall vest at July 11, 2003, and 200,000 shares shall vest on July 11, 2004.

3. Method of Exercise of Option and Payment of Exercise Price. The Option shall be exercisable by the delivery to the Secretary of the Company of a written notice stating the number of shares to be purchased pursuant to the Option and accompanied by payment of the Exercise Price in full (i) in cash, (ii) by check made payable to the order of the Company, (iii) by delivery by Mr. Cotter or a Permitted Transferee (as hereinafter defined) of shares of Common Stock already owned by Mr. Cotter or such Permitted Transferee with a fair market value on the date of exercise equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised, (iv) by means of so-called cashless exercises as permitted under applicable rules and regulations of the Securities and Exchange Commission and the Federal Reserve Board, or (v) by a combination of the foregoing means of payment. Fractional Share interests shall be cashed out at that price equal to the fair market value of a single share multiplied by the fraction representing the fractional Share which, but for this sentence, would otherwise have been issuable.

4. Continuation of Consulting Agreement. Nothing contained in this Agreement shall confer upon Mr. Cotter any right with respect to the continuation of his status as an officer, director or consultant of the Company and/or any one or more of its subsidiaries.

5. Non-Assignability of Option. During Mr. Cotter's lifetime, the Option and any other rights hereunder may be exercised only by Mr. Cotter or by a Permitted Transferee. The term "Permitted Transferee" shall mean (i) any trust or any corporation, limited liability company or partnership for the benefit of or owned directly or indirectly by Mr. Cotter and/or anyone or more of his children or other heirs and (ii) any foundation, trust or not-for-profit corporation established by Mr. Cotter for charitable purposes. In the event of the death of Mr. Cotter, the Option in addition may be exercised in whole or in part by the person or persons (including individuals and trusts, corporations, partnership and other entities) to whom Mr. Cotter's rights under this Option shall pass by will or by the applicable laws of descent at any time on or prior to the Expiration Date. The Option and such rights shall not be offered, sold, transferred, assigned, pledged, hypothecated or otherwise disposed of in any way (whether by operation of law or otherwise) except by will or the laws of descent and distribution or to a Permitted Transferee, and shall not be subject to execution, attachment or similar process. In the event of the death of Mr. Cotter, each recipient of all or any portion of this Option, and/or each Permitted Transferee, will have and succeed to the rights and obligations of Mr. Cotter under the Option. No sale, transfer, assignment, pledge, hypothecation or other disposition of all or any portion of the Option by Mr. Cotter to a Permitted Transferee or by a Permitted Transferee to another Permitted Transferee shall be effective unless and until the Company shall have received an agreement in writing executed by the Permitted Transferee agreeing to be bound by all the terms and conditions of this Agreement.

6. Adjustment and Other Rights. If the outstanding shares of Class A Common Stock are increased, decreased or changed into, or exchanged for, a different number or kind of shares or securities of the Company through reorganization, merger, combination, recapitalization, reclassification, stock/split, reverse stock split, stock dividend, stock consolidation or otherwise, or a dividend or other distribution is made with respect to the Class A Common Stock either in Class B Common Stock or Class A Common Stock or any other security of which the Company or any affiliate of the Company is the issuer, or otherwise, an appropriate and proportionate adjustment shall be made in the unexercised portion of the Option or portions thereof that Mr. Cotter or a Permitted Transferee shall be entitled to receive the number and kind of securities which he or such Permitted Transferee owned or would have been entitled to receive immediately after the happening of any of the events described above, had the Option been exercised immediately prior to the happening of such event or any record date with respect thereto.

In the event of an extraordinary dividend of cash or other property (other than securities), the Board of Directors will consider the extent to which it would be equitable under the circumstances to reduce the Exercise Price to reflect the extraordinary nature of

such dividend. If the Board determines that such an adjustment would be equitable under the circumstances, an appropriate reduction in the Exercise Price will be made, the amount of such adjustment to be in the discretion of the Board.

If the Company proposes to dissolve, or to liquidate or proposes in one or more transactions to combine, merge or consolidate with or into any other corporation, or to sell, all or substantially all of its assets whether for cash, securities, notes or any other property or consideration, the Option shall be adjusted effective as of the closing of such transaction so as to apply to the cash, securities, notes or other property or consideration to which a holder of the number of shares of Class A Common Stock subject to the unexercised portion of the Option would have been entitled by reason of such transaction. In the event the consideration to be received by holders of Common Stock in any such transaction is other than exclusively cash and/or publicly traded common stock listed on the New York stock Exchange, the American Stock Exchange or the NASDAQ Stock Market and having voting rights no less than those granted to any other class or series of the voting securities of such surviving corporation, and in the further event that, upon consummation, the holders of Class B Common Stock hold a minority of the outstanding voting equity of the surviving entity, then the Option may be exercised as the option of Mr. Cotter without the payment of any exercise price, by the netting of the exercise price against the cash, securities, notes or other property or consideration to be received in connection with or as a result of such transaction.

The Company and Mr. Cotter or a Permitted Transferee will meet and confer in good faith to determine any appropriate adjustments which may be required in order to carry out the intent of the immediately preceding paragraphs; provided, however, that if the parties are unable to agree as to such adjustments within a period of five (5) days or such longer period as they may mutually agree, the matter shall be resolved by binding arbitration conducted in Los Angeles, California under the rules of the American Arbitration Association (the "AAA"). The arbitration will be chosen from one or more panels proposed by the AAA as follows: the Company and Mr. Cotter or a Permitted Transferee will each select one arbitrator and those two arbitrators will then select a third arbitrator from the panel. The parties shall use their good faith efforts to resolve such arbitration within a period of forty-five (45) days following selection of the arbitration panel. All costs of arbitration will be paid for by the Company, unless the arbitration panel determines that the last adjustment proposed by the Company was the correct adjustment, in which case the cost of arbitration will be borne by Mr. Cotter or such Permitted Transferee. Until such determination is made, all such costs will be advanced by the Company. The determination of the arbitrators will be final and non-appealable, but may be enforced in any court of competent jurisdiction. If the arbitration results in a delay in the receipt by Mr. Cotter or Permitted Transferee of any cash, securities, notes, property or other consideration due to exercise of all or any portion of this Option prior to the completion of such arbitration, the arbitrator will also award to Mr. Cotter or such Permitted Transferee, in the event he is the prevailing party, such amount in cash as will fairly compensate Mr. Cotter or such Permitted Transferee for such delay.

7. Limitation of Mr. Cotter's Rights. In no event shall Mr. Cotter or a Permitted Transferee have any of the rights or privileges of a shareholder of the Company in respect of any Shares issuable upon exercise of this Option unless and until such Option shall have been exercised by Mr. Cotter or such Permitted Transferee.

8. Effect of Agreement. This Agreement shall be assumed by binding upon and inure to the benefits of any successor corporation to the Company.

9. Representations of Mr. Cotter. Mr. Cotter represents, agrees and certifies that:

a. If Mr. Cotter or a Permitted Transferee exercised the Option in whole or in part at a time when there is not in effect under the Securities Act of 1933, as amended (the "Act"), a registration statement relating to the Shares issuable upon exercise hereof and available for delivery to him a prospectus meeting the requirements of Section 10(a) (3) of the Act, Mr. Cotter or such Permitted Transferee will acquire the Shares issuable upon such exercise for the purposes of investment and not with a view to their resale or distribution and, upon each exercise of this Option, Mr. Cotter or such Permitted Transferee will furnish to the Company a written statement to such effect, reasonably satisfactory in form and substance to the Company and its counsel;

b. If and when Mr. Cotter or a Permitted Transferee proposes to offer to sell Shares which are issued to Mr. Cotter or such Permitted Transferee upon exercise of this Option at a time when there is not in effect under the Act a registration statement relating to the resale of such Shares and available for delivery a prospectus meeting the requirements of Section 10(a) (3) of the Act, Mr. Cotter or such Permitted Transferee will notify the company prior to and such offering or sale and will not offer or sell such Shares without first delivering to the Company an opinion of counsel reasonably acceptable to the Company to the effect that such offering and sale should not constitute a violation of such laws for which the Company would be liable; and

c. No Shares may be acquired hereunder pursuant to exercise of the Option granted hereby unless and until any then applicable requirements of the Securities and Exchange Commission, the California Department of Corporations, other regulatory agencies, including any other state securities law commissioners, having jurisdiction over the company or such issuance, and any exchanges upon which Common Stock of the Company may be listed shall have been fully satisfied. The Company undertakes, at its own cost, to promptly satisfy all such then applicable requirements and to promptly reimburse Mr. Cotter or a Permitted Transferee for any costs which he may incur (including, without limitation, reasonable attorneys fees and expenses) in satisfying all such then applicable requirements.

Mr. Cotter and each Permitted Transferee understands that the certificate or certificates representing any Shares acquired upon the exercise, in whole or in part, of the Option may bear a legend referring to the foregoing matters and any limitations under the Act and state securities laws with respect to the transfer of such Shares, and the Company may impose stop transfer instructions to implement such limitations, if applicable.

10. Notices. Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Secretary of the Company at its principal office and to Mr. Cotter's signature hereto, or at such other address as either party or any Permitted Transferee, if any, may hereinafter designate in writing to the other.

11. Laws Applicable to Construction. The interpretation, performance and enforcement of this Agreement and all rights and obligations of the parties hereunder shall be governed by the laws of the State of California.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by a duly authorized officer and Mr. Cotter has hereunto set his hand.

READING INTERNATIONAL, INC.

By: _____
William C. Soady

By: _____
James J. Cotter
120 North Robertson Boulevard
Los Angeles, CA 90048

READING INTERNATIONAL, INC. - LISTING OF SUBSIDIARIES

Citadel Cinemas, Inc.
Reading Realty Inc.
Citadel Distribution Services Inc.
Citadel Acquisition Corporation
Citadel Agriculture, Inc.
Big 4 Farming LLC
Liberty Theaters, Inc.
Reading Cinemas USA LLC
Reading Cinemas Puerto Rico LLC
Reading Pacific LLC
Citadel Realty, Inc.

Minetta Live LLC
Orpheum Live LLC
Liberty Live, LLC
I Love You Productions LLC

Craig Corporation
Craig Management, Inc.
J. J. Cotter Associates
Craig Food & Hospitality
Hope Street Hospitality LLC
Dimension Specialty Inc.

AHGP, Inc.
AHLP, Inc.
Angelika Film Centers LLC
Bayou Cinemas LP
Entertainment Holdings, Inc.
Love, Janis (Chicago) LLC
Port Reading Railroad Company
Puerto Rico Holdings, Inc.
Railroad Investments, Inc.
Reading Capital Corporation
Reading Center Development Corporation
Reading Cinemas, Inc.
Reading Cinemas of NJ, Inc.
Reading Cinemas of Puerto Rico, Inc.
Reading Company

Reading Holdings, Inc., Nevada
Reading International Cinemas LLC
Reading Investment Company, Inc.
Reading Real Estate Company
Reading Resources, Inc.
Reading Theaters, Inc.

Reading Transportation Company
RG-I, Inc.
RG-II, Inc.
Royal George, LLC
Trenton-Princeton Traction Company
Twin Cities Cinemas, Inc.
Washington and Franklin Railway Company
Western Gaming, Inc.
Wilmington and Northern Railroad

Australia Country Cinemas Pty Limited
Hotel Newmarket Pty Limited
Reading Australia Leasing Pty Limited
Reading Properties Pty Limited
US International Property Finance Pty Limited
Whitehorse Property Group Pty Limited
Reading Entertainment Australia Pty Limited
Reading Australia Leasing Pty Ltd and Champion Pictures Pty Ltd Joint Venture
Reading Licenses Pty Limited

Darnelle Enterprises Limited
Reading Courtenay Central Limited
Reading Cinema Properties Limited
Reading Cinemas Courtenay Central Limited
Reading Courtenay Central Limited
Reading New Zealand Limited
Ronwood Investments Limited
Tington Investments Limited
Tobrooke Holdings Limited
Trevone Holdings Limited
Copenhagen Courtenay Central Limited

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-36277 of Reading International Inc. on Form S-8 of our report dated March 7, 2003, appearing in this Annual Report on Form 10-K of Reading International Inc. for the year ended December 31, 2002.

/s/ Deloitte & Touche LLP

Los Angeles, California

March 25, 2003

