
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2003

OR

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

For the transition period from _____ to _____

Commission file number 1-8625

READING INTERNATIONAL, INC.

(Exact name of Registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

95-3885184

(IRS Employer Identification No.)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is 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 November 11, 2003, there were 19,866,876 shares of Class A Nonvoting Common Stock, \$0.01 par value per share and 2,032,414 shares of Class B Voting Common Stock, \$0.01 par value per share outstanding.

TABLE OF CONTENTS

PART I – Financial Information

Item 1 – Financial Statements

Condensed Consolidated Balance Sheets

Condensed Consolidated Statements of Operations

Condensed Consolidated Statements of Cash Flows

Notes to Condensed Consolidated Financial Statements

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

Item 3 — Quantitative and Qualitative Disclosure about Market Risk

Item 3A — Quantitative and Qualitative Disclosure about Interest Risk

Item 4 — Controls and Procedures

PART II – Other Information

Item 1 - Legal Proceedings

Item 2 - Change in Securities

Item 3 - Defaults upon Senior Securities

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

Item 5 - Other Information

Item 6 - Exhibits and Reports on Form 8-K

SIGNATURES

EXHIBIT 10.49

EXHIBIT 10.50

EXHIBIT 10.51

EXHIBIT 31.1

EXHIBIT 31.2

EXHIBIT 32

READING INTERNATIONAL, INC. AND SUBSIDIARIES

INDEX

	Page
PART I – Financial Information	1
Item 1 – Financial Statements	1
Condensed Consolidated Balance Sheets (Unaudited)	1
Condensed Consolidated Statements of Operations (Unaudited)	3
Condensed Consolidated Statements of Cash Flows (Unaudited)	4
Notes to Condensed Consolidated Financial Statements (Unaudited)	5
Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3 – Quantitative and Qualitative Disclosure about Market Risk	32
Item 3A – Quantitative and Qualitative Disclosure about Interest Risk	33
Item 4 – Controls and Procedures	34
PART II – Other Information	35
Item 1 - Legal Proceedings	35
Item 2 - Change in Securities	35
Item 3 - Defaults upon Senior Securities	35
Item 4 - Submission of Matters to a Vote of Securities Holders	35
Item 5 - Other Information	35
Item 6 - Exhibits and Reports on Form 8-K	35
SIGNATURES	36

PART I – Financial Information**Item 1 – Financial Statements****Reading International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(dollars in thousands)**

	(Unaudited) September 30, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	\$ 18,787	\$ 19,286
Receivables	4,541	3,765
Inventory	412	452
Investment in marketable securities and securities held-for-sale	79	1,016
Restricted cash	412	341
Prepaid and other current assets	2,951	2,529
Deferred tax assets, net	1,156	1,008
Total current assets	28,338	28,397
Rental property, net	8,047	8,438
Property and equipment, net	111,781	101,481
Property held for development	23,858	19,745
Investment in joint ventures	3,344	1,120
Capitalized leasing costs, net	444	544
Goodwill, net	5,064	5,021
Intangible assets, net	13,449	14,381
Other noncurrent assets	3,443	3,645
Total assets	\$197,768	\$182,772

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

Reading International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(dollars in thousands, except per share amounts)

	(Unaudited) September 30, 2003	December 31, 2002
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	\$ 12,675	\$ 13,183
Film rent payable	3,906	4,092
Accrued income taxes	8,057	7,435
Deferred theater revenue	1,140	1,150
Notes payable – current portion	2,008	2,119
Other current liabilities	763	294
Total current liabilities	28,549	28,273
Notes payable – long-term portion	52,947	48,121
Deferred real estate revenue	907	659
Other noncurrent liabilities	10,350	9,517
Total liabilities	92,753	86,570
Commitments and contingencies		
Minority interest in consolidated affiliates	4,713	4,937
Stockholders' equity		
Class A Nonvoting Common Stock, par value \$0.01, 100,000,000 shares authorized, 33,858,299 issued and 19,866,876 and 20,484,794 shares outstanding at September 30, 2003 and December 31, 2002, respectively	199	205
Class B Voting Common Stock, par value \$0.01, 20,000,000 shares authorized, 2,685,669 issued and 2,032,414 and 1,336,335 shares outstanding at September 30, 2003 and December 31, 2002, respectively	20	13
Nonvoting Preferred Stock, par value \$0.01, 12,000 shares authorized	—	—
Additional paid-in capital	123,516	123,517
Accumulated deficit	(43,582)	(40,512)
Accumulated other comprehensive income	20,149	8,042
Total stockholders' equity	100,302	91,265
Total liabilities and stockholders' equity	\$197,768	\$182,772

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Revenue				
Cinema/live theater	\$ 21,646	\$ 20,386	\$ 63,082	\$ 58,748
Rental/real estate	2,010	1,578	5,829	4,611
Other	—	—	—	86
	<u>23,656</u>	<u>21,964</u>	<u>68,911</u>	<u>63,445</u>
Operating expense				
Cinema/live theater	17,594	16,410	50,460	47,585
Rental/real estate	1,266	983	3,701	2,770
Depreciation and amortization	2,559	2,078	7,516	5,523
General and administrative	3,548	3,653	9,857	10,680
	<u>24,967</u>	<u>23,124</u>	<u>71,534</u>	<u>66,558</u>
Operating loss	(1,311)	(1,160)	(2,623)	(3,113)
Non-operating expense (income)				
Interest income	(173)	(157)	(495)	(422)
Interest expense	991	1,000	2,918	2,526
Other expense (income)	110	(101)	(2,761)	(1,185)
	<u>(2,239)</u>	<u>(1,902)</u>	<u>(2,285)</u>	<u>(4,032)</u>
Loss before income taxes and minority interest	(2,239)	(1,902)	(2,285)	(4,032)
Income tax provision (benefit)	322	(435)	607	(372)
	<u>(2,561)</u>	<u>(1,467)</u>	<u>(2,892)</u>	<u>(3,660)</u>
Loss before minority interest	(2,561)	(1,467)	(2,892)	(3,660)
Minority interest (income) expense	(18)	130	178	236
	<u>(2,543)</u>	<u>(1,597)</u>	<u>(3,070)</u>	<u>\$ (3,896)</u>
Net loss	(2,543)	(1,597)	(3,070)	\$ (3,896)
Basic loss per share	\$ (0.12)	\$ (0.07)	\$ (0.14)	\$ (0.18)
Weighted average number of shares outstanding – basic	21,899,286	21,821,150	21,847,468	21,821,265
Diluted loss per share	\$ (0.12)	\$ (0.07)	\$ (0.14)	\$ (0.18)
Weighted average number of shares outstanding – diluted	21,899,286	21,821,150	21,847,468	21,821,265

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

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

	Nine Months Ended September 30,	
	2003	2002
Operating Activities		
Net loss	\$ (3,070)	\$ (3,896)
<i>Adjustments to reconcile net loss to net cash provided by operating activities:</i>		
Gain on disposal of assets	(230)	—
Gain on settlement of litigation	(2,259)	—
Equity in the earnings of Australia and New Zealand Joint Ventures	(263)	(165)
Depreciation and amortization	7,516	5,523
Other, net	177	(69)
Minority interest	178	236
<i>Changes in operating assets and liabilities:</i>		
Increase in receivables	(63)	(141)
Decrease (increase) in prepaid and other assets	233	(970)
(Decrease) increase in liabilities	(167)	321
Net cash provided by operating activities	2,052	839
Investing activities		
Increase in property development	(976)	(5,662)
Purchase of equipment	(891)	(3,066)
Investment in joint venture	(2,032)	—
Decrease in restricted cash	62	160
Proceeds from disposal of assets held for sale (“AFS”)	903	—
Liquidating dividend distribution	283	—
Distributions from joint ventures, net	649	97
Net cash used in investing activities	(2,002)	(8,471)
Financing activities		
Repayment of long-term borrowings	(955)	(3,858)
Minority interest distributions	(1,279)	(299)
Proceeds from borrowings	—	5,679
Net cash (used in) provided by financing activities	(2,234)	1,522
Effect of exchange rate changes on cash and cash equivalents	1,685	525
Decrease in cash and cash equivalents	(499)	(5,585)
Cash and cash equivalents at beginning of period	19,286	20,876
Cash and cash equivalents at end of period	\$18,787	\$15,291
Supplemental Disclosures		
Interest paid (net of \$151,900 interest capitalized as cost of development in 2002, \$0 in 2003)	\$ 2,361	\$ 3,806
Income taxes paid	\$ 127	\$ —

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

Reading International, Inc. and Subsidiaries Notes to Condensed Consolidated Financial Statements (Unaudited) For the Three and Nine Months Ended September 30, 2003

Note 1 – Basis of Presentation

Reading International, Inc. along with its consolidated subsidiaries (the “Company” or “Reading”) is primarily in the business of development, ownership and operation of cinemas, live theater and commercial real estate. The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim reporting and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission for interim reporting. As such, certain information and footnote disclosures typically required by US GAAP for complete financial statements have been condensed or omitted. There have been no material changes in the information disclosed in the notes to the condensed consolidated financial statements contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2002 (“2002 Annual Report”). The financial information presented in this quarterly report on Form 10-Q for the period ended September 30, 2003 (the “September Report”), including the information under the heading, Management’s Discussion and Analysis of Financial Condition and Results of Operations, should be read in conjunction with the Company’s 2002 Annual Report which contains the latest audited financial statements and related footnotes.

In the opinion of management, all adjustments of a normal recurring nature considered necessary to present fairly in all material respects the Company’s financial position, results of its operations and cash flows for the nine months ended September 30, 2003 have been made. The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results of operations to be expected for the entire year. Certain amounts in previously issued financial statements have been reclassified to conform to the 2003 presentation.

Note 2 – Stock-Based Compensation

The Company has elected to follow the intrinsic value method under Accounting Principle Board Opinion (“APBO”) No. 25, *Accounting for Stock Issued to Employees* and related interpretations in accounting for its employee stock option plans. Under APBO No. 25, no compensation expense is recognized when stock options are granted if the exercise price of the option equals the fair market value of the underlying common stock on the date of grant.

[Table of Contents](#)

The following table illustrates the effect on net loss and net loss per common share as if the Company had applied the fair value provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* to measure stock-based compensation (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss, as reported	\$(2,543)	\$(1,597)	\$(3,070)	\$(3,896)
Stock-based compensation expense under fair value reporting	79	333	149	998
Pro forma net loss	\$(2,622)	\$(1,930)	\$(3,219)	\$(4,894)
Basic and diluted loss per share, as reported	\$ (0.12)	\$ (0.07)	\$ (0.14)	\$ (0.18)
Basic and diluted loss per share, pro forma	\$ (0.12)	\$ (0.09)	\$ (0.15)	\$ (0.22)

Note 3 – Business Segments

Reading's operations are organized into two reportable business segments within the meaning of Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*. As a result, the Company has two reportable segments: **(1)** cinema/live theater and **(2)** rental/real estate. The Company's cinema and live theater segment is primarily engaged in the development, ownership and operation of multiplex cinemas, and is also engaged in the ownership and operation of "Off Broadway" style live theaters. Reading's rental and real estate segment is primarily engaged in the development, ownership and operation of commercial properties, including entertainment-themed retail centers ("ETRC"). Corporate results include interest income earned with respect to the Company's cash balances, interest expense and other (income) expense.

[Table of Contents](#)

Information about the Company's cinema/live theater and rental/real estate segment operations for the three and nine months ended September 30, 2003 and 2002 is presented in the following tables (dollars in thousands):

Three Months Ended September 30, 2003	Cinema/Live Theater	Rental/ Real Estate	Corporate	Consolidated
Revenue	\$21,646	\$2,010	\$ —	\$23,656
Operating expense	17,594	1,266	—	18,860
Depreciation & amortization expense	1,687	836	36	2,559
General & administrative expense	1,278	394	1,876	3,548
Operating income (loss)	1,087	(486)	(1,912)	(1,311)
Other expense	—	—	910	910
Income (loss) before tax	1,087	(486)	(2,822)	(2,221)
Income tax provision	—	—	322	322
Net income (loss)	\$ 1,087	\$ (486)	\$(3,144)	\$(2,543)
Three Months Ended September 30, 2002				
Revenue	\$20,386	\$1,578	\$ —	\$21,964
Operating expense	16,410	983	—	17,393
Depreciation & amortization expense	1,107	827	144	2,078
General & administrative expense	1,269	150	2,234	3,653
Operating income (loss)	1,600	(382)	(2,378)	(1,160)
Other expense	—	—	872	872
Income (loss) before tax	1,600	(382)	(3,250)	(2,032)
Income tax benefit	—	—	(435)	(435)
Net income (loss)	\$ 1,600	\$ (382)	\$(2,815)	\$(1,597)

[Table of Contents](#)

Nine Months Ended September 30, 2003	Cinema/Live Theater	Rental/ Real Estate	Corporate	Consolidated
Revenue	\$63,082	\$ 5,829	\$ —	\$68,911
Operating expense	50,460	3,701	—	54,161
Depreciation & amortization expense	4,950	2,432	134	7,516
General & administrative expense	3,483	763	5,611	9,857
Operating income (loss)	4,189	(1,067)	(5,745)	(2,623)
Other income	—	—	(160)	(160)
Income (loss) before tax	4,189	(1,067)	(5,585)	(2,463)
Income tax provision	—	—	607	607
Net income (loss)	\$ 4,189	\$(1,067)	\$(6,192)	\$ (3,070)

Nine Months Ended September 30, 2002

Revenue	\$58,748	\$4,611	\$ 86	\$63,445
Operating expense	47,585	2,770	—	50,355
Depreciation & amortization expense	3,215	2,048	260	5,523
General & administrative expense	4,163	303	6,214	10,680
Operating income (loss)	3,785	(510)	(6,388)	(3,113)
Other expense	—	—	1,155	1,155
Income (loss) before tax	3,785	(510)	(7,543)	(4,268)
Income tax benefit	—	—	(372)	(372)
Net income (loss)	\$ 3,785	\$ (510)	\$(7,171)	\$ (3,896)

Note 4 - Foreign Currency and Derivative Instruments

As fully described in the 2002 Annual Report, Reading has cinema operations and significant assets in Australia and New Zealand. To the extent possible, Reading conducts its Australia and New Zealand operations on a self funding basis. The carrying value of the Company's Australian and New Zealand assets fluctuates due to changes in the exchange rates between the U.S. dollar and the functional currency of Australia (Australian dollar) and New Zealand (New Zealand dollar). The Company has no derivative financial instruments to hedge foreign currency exposure.

Presented in the table below are the currency exchange rates for Australia and New Zealand as of September 30, 2003 and December 31, 2002.

	U.S. Dollar	
	September 30, 2003	December 31, 2002
Australian Dollar	\$0.6769	\$0.5625
New Zealand Dollar	\$0.5940	\$0.5239

Note 5 – Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) to common stockholders by the weighted average number of common

[Table of Contents](#)

shares outstanding during the period after giving effect to all potentially dilutive common shares that would have been outstanding if the dilutive common shares had been issued. Stock options give rise to potentially dilutive common shares.

Common Stock	Stock Options					
	September 30, 2003			September 30, 2002		
	Outstanding	Weighted Average Exercise Price	Exercisable	Outstanding	Weighted Average Exercise Price	Exercisable
Class A Nonvoting	1,498,200	\$4.14	934,988	1,418,050	\$4.14	944,638
Class B Voting	185,100	\$9.90	185,100	881,180	\$6.08	881,180

For the three and nine months ended September 30, 2003 and 2002, respectively, the Company recorded net losses. As such, the incremental shares of 296,708 and 27,087 in 2003 and 2002, respectively from stock options to purchase shares of common stock, were excluded from the computation of diluted loss per share because they were anti-dilutive in those periods.

During the third quarter of 2003, a total of 696,080 options to acquire Class B Voting shares were exercised and 9,650 options to acquire Class A Nonvoting shares were cancelled.

Note 6 – Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net loss	\$(2,543)	\$(1,597)	\$(3,070)	\$(3,896)
Foreign currency translation	515	(2,547)	12,321	4,631
Unrealized (loss) gain on AFS	38	(52)	(214)	(218)
	<u>\$(1,990)</u>	<u>\$(4,196)</u>	<u>\$ 9,037</u>	<u>\$ 517</u>

[Table of Contents](#)**Note 7 – Rental Property and Property and Equipment**

As of September 30, 2003 and December 31, 2002, Reading had investments in rental property and property and equipment as follows (dollars in thousands):

	September 30, 2003	December 31, 2002
Rental property		
Land	\$ 2,951	\$ 2,951
Building and improvements	7,515	7,515
	<u>10,466</u>	<u>10,466</u>
Less accumulated depreciation	(2,419)	(2,028)
	<u>\$ 8,047</u>	<u>\$ 8,438</u>
Property and equipment		
Land	\$ 25,238	\$ 22,838
Building	52,566	45,926
Leasehold interest	6,940	5,173
Construction-in-progress	5,629	3,817
Fixtures and equipment	36,265	31,245
	<u>126,638</u>	<u>108,999</u>
Less accumulated depreciation	(14,857)	(7,518)
	<u>\$ 111,781</u>	<u>\$ 101,481</u>

Note 8 – Goodwill and Intangible Assets

As of January 1, 2002, in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, Reading does not amortize goodwill and instead, performs annual impairment reviews of its goodwill and other intangible assets. As of September 30, 2003 and December 31, 2002, Reading had goodwill of \$5,064,000 and \$5,021,000 net of related accumulated amortization of \$360,000 and \$326,000, respectively, consisting of the following (dollars in thousands):

	September 30, 2003	December 31, 2002
Segments		
Cinema/live theater	\$4,816	\$4,816
Rental/real estate	248	205
	<u>\$5,064</u>	<u>\$5,021</u>

Reading has intangible assets other than goodwill which are subject to amortization and are being amortized over various periods. The Company amortizes its beneficial lease over 20 years and its option fees and acquisition costs over 10 years. For the three and nine months ended September 30, 2003, the amortization expense totaled \$342,000 and \$1,010,000, respectively.

[Table of Contents](#)

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

	September 30, 2003	December 31, 2002
Intangible assets		
Beneficial lease	\$10,464	\$10,459
Option fee	5,000	5,000
Acquisition costs	943	943
	<u>16,407</u>	<u>16,402</u>
Less: Accumulated amortization	(2,958)	(2,021)
Total, net	<u>\$13,449</u>	<u>\$14,381</u>

Note 9 – Income Tax

The income tax provision for the three and nine months ended September 30, 2003 was comprised of the following amounts (dollars in thousands):

	September 30, 2003	
	Three Months Ended	Nine Months Ended
Federal tax refund	\$ —	\$(365)
Foreign income tax provision	69	193
Foreign withholding provision	225	608
Other tax provisions	28	171
	<u>—</u>	<u>—</u>
Net tax provision	<u>\$322</u>	<u>\$ 607</u>

Note 10 – Minority Interest

Minority interest is comprised of the following enterprises:

- 50% of membership interest in Angelika Film Center LLC (“AFC LLC”) by a subsidiary of National Auto Credit, Inc.;
- 33% minority interest in the Elsternwick Joint Venture by Champion Pictures Pty Ltd.;
- 25% minority interest in Australian Country Cinemas by Panorama Cinemas for the 21st Century Pty Ltd.; and
- 20% minority interest in Big 4 Farming LLC by Cecelia Packing Corporation.

[Table of Contents](#)

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

	September 30, 2003	December 31, 2002
AFC LLC	\$4,000	\$4,337
Elsternwick Unincorporated Joint Venture	472	393
Australian Country Cinemas	236	199
Big 4 Farming LLC	5	8
	<u> </u>	<u> </u>
Minority interest in consolidated affiliates	\$4,713	\$4,937
	<u> </u>	<u> </u>

	For the Nine Months Ended September 30,	
	2003	2002
AFC LLC	\$ 303	\$220
Elsternwick Unincorporated Joint Venture	—	—
Australian Country Cinemas	(125)	43
Big 4 Farming LLC	—	(27)
	<u> </u>	<u> </u>
Minority interest expense	\$ 178	\$236
	<u> </u>	<u> </u>

Note 11 - Recent Accounting Pronouncements

In May 2003, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. In October 2003, the FASB decided to defer the effective date of certain elements of SFAS No. 150 as it pertains to noncontrolling interests. The statement establishes standards of measurement and classification of certain financial instruments with characteristics of both liabilities and equity. Except as specifically excluded, the statement is effective for financial instruments entered into or modified after May 31, 2003. SFAS No. 150 is not expected to have a material impact on the Company’s consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. The statement amends and clarifies financial accounting and reporting for derivative instruments and hedging activities. It is effective for contracts entered into or modified after September 30, 2003. As previously disclosed in Note 4, Reading has no derivative instruments and does not engage in any hedging activities with respect to foreign currency issues.

In January 2003, the FASB issued Interpretation (“FIN”) No. 46, *Consolidation of Variable Interest Entities*. FIN 46 sets forth the criteria used to determine whether an investment in a variable interest entity (“VIE”) as defined by the Interpretation 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 was immediately applicable to VIE’s created after January 31, 2003 and requires the consolidation of VIE’s created before February 1, 2003 for reporting periods beginning after December 15, 2003. The Company is currently evaluating the effect that the adoption of FIN 46 will have, but believes that the application of FIN 46 will not have a material adverse impact on its consolidated financial statements.

In November 2002, the FASB issued FIN 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN 45 significantly changes the current practice in accounting for and disclosure of, guarantees. Guarantees and indemnification agreements meeting the criteria established in FIN 45 must 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

[Table of Contents](#)

having to make payment under the guarantee is remote. The disclosure requirements within FIN 45 became effective for financial statements issued for periods beginning after December 15, 2002. The adoption of FIN 45 did not have a material impact on the Company's consolidated financial statements.

Note 12 – Other Expense (Income)

Other income is comprised of the following (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
One-time gain on settlement of litigation ^(a)	\$ —	\$ —	\$(2,259)	\$ —
Equity in earnings of cinema joint ventures	57	(71)	(263)	(165)
Loss (Gain) on disposal of assets, net	59	—	(385)	—
Earnings from agricultural activities	—	(28)	—	(1,047)
Other expense (income)	(6)	(2)	146	27
	<u>\$110</u>	<u>\$(101)</u>	<u>\$(2,761)</u>	<u>\$(1,185)</u>

^(a) A description of the \$2,259,000 gain on settlement of litigation follows in Note 13.

Note 13 – Gain on Settlement of Litigation and Acquisition of Joint Venture at Bargain Price

On May 15, 2003, Reading completed the settlement of two lawsuits involving antitrust and trade practice claims against its principal competitors in Australia. The first was between Reading, as plaintiff, and Village Cinemas Australia Pty, Ltd. ("Village"), Birch Carroll & Coyle Ltd. ("BCC"), and AMP Life Limited, as defendants (the "AMP Litigation") and related to alleged attempts by Village and BCC to keep Reading out of the Australian cinema exhibition market. The second was between Reading, as plaintiff, and Roadshow Film Distributors Pty Ltd ("Roadshow"), as defendant (the "Roadshow Litigation") and related to alleged unfair practices by Roadshow in its distribution of first run film product to Reading. BCC is a wholly owned subsidiary of Greater Union and is referred to herein collectively with Greater Union as "GU." Village and GU, 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 distributor in Australia.

Pursuant to that settlement:

- Reading acquired from Village and GU at their undepreciated historic cost of \$2,178,000 (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.
- Reading received from Village and GU an option, exercisable at any time prior to December 16, 2003, to sell its interest back to Village and GU for \$4,960,000 (AUS\$7,388,000) (the "Put Price").
- Reading received from Village an option to purchase, at cost, an undivided 1/3rd interest in an unincorporated joint venture to be formed to develop a new multiplex cinema, or, in the event that GU determines not to participate in that joint venture, the option to purchase an undivided 1/2 interest in that unincorporated joint venture.
- Roadshow has agreed, generally speaking, to provide Reading access to film product on the same basis as major exhibitors such as Village, GU and Hoyts Cinemas Corporation.

Table of Contents

- Reading has been reimbursed attorneys fees in the amount of approximately \$518,000 (AUS\$800,000), which were recorded as a reduction to legal fees in the Company's general and administrative expenses.

Reading's purchase of its 1/3rd interest in the 16-screen multiplex cinema, at Village and GU's undepreciated historic cost of \$2,178,000 (AUS\$3,244,000), resulted in a one-time gain of \$2,259,000, net of applicable expenses. The gain was based on a fair market value for that joint venture interest of \$4,960,000 (AUS\$7,388,000), as reflected by the "Put Price." In addition, the Company received approximately \$287,000 (AUS\$430,000) in profit distribution covering the period from December 18, 2002 (the agreed effective date of the parties' settlement) to May 15, 2003 (the date on which the settlement was completed). As permitted by SFAS No. 141, *Business Combinations*, the proceeds were prorated and approximately \$60,000 was recognized as income. The remainder was recorded as an adjustment to the joint venture purchase price.

Note 14 – Loan Agreement

During the second quarter of 2003, the Company renewed a loan agreement that extended its existing AUS\$30,000,000 loan facility in Australia. The amended and restated loan agreement provides for a fixed interest rate of 5.77% on a portion of the total loan facility. The remainder of the loan facility provides for interest at the variable Bank Bill Swap Reference Rate ("BBSY Bid") plus a 1.25% margin, payable quarterly. The loan agreement is in effect until December 2007 and requires principal repayments of \$250,000 quarterly, commencing July 2003.

Note 15– Subsequent Events

On October 22, 2003, the Company sold its leasehold interest and option to purchase right in the Sutton Property to a third party buyer. The Company will not recognize a gain or loss from this transaction for book purposes. The negotiated sales proceeds, \$13,000,000 in the form of a note receivable, are pledged, as discussed below, to Sutton Hill Capital LLC ("SHC") to secure the Company's obligation under its Standby Credit Agreement. The sale of this property and the modification of the various agreements between the Company and SHC effectively adjust the exercise price of the Company's option to purchase the remainder of the assets that it currently leases from SHC to reflect the removal of the Sutton Property from the option to purchase. The background and anticipated cash flow results of that transaction are discussed in detail below.

On July 29, 2000, the Company entered into a group of transactions with SHC, a company beneficially owned in equal parts by Messrs. James J. Cotter (the Company's Chairman, Chief Executive Officer and controlling shareholder) and Michael Forman (the second largest holder of the Reading International Class B Voting Common Stock). In that transaction, the Company leased four cinema properties in Manhattan, pursuant to a ten year operating master lease (as amended from time to time, the "Master Lease") with option to purchase (as amended from time to time, the "Option to Purchase"). The Option to Purchase could not be exercised until July 2010, and then, only on an all or none basis: the Company had the option only to acquire either all or none of the four cinema properties, and was not permitted to cherry pick as between the properties. Two of the properties, the Murray Hill Cinema Property and the Sutton Property (as such term is defined below), were fee interests. The other two were long term leasehold estates. The Company paid \$5,000,000 for the Option to Purchase, 100% of which is applicable against the option exercise price of \$48,000,000, should the Company elect to exercise its Option to Purchase. Incident to entering into the Master Lease and the Option to Purchase, the Company also entered into a standby credit agreement (the "Standby Credit Agreement") and certain related security documents obligating the Company to lend to SHC after July 29, 2007 the amount of \$28,000,000. Due

Table of Contents

to the fact that the Master Lease is an operating lease, no asset or liability was established on the Company's balance sheet with respect to this transaction.

On January 29, 2002, the Company released its interest in the Murray Hill Property in consideration of an \$825,000 reduction in rent under the Master Lease, a \$ 10,000,000 reduction in the exercise price under the Option to Purchase (from \$48,000,000 to \$38,000,000), and a \$10,000,000 reduction in its obligation to make loans under the Standby Credit Agreement (from \$28,000,000 to \$18,000,000). Simultaneously with this release, SHC and the owner of the underlying fee interest in that property transferred their collective interests in the Murray Hill Property to an unrelated third party for \$10,000,000. The Company also received an option to invest in the purchaser of the property or, in the event that it determined not to exercise that option, to receive an in lieu fee of \$500,000 from the purchaser. On June 16, 2003, the Company determined not to exercise its option, and shortly thereafter received the \$500,000 in lieu fee from the purchaser.

On October 22, 2003, the Company sold for \$13,000,000 its sub-tenancy interest in the Sutton Cinema and in a contiguous restaurant property located in Manhattan (collectively, the "Sutton Property") and its option, exercisable in 2010, to purchase the fee interest in the Sutton Property. The purchaser is a newly formed limited liability company formed for the purpose of acquiring the Sutton Property ("Purchaser"). In the same transaction, the Purchaser also acquired the landlord's and sub-landlord's interests in the Sutton Property for \$5,000,000. The proceeds of the sale were allocated \$5,000,000 in cash to the landlord and sub-landlord and \$13,000,000 to the Company in the form of a two-year purchase money promissory note, bearing interest for the first year at 3.85% and increasing for the second year to 8.25%. (the "Purchase Money Note") and secured by a first mortgage on the Sutton Property, an assignment of the restaurant lease and certain other security arrangements (collectively, the "Purchase Money Mortgage").

The Company has reserved the right to acquire up to a 25% interest in the Purchaser for a pro-rata capital contribution (the "Reinvestment Option"). In the event that the Company elects not to exercise its Reinvestment Option, it will receive an in lieu payment of \$650,000 (the "In Lieu Fee"). The Reinvestment Option is of limited duration, and if exercised will likely be exercised within the next twelve to twenty-four months. The Company has not yet made any determination as to whether it will exercise its Reinvestment Option or, in the alternative, draw-down the In Lieu Fee.

The Company has reserved the right to continue to operate the cinema at the Sutton Property until such time as the Purchase Money Note has been paid in full. The Purchaser has reserved the right to pre-pay the Purchase Money Note without penalty.

Since the Purchaser desired to acquire, subject to the restaurant lease, the entire fee simple and possessory interest in the Sutton Property, and since the Company did not have the right to acquire prior to 2010 the estates underlying its sub-tenancy interest in the Sutton Property or to otherwise compel SHC and/or the owner of the fee interest in the land component of the Sutton Property (the "Fee Owner") to sell their respective interests in the Sutton Property, it was necessary to negotiate a transaction satisfactory not only to the Company and the Purchaser, but to SHC and the Fee Owner as well. In light of the beneficial ownership interest of Messrs. Cotter and Forman in SHC and of Mr. Forman in The Fee Owner, management consulted with the Company's Audit and Conflicts Committee regarding the terms and structure of the transaction and the ultimate transaction with SHC and the Fee Owner was reviewed and approved by the Company's Audit and Conflicts Committee. The Company's Audit and Conflicts Committee is comprised entirely of independent members of the Board of Directors.

In the view of management and the Company's Audit and Conflicts Committee, the transaction was in the best interests of the Company since, among other things, the value of the asset as real estate significantly outweighed its value as an operating cinema and since a sale at this time was attractive given that it is anticipated (i) to enhance the Company's cash flow by approximately \$632,000 in the first year, excluding one

Table of Contents

time expenditures of approximately \$400,000 for transaction costs and New York transfer taxes incident to the sale, and by approximately \$1,200,000 per year thereafter through the end of the Master Lease in July 2010, and (ii) to provide a source of funding for the Company's obligations under the Standby Credit Agreement, which will avoid the need for the Company to look to other sources of liquidity to satisfy such obligation.

In connection with the sale of the collective interests of the Company, SHC and The Fee Owner in the Sutton Property, certain pre-existing agreements between the parties were modified. These modifications are summarized below; provided, however, that this summary description is qualified by reference to the definitive agreements attached as Exhibits 10.49, 10.50 and 10.51 to the September Report.

1. **Master Lease and Option to Purchase:** The Master Lease and the Option to Purchase between the Company and SHC were modified (i) to sever the Sutton Property, (ii) to reduce the rent payable under the Master Lease by approximately \$436,000 per year, reflecting the receipt by SHC and The Fee Owner of \$5,000,000 of the proceeds of the sale of the Sutton Property, and (iii) to reduce the exercise price of the Option to Purchase from \$38,000,000 to \$33,000,000 (or from \$33,000,000 to \$28,000,000, after taking into account the \$5,000,000 option fee originally paid for the Option to Purchase in 2000, and which is fully applicable against the exercise price), again reflecting the receipt by SHC and The Fee Owner of \$5,000,000 of the proceeds of the sale of the Sutton Property.
2. **Standby Credit Agreement:** The Standby Credit Agreement between the Company and SHC was modified (i) to reduce the principal amount of the obligation from \$18,000,000 to \$13,000,000 (reflecting the receipt by SHC and The Fee Owner of \$5,000,000 of the proceeds of the sale of the Sutton Property) and to conform the initial draw-down date to the date on which the Purchase Money Note is due and payable (whether due to the natural maturity of the note, or due to any acceleration or pre-payment of the note). It is the intention of the parties that proceeds of the Purchase Money Note will be used to fund the Company's obligations under the Standby Credit Agreement and accordingly, the Purchase Money Note and Purchase Money Mortgage have been assigned to SHC to secure the Company's obligations to SHC under the Standby Credit Agreement. The Company has, however, reserved the right to use up to \$5,000,000 of the proceeds of the Purchase Money Note to fund the exercise of its Reinvestment Option. To the extent that cash proceeds are used for this purpose, (i) the Company's interest in the Purchaser will be treated as non-cash proceeds and SHC's security interest will continue in such interest and (ii) SHC's right to draw-down the amount of such cash proceeds under the Standby Credit Agreement the amount of the cash proceeds will be deferred until July 2007. Finally, in order to reflect the fact that, under the original Master Lease and Option to Purchase, the Company's right to purchase the Sutton Property could only be exercised as a part of a simultaneous purchase of the Village East Theater and the Cinemas 1, 2 & 3, the Standby Credit Agreement has been modified to provide that the principal amount of any loan made to SHC under the Standby Credit Agreement will be forgiven, if the Company ultimately elects not to exercise its right under the Option to Purchase to acquire in 2010 the Village East Theater and the Cinemas 1, 2 & 3. In other words, in the event that the Company ultimately exercises its Option to Purchase the remaining Village East Theater and Cinemas 1, 2 & 3 properties, it will get full credit for the \$13,000,000 lent to SHC under the Standby Credit Agreement. In the event that the Company ultimately determines not to exercise its Option to Purchase such remaining properties, then the \$13,000,000 loan will be forgiven, reflecting the original understanding of the parties that the Company would only be permitted to enjoy the benefits of any appreciation in the Sutton Property if it also acquired the Village East Theater and the Cinemas 1, 2 & 3.
3. The Company has entered into additional guarantee and security agreements with SHC to secure performance of its obligations under the Standby Credit Agreement, reflecting the release of the Sutton Property and the granting of security interests in the consideration received by the Company from the sale of the Sutton Property, including the Purchase Money Note, the Purchase Money Mortgage and, to the extent that proceeds from the Purchase Money Note are used to fund the exercise of the

Table of Contents

Reinvestment Option, the Company's resultant interest in the Purchaser. The Company and SHC have agreed, generally speaking, to share, on a 50/50 basis, the transaction costs related to the negotiation and documentation of the purchase and sale transaction with the Purchaser. The parties each bore their own expenses with respect to the negotiation and documentation of the various agreements between them.

It is anticipated that although the transaction will result in taxable income to the Company, this taxable income will be offset (except for alternative minimum tax) by the Company's deferred tax benefits. It is also anticipated that as a consequence of various structural attributes of the transaction, such as the fact that the proceeds from the sale will be used to fund the Company's obligation under the Standby Loan Agreement and the fact that such loan will be forgiven in the event that the Company should determine in 2010 not to exercise its Option to Purchase the Village East Theater and the Cinemas 1, 2 & 3, that under US GAAP, the transaction will not result in income or loss to the Company or any increase or decrease in shareholders equity until such time, if ever, as the Option to Purchase is exercised or expires unexercised.

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

Reading’s business consists primarily of the ownership and operation of cinemas and live theaters and developing, owning and operating commercial real estate. Our business operations include:

- the development, ownership and operation of cinemas in the United States (“US”), Australia, New Zealand, and Puerto Rico;
- the ownership and operation of “Off Broadway” style live theaters in Manhattan and Chicago; and
- the development, ownership and operation of commercial real estate in Australia, New Zealand and the US, including entertainment-themed retail centers (“ETRC”) in Australia and New Zealand.

We manage our worldwide cinema business under various different brands:

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

We plan to continue to identify, develop and acquire cinema and live theater properties, focusing primarily on those opportunities where we can acquire either the fee interest underlying the operating assets, or long term leases, which we believe provide flexibility with respect to the usage of such leasehold assets. In the near term, we are focusing principally on the operation of our existing cinema and live theater assets and in the development of five parcels of undeveloped real estate in Melbourne, Brisbane, and Sydney in Australia, and in Wellington in New Zealand while taking advantage of those opportunities that may present themselves to strategically expand our existing cinema circuits. During the second quarter of 2003, we closed the acquisition of a 1/3rd undivided interest in an existing 16-screen cinema in suburban Brisbane, Australia as fully described in Note 13 to the condensed consolidated financial statements. During the third quarter of 2003, we opened a 6-screen cinema in Christchurch, New Zealand (owned in an unincorporated joint venture with our partner in the Berkeley Cinemas chain in New Zealand. We have also been retained to manage a new art cinema in Plano, Texas which will be operated under our *Angelika* name beginning in the second quarter of 2004. Further, we have entered into an agreement to develop and lease an 8-screen cinema with our partners in the Berkeley Cinemas chain in Botany Downs, Auckland, scheduled to open in late 2004.

We continue to work toward the disposal of our interests in Puerto Rico and our interests in assets not core to our cinema, live theater and real estate businesses. To this end, we achieved the following since the end of 2002:

1. Sutton Cinema Property

As fully described in Note 15 to the condensed consolidated financial statements, and in the documents filed as Exhibits 10.49, 10.50 and 10.51 to the September Report, on October 22, 2003 we finalized the sale of our leasehold interest in the Sutton Property located in Manhattan.

We sold out interest in our Sutton Property to a recently formed third-party limited liability company (the “Purchaser”). The Sutton Property was held by Reading under a master operating lease (as amended from time to time, the “Operating Lease”) with an option to purchase (as amended from time to time, the “Option to Purchase”), along with two other Manhattan properties. The description set forth below is summary in nature and, in the case of those agreements that have been filed as Exhibits 10.49, 10.50 and 10.51 to the September Report, is qualified by reference to the definitive terms of those agreements. The decision was made to sell this

Table of Contents

property based on management's determination that the property was worth significantly more as real estate than as an operating cinema and that a sale at this time was attractive given the anticipated benefits to our cash flow and the availability of the proceeds of such sale to, in essence, decrease our liability under its Standby Credit Agreement with Sutton Hill Capital LLC ("SHC"). We will not recognize a gain for book purposes from the transaction; however, since we previously held the Sutton Property pursuant to an operating lease with option to purchase, we expect the net economic effect of the sale to reduce our net expense by approximately \$632,000 in the first year, excluding one time expenditures of approximately \$400,000 for transaction costs and New York transfer taxes incident to the sale. We expect to realize net savings of approximately \$1,200,000 each year thereafter through July 2010.

We also received, in connection with the sale transaction, an option to acquire up to a 25% interest in the Purchaser for a proportionate contribution to capital of the Purchaser (the "Reinvestment Option"), or to receive in lieu of such exercise a fee in the amount of \$650,000 (the "In Lieu Fee"). As a practical matter, we will likely make our determination whether to exercise the Reinvestment Option or to instead take the In Lieu Fee, within the next 12 to 24 months.

This earnings enhancement is net of the loss of income historically produced by the property, based upon book income for 2002. If we elect to exercise our Option to Purchase (exercisable in July 2010), we will at such time recognize a gain for book purposes of \$13,000,000, less transaction related costs and expenses, as a result of the sale transaction. For income tax purposes, we will be deemed to have received approximately \$13,650,000, again, less transaction related costs and expenses.

The sale transaction is not without risks, as we have accepted, in consideration of the transfer to the Purchaser of our sub-leasehold interests in and Option to Purchase the Sutton Property, a \$13,000,000 two-year purchase money promissory note (the "Purchase Money Note") secured principally by a first mortgage on the Sutton Property and certain other security arrangements (the "Purchase Money Mortgage"). The total purchase price paid for the Sutton Property by the Purchaser was \$18,000,000, of which \$5,000,000 (paid in cash) was paid to our landlord and to the owner of the fee interest underlying the Sutton Property. Accordingly, there is always a risk of default on the note, in which case we would have to enforce our interests against the Sutton Property. However, in light of the quality and experience of the persons who own and operate the Purchaser, the amount of the cash portion of the purchase price, and the limited duration of the Purchase Money Note we are of the view that default is unlikely.

As mentioned earlier, the Sutton Property was held by us along with two other Manhattan cinema properties under the Operating Lease. We originally entered into the Operating Lease in July 2000. In connection with that transaction, we also entered into a standby credit agreement and certain ancillary agreements (as amended from time to time, collectively referred to herein as the "Standby Credit Agreement") with our landlord under the Operating Lease. Under the Standby Credit Agreement as it existed immediately prior to the sale of the Sutton Property, we had an obligation to lend \$18,000,000 to our landlord in July 2007. Since the Purchaser was only interested in acquiring the Sutton Property if it could purchase the entire fee and possessory interests in the Sutton Property, and since we had no right to compel the landlord to sell its interest in the Sutton Property until our right to acquire the property matured in July 2010 under the Option to Purchase, it was necessary to negotiate terms that were suitable not only to us, but to our landlord, the fee owner of the Sutton Property and the Purchaser. At the closing, the Operating Lease, the Option to Purchase and the Standby Credit Agreement were amended (i) to sever the lease of the Sutton Property from the Operating Lease, (ii) to reduce our rent under the Operating Lease by \$436,000, (iii) to reduce the exercise price of the Option to Purchase by \$5,000,000 (from \$33,000,000 to \$28,000,000, after taking into account the application of the \$5,000,000 option fee previously paid in connection with the granting of the Option to Purchase), (iv) to reduce the amount of our obligation under the Standby Credit Agreement by \$5,000,000 from \$18,000,000 to \$13,000,000 and (v) to conform the initial draw-down date under the Standby Credit Agreement to the date on which the principal amount of the Purchase Money Note becomes due and payable (whether at the initial maturity date of the Purchase Money Note or earlier upon prepayment or acceleration due to default). Since, the

Table of Contents

Option to Purchase, as it existed prior to the sale of the Sutton Property, only permitted us to acquire the Sutton Property as a part of an overall acquisition of the other two properties subject to the Operating Lease and the Option to Purchase and then not until July 2010, we also agreed with our landlord that we would forgive the \$13,000,000 advanced under the Standby Credit Agreement in the event that we ultimately elected not to exercise our Option to Purchase the remaining two properties and, in order to secure our obligation to make the loan contemplated by the Standby Credit Agreement, we have assigned for security purposes our interest in the Purchase Money Note and Purchase Money Mortgage.

Since our landlord in the Sutton Property is 100% beneficially owned by Mr. James J. Cotter (the Chairman, Chief Executive Officer and controlling shareholder of the Company) and by Mr. Michael Forman (the second largest holder of the Company's Class B Voting Common Stock), the transactions between ourselves, our landlord in the Sutton Property and its affiliates were reviewed and approved by our Audit and Conflicts Committee, comprised entirely of independent directors.

2. Disposition of Non-Core Assets

In May 2003, we sold for \$525,000 plus an ongoing coal royalty right, our interest in certain anthracite coal deposits in Pennsylvania. The Company's title to these coal rights is disputed by the local municipality and the purchaser has agreed to assume the defense of those claims. In the event it is determined that the municipality and not Reading is the owner of these coal deposits, then our obligation is limited to the return of the \$525,000 together with interest at 1.25% (the 30-day LIBOR rate as of the date of closing of the Settlement Agreement). Accordingly, we recorded the receipt of \$525,000 as a deferred gain and will not recognize the gain until such time as the title dispute is resolved. We have not assigned any value to the royalty right. The litigation previously brought by the purchaser to compel our sale of that property to them on a warranty deed basis was settled incident to this sale transaction.

3. Reduction of General and Administrative Expense

Since completion of our consolidation at the end of 2001, we have been focused on eliminating redundant general and administrative costs, and taking advantages of the economies that can be achieved with increased size and centralized financial administration. During fiscal 2002, we reduced the overall general and administrative expenses of the three companies that participated in the consolidation by approximately \$1,600,000. During the first quarter of 2003, as part of our ongoing effort to reduce general and administrative expense and our commitment to sell our Puerto Rico circuit, we consolidated our Puerto Rican administrative support functions into our corporate office in Los Angeles, California. This consolidation has allowed us to reduce our annual general and administrative expenses by approximately \$170,000 per year. In October 2003, we entered into an agreement with Marsh & McLellan Companies to restructure our insurance on a world wide basis. We anticipate that, when completed, this restructuring will reduce our annual insurance expense by approximately \$500,000 over the first year and that such cost savings will be replicated in following periods, subject to increases generally in the cost of insurance for companies doing business in the United States, Australia, New Zealand and Puerto Rico.

4. Disposition of Puerto Rico Assets

We are continuing our efforts to dispose of our assets in Puerto Rico. To date, we have had conversations with a number of interested properties, but have been unable to negotiate a transaction which, in the view of management, makes sense for us and our shareholders. Accordingly, we continue to

[Table of Contents](#)

operate these assets, and although they are assets held for sale, we have, since the beginning of 2003 begun to record for book purposes depreciation expense with respect to these assets. While we are in continuing negotiations with an interested party, no assurances can be given that any agreement will be reached.

Results of Operations

At September 30, 2003, we operated 33 cinemas with 225 screens and four live theaters comprising seven stages. Unconsolidated joint ventures in which we have interests, operated an additional four cinemas with 21 screens. Along with the three ETRC's that we developed in Australia and New Zealand, we have fee interests in five developed commercial properties in the United States, and hold for development an additional five parcels (aggregating approximately 60 acres) in urbanized areas of Australia and New Zealand.

The tables below summarize the results of operations for each of our principal business segments for the three and nine months ended September 30, 2003 ("2003 Quarter" and "2003 Nine Months", respectively) and three and nine months ended September 30, 2002 ("2002 Quarter" and "2002 Nine Months", respectively). Operating expenses include costs associated with the day-to-day management of the theaters and rental properties.

	Cinema/Live Theater	Rental/ Real Estate	Corporate	Consolidated
2003 Quarter				
Revenue	\$21,646	\$2,010	\$ —	\$23,656
Operating expense	17,594	1,266	—	18,860
Depreciation & amortization expense	1,687	836	36	2,559
General & administrative expense	1,278	394	1,876	3,548
Operating income (loss)	1,087	(486)	(1,912)	(1,311)
Other expense	—	—	910	910
Income (loss) before tax	1,087	(486)	(2,822)	(2,221)
Income tax provision	—	—	322	322
Net income (loss)	\$ 1,087	\$ (486)	\$ (3,144)	\$ (2,543)
2002 Quarter				
Revenue	\$20,386	\$1,578	\$ —	\$21,964
Operating expense	16,410	983	—	17,393
Depreciation & amortization expense	1,107	827	144	2,078
General & administrative expense	1,269	150	2,234	3,653
Operating income (loss)	1,600	(382)	(2,378)	(1,160)
Other expense	—	—	872	872
Income (loss) before tax	1,600	(382)	(3,250)	(2,032)
Income tax benefit	—	—	(435)	(435)
Net income (loss)	\$ 1,600	\$ (382)	\$ (2,815)	\$ (1,597)

	Cinema/Live Theater	Rental/ Real Estate	Corporate	Consolidated
2003 Nine Months				
Revenue	\$63,082	\$ 5,829	\$ —	\$68,911
Operating expense	50,460	3,701	—	54,161
Depreciation & amortization expense	4,950	2,432	134	7,516
General & administrative expense	3,483	763	5,611	9,857
Operating income (loss)	4,189	(1,067)	(5,745)	(2,623)
Other income	—	—	(160)	(160)
Income (loss) before tax	4,189	(1,067)	(5,585)	(2,463)
Income tax provision	—	—	607	607
Net income (loss)	\$ 4,189	\$(1,067)	\$(6,192)	\$(3,070)
2002 Nine Months				
Revenue	\$58,748	\$ 4,611	\$ 86	\$63,445
Operating expense	47,585	2,770	—	50,355
Depreciation & amortization expense	3,215	2,048	260	5,523
General & administrative expense	4,163	303	6,214	10,680
Operating income (loss)	3,785	(510)	(6,388)	(3,113)
Other expense	—	—	1,155	1,155
Income (loss) before tax	3,785	(510)	(7,543)	(4,268)
Income tax benefit	—	—	(372)	(372)
Net income (loss)	\$ 3,785	\$(510)	\$(7,171)	\$(3,896)

Cinema / Live Theater

- Net income for the cinema and live theater segment for the three months ended September 30, 2003 decreased \$513,000 when compared to the same period in 2002. This is primarily due to an increase in depreciation of \$580,000 as fully described below.
- Net income for the cinema and live theater segment for the nine months ended September 30, 2003 increased \$404,000. The fluctuation was primarily because in 2003, we operated our Courtenay Central 10-plex for the full nine month period ended September 30, 2003. In 2002, we began operations in late March. This increase was partially offset by the effects of the closure of under-performing cinemas in Manhattan, Minneapolis and Puerto Rico representing 10 screens.
- Revenue increased by approximately \$1,260,000 or 6% in the 2003 Quarter and \$4,334,000 or 7% in the 2003 Nine Months when compared to the same period in 2002. Both our per-screen and total cinema attendance increased in 2003 despite the fact that we operated fewer screens in 2003 when compared to 2002 due to the closure of cinemas in Manhattan, Minneapolis and Puerto Rico.
- Operating expense increased by approximately \$1,184,000 or 7% in the 2003 Quarter and \$2,875,000 or 6% in the 2003 Nine Months when compared to the same periods in 2002. The increase was primarily a result of the variable costs such as film rental and payroll expenses that fluctuate in direct relation to the increases in revenue.
- Depreciation expense increased by approximately \$580,000 or 52% in the 2003 Quarter and \$1,735,000 or 54% in the 2003 Nine Months when compared to the same periods in 2002 due to:
 1. the change in Australia's depreciable lives to conform to that of the U.S.;

Table of Contents

2. nine full months of depreciation taken on the Wellington ETRC;
 3. depreciation taken on the Puerto Rican cinema circuit. The Puerto Rican circuit – notwithstanding our intention to sell it – is no longer qualified under generally accepted accounting principals to be treated as an “asset held for sale;” and
 4. increased domestic depreciation expense stemming from various renovation/remodeling projects undertaken at certain of our US cinemas.
- General and administrative expense was essentially flat in the 2003 Quarter; however, general and administrative expenses decreased \$680,000 or 16% in the 2003 Nine Months when compared to the same periods in 2002. Beneficial lease payments made to SHC under the City Cinemas Operating Lease of approximately \$2,152,000 during the first nine months of 2003 and approximately \$2,452,000 in 2002, respectively, are recorded as general and administrative expense of the Cinema/Live Theater segment. The decrease in the general and administration expense in the 2003 Nine Months was primarily driven by:
 1. the credit of approximately \$518,000 of reimbursed legal fees resulting from the settlement and acquisition of a joint venture (fully described in Note 13 to the condensed consolidated financial statements);
 2. the decrease in the beneficial lease payments made to SHC;
 3. the closure of the administrative office in Puerto Rico; offset by
 4. increased legal fees relating principally to: 1) litigation against certain of our distributors and competitors, alleging violations of antitrust laws in Manhattan; and 2) litigation against one of our joint venture partners in Australia relative to collection on a promissory note related to our former investment in the Whitehorse Shopping Center. Both of these actions are fully described in our 2002 Annual Report and under the caption “Litigation Costs and Expenses” in the September Report.

Our live theaters’ rental weeks were ahead of the 2002 Quarter – 69 theater weeks rented in the 2003 Quarter compared to 55 theater weeks rented in the 2002 Quarter. The theaters are currently running the following shows:

- Orpheum: Stomp (Ongoing)
- Minetta Lane: Talking Heads (Closed September 2003; Lypsinka opened October 24, 2003.)
- Union Square: Our Lady of 121st Street (Closed July 2003; Portraits opened on September 9, 2003 and closed October 5, 2003. Negotiations are proceeding for a new production.)
- Royal George: Main Stage – (negotiations are still proceeding for a new production.)
- Royal George: Great Room – Late Nite Catechism (Ongoing)
- Royal George: Gallery – B.S. (Ongoing)
- Royal George: Cabaret – *I Love You You’re Perfect, Now Change* (Ongoing)

Table of Contents

Rental / Real Estate

In the three and nine months ended September 30, 2003, our rental generating real estate holdings consisted of:

- the Courtenay Central ETRC in Wellington, New Zealand;
- two ETRC's in Auburn and Perth, Australia;
- an office building located in Glendale, California; and
- the ancillary retail and commercial tenants of two of our fee owned U.S. live theater properties and certain of our US cinemas.

The Wellington ETRC opened in March 2002 and as a result, only six months of operation of this center was included in the 2002 Nine Months results. The rental space in the Wellington Center is now approximately 89% leased (62% excluding the cinema space which is occupied by our own cinema). The ancillary retail space at our Perth and Auburn ETRC's is now approximately 63% leased.

We own certain unimproved tracts of land which are currently either in various stages of development or held for sale, namely:

- an approximately fifty-acre property located in the Burwood area of Melbourne, Australia (currently in the zoning and planning stages for mixed use residential, retail, entertainment and commercial purposes; discussions are ongoing with potential joint venture development partners);
- an approximately four-acre property located in the Moonee Ponds area of Melbourne, Australia (currently in discussions with a possible joint venture developer for a mixed retail development);
- an approximately three-acre property located in the Newmarket area of Brisbane, Australia (land use permits have been obtained and we are currently in negotiations with two anchor tenants with respect to the development of an approximately 100,000 square foot mixed retail development);
- an approximately two-acre property located adjacent to the Auburn ETRC in the Auburn area of Sydney Australia (held for future development);
- an approximately one acre property located adjacent to the Courtenay Central ETRC in Wellington, New Zealand (currently in negotiations with two anchor tenants with respect to development of an approximately 250,000 square foot retail/entertainment addition to existing Courtenay Central ETRC in downtown Wellington); and
- certain domestic railroad-related properties (held for sale).

Net loss for the 2003 Quarter was comparable to the 2002 Quarter. Net loss increased in the 2003 Nine Months for the real estate segment compared to the same period in 2002, primarily due to depreciation expense attributable to the Courtenay Central ETRC, which opened in March 2002 and the write off of certain legal costs relating to an aborted development project.

Corporate

The revenue in 2002 is entirely comprised of fees earned for our agricultural activities which we disposed of in July 2002.

Table of Contents

General and administrative expense includes expense that is not directly attributable to other operating segments. The reduction in expense of \$358,000 in the 2003 Quarter and \$603,000 in the 2003 Nine Months is primarily due to ongoing savings associated with the 2001 consolidation.

Corporate other expense (income) is comprised of:

- interest expense/income;
- gain/loss on sale of assets;
- equity income (loss); and
- other miscellaneous income and loss items.

For the three months ended September 30, 2003 compared to the same period in 2002, other expense increased \$38,000 primarily due to losses recorded on the disposal of assets and on the equity in joint ventures, offset by a net decrease in interest expense. For the nine months ended September 30, 2003, other income was \$160,000 compared to other expense of \$1,155,000 recorded in the same period of 2002. The fluctuation between years was primarily due to the following:

- the recording in June 2003 of a \$2,259,000 one-time gain on the settlement of two lawsuits involving antitrust and trade practice claims against our principal competitors in Australia. The first, between Reading, as plaintiff, and Village Cinemas Australia Pty, Ltd. (“Village”), Birch Carroll & Coyle Ltd. (“BCC”), and AMP Life Limited, as defendants (the “AMP Litigation”), and the second between Reading, as plaintiff, and Roadshow Film Distributors Pty Ltd (“Roadshow”), as defendant (the “Roadshow Litigation”);
- the recognition of a \$500,000 gain on the release of the Murray Hill option in May 2003;
- a \$392,000 increase in interest expense during 2003 on the Wellington ETRC borrowings, which can no longer be capitalized because construction is complete;
- a \$115,000 loss on disposal of assets (mostly from fixed assets written off in conjunction with the closure of a 5-screen cinema in March 2003);
- a net \$110,000 of other miscellaneous items; and
- the non-recurring nature of the \$1,047,000 in loan recovery income relating to our agricultural activities, realized in 2002.

Business Plan, Capital Resources and Liquidity

Business Plan

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 currently focusing our acquisitions and development activities primarily in Australia and New Zealand as we believe that there are currently better opportunities in these markets than domestically. We intend to dispose of our interest in Puerto Rico and have already disposed of all of our agricultural interests and assets. We continue to close under-performing cinema assets, or to sell those which have value as real estate significantly in excess of their value as cinemas (for example, the disposition of our Murray Hill and Sutton Cinema 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 financing and/or to convert non-performing or non-strategic assets into cash.

Currently, our liquidity needs arise mainly from:

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

Operating Activities

Cash provided by operations was \$2,052,000 in the 2003 Nine Months compared to cash provided by operations of \$839,000 in the 2002 Nine Months. The increase in cash provided by operations of \$1,213,000 is primarily due to better cash flow from our cinema and theater operations, and to a significant reduction in our prepaid assets in the 2003 Nine Months when compared to the 2002 Nine Months.

Investing Activities

Cash used in investing activities during the first nine months of 2003 was \$2,002,000 compared to \$8,471,000 during the same period in 2002. We used \$6,469,000 less cash in investing activities in the first nine months of 2003 when compared to the first nine months of 2002. This is primarily due to the use of capital to invest in assets purchased in the 2002 Nine Months primarily to complete the Wellington ETRC. In the 2003 Nine Months, we made capital investments on our Newmarket and Burwood projects and improvements to two of our US cinemas. Also impacting investing activities was our purchase of a 1/3rd interest in a joint venture for approximately \$2,032,000, net of related costs, in connection with our settlement of the AMP Litigation and the Roadshow Litigation fully described in Note 13 to the condensed consolidated financial statements. During the first nine months of 2003, we received \$903,000 in cash from the disposal of certain assets held for sale ("AFS") compared to no such proceeds in the same period of 2002. In addition, we received cash in the amount of \$283,000 in liquidating dividend distributions from one of our AFS securities. We did not receive any such distributions in the same period of 2002. We received \$649,000 in net distributions from our joint ventures compared to \$97,000 in the same period of 2002.

Financing Activities

Cash used in financing activities was \$2,234,000 for the first nine months of 2003 compared to \$1,522,000 of cash provided by financing activities for the same period in 2002. In the first nine months of 2002, we had net bank borrowing of \$1,821,000 in New Zealand, contributing to our cash provided by financing activities in 2002. This primarily related to the completion of our Wellington ETRC project in March 2002. This compares to \$955,000 of net capital repayments made in the first nine months of 2003. Also, in the nine month period ended September 30, 2003, we made distributions to our joint venture partners of \$1,279,000, compared to \$299,000 in the comparable period of 2002.

Summary

Our cash position at September 30, 2003 was \$18,787,000 . We have put into place several measures that are expected to have or have already had a positive effect on our overall liquidity, including:

- As fully described in Note 15 to the condensed consolidated financial statements, on October 22, 2003 we finalized the sale of our Sutton Property located in Manhattan. Since we previously held the Sutton Property pursuant to an operating lease with option to purchase, we expect the net economic effect of the sale to reduce our net expense by approximately \$632,000 in the first year, excluding one time expenditures of approximately \$400,000 in transaction costs and New York transfer taxes incident to the sale. We expect to realize net savings of approximately \$1,200,000 each year thereafter through July 2010. As a result, our obligation to fund loans to SHC and the Standby Credit Agreement has been reduced to \$13,000,000 and the exercise price of our Option to Purchase has been reduced to \$33,000,000. It is anticipated that our remaining obligations under the Standby Credit Agreement will be funded in whole or in substantial part, from the proceeds of this sale.
- In May 2003, in connection with the release of our rights in the Murray Hill option, we received \$500,000 which was recorded as a gain to other income.
- During the first nine months of 2003, we had a gain of approximately \$235,000 as a consequence of the disposition of assets held for sale.
- In January 2003, as part of our ongoing drive to reduce general and administrative expense and notwithstanding our commitment to sell our Puerto Rico circuit, we consolidated our Puerto Rican administrative support function into our corporate office in Los Angeles, California. This consolidation will allow us to reduce our annual general and administrative expense by approximately \$170,000.
- During 2002, we recognized cost savings due to the synergies generated by the consolidation of Reading Entertainment Inc., Craig Corporation and Citadel Holding Corporation, 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, and signed final loan documents. 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 began making quarterly repayments of AUS\$250,000 starting on July 1, 2003.
- On December 5, 2002, we made a final payment of \$1,000,000 on 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 Angelika Film Center and certain rights and interests with respect to the City Cinemas cinema chain.
- On November 29, 2002, we borrowed \$2,500,000 pursuant to a 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 a variable rate, 3.91% as of September 30, 2003, payable monthly in arrears. A significant portion of the proceeds were used to pay off the balance of the loan used to acquire the 1/6th interest in the Angelika Film Center described immediately above.
- 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, therefore, are no longer obligated to fund the Agricultural Partnerships' activities.

Table of Contents

- Commencing in February 2002, in consideration of the release of our rights in the Murray Hill Cinema under the City Cinemas Operating Lease, we reduced our ongoing annual rental payment obligations under the City Cinemas Operating Lease by \$825,000. Also our obligation to fund, beginning in 2007, certain loans to SHC was 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 was 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;
- equity funding for several new developments in Australia and New Zealand amounting to approximately \$8,964,000.

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:

- to defer construction of projects currently slated for land presently owned by us;
- to take on joint venture partners with respect to such development projects; and/or
- to sell assets.

At the present time, included among the assets that are securing our AUS\$30,000,000 loan facility are our fifty-acre Burwood property, which we believe to have a present value of approximately AUS\$27,000,000, our four-acre Moonee Ponds property which we believe to have a present value of approximately AUS\$7,500,000 and our three-acre Newmarket property, which we believe to have a present value of approximately AUS\$5,500,000. In light of Australian operating losses incurred by us as we have entered into the Australian market, these assets could be liquidated without the payment of any income taxes.

We are currently in discussions with our banks in Australia with a view of increasing our current AUS\$30,000,000 loan facility to AUS\$40,000,000, achieving lower financing costs, obtaining capital repayment deferral and releasing the Burwood and Newmarket properties from the securitization pool. We can give no assurance that we will be successful in achieving any or all of these terms.

Litigation Costs and Expenses

We have over the past several years incurred significant levels of litigation cost and expense. In Australia, these costs and expenses have reflected the initial difficulties we encountered in breaking into the Australian film exhibition industry. Litigation with respect to this aspect of our business aggregated approximately \$30,000 and \$200,000 in 2002 and 2001, respectively and approximately \$325,000 prior to 2001. Fortunately, with the settlement of our anti-trust and trade practices litigation with AMP and Village in the first quarter of this year, and the recoupment of approximately \$518,000 in attorneys fees, we are optimistic that such litigation costs will not be recurring in Australia.

However, we continue to incur significant litigation expense as the result of other antitrust and trade practice litigation in which we are the plaintiff in the United States and Puerto Rico. In the United States we have sued all of the principal distributors of film (other than Warner Bros and Miramax), two of the three principal film exhibitors (Regal and Loews), and certain major shareholders of Regal and Loews seeking injunctive relief and damages incurred as a result of the refusal of these defendant distributors to provide top grossing film product to our Village East Cinema in Manhattan. Our results of operation for the 2003 Nine Months reflect legal expense of approximately \$738,000 related to that litigation. In addition, this litigation has resulted in lower admissions at certain of our other domestic cinemas, as Fox and Universal have refused to provide us with film in the United States as a consequence of our actions in bringing this litigation. That litigation is currently in the discovery state, and it is likely that legal expenses related with this case will continue to be significant during the remainder of this year, and through trial.

In Puerto Rico, we have sued the principal exhibitor of film in that country (representing over 81% of the screens and over 85% of the box office), and one of the largest shopping center landlords in the country. Litigation expense has not been as significant in recent periods, as the court has not yet ruled on a discovery and case management plan for that case.

While anti-trust litigation is expensive, we believe it is important in order to preserve the competitiveness of our cinemas in these markets, and to recover damages where, in our view, violations of applicable anti-trust and trade practice have damaged our business.

The final major component of litigation expense for 2003 relates to our action in Australia to collect on a promissory note. That action resulted in counter claims by the debtor, alleging various breaches on our part of a joint venture agreement related to our former investment in the Whitehorse Shopping Center, located in a suburb of Melbourne, Australia. We have to date invested approximately \$700,000 prosecuting this case and defending against these counterclaims. The case was anticipated to go to trial during the just completed third quarter, and as a result our numbers for that quarter reflect approximately \$260,000 in legal expense related to this case. The trial court judge elected to assign the case to mediation, and following mediation, the case was rescheduled for trial in mid-2004. At the completion of the mediation, the mediator advised us that, in his view, we should prevail in our collection action, and that the counter-claimant's claims against us should fail. The promissory note provides for the collection of costs of collection (including attorneys fees). While we are optimistic that we will prevail on the merits, the defendants have not made any settlement proposals and we will continue to incur legal expense with respect to this matter through trial, and potentially on appeal. We can not assure you that we will prevail in this matter. Furthermore, even if we are successful on the merits, no assurances can be given that the defendants will have assets sufficient to cover any resultant judgment in our favor.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of the Company's financial condition and results of operations and the most demanding in their calls on judgment. Although accounting for our core business of cinema and live 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.

These critical accounting policies are fully discussed in our 2002 Annual Report and you are advised to refer to that discussion.

Forward-Looking Statements

This quarterly report contains "forward-looking statements," as defined under the Private Securities Litigation Reform Act of 1995, 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;
- our ability to meet our cost reduction goals;
- the effects of inflation on our operations;
- earnings and sales growth; and
- certain litigation matters.

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;
- ability to obtain first-run films for our cinemas;
- quality and quantity of film releases;
- demand for retail space;
- fluctuations in foreign exchange rates and interest rates;
- global economic and political conditions;

Table of Contents

- unanticipated reductions in cash flow and difficulty in sales of assets;
- the finalization of new credit lines;
- other factors that cannot be identified at this time; and
- the inherent uncertainty that always surrounds any litigation issue.

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 3 – Quantitative and Qualitative Disclosure about Market Risk

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

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

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

At September 30, 2003, approximately 50% and 17% of our assets were invested in assets denominated in Australian dollars (Reading Australia) and New Zealand dollars (Reading New Zealand), respectively, including AUS\$8,641,000 and NZ\$3,987,000, respectively in cash and cash equivalents. 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 AUS\$9,135,000 and NZ\$2,729,000, respectively in cash and cash equivalents.

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 ETRC's in Australia and New Zealand whenever possible. As a result, the borrowings in local currencies have provided somewhat of a natural hedge against the foreign currency exchange exposure. Even so, approximately 65% and 33% 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 nine months ended September 30, 2003 and for the year ended December 31, 2002, we have recorded an unrealized foreign currency translation gain of approximately \$15,177,000 and \$7,786,000, respectively.

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

Item 3A – Quantitative and Qualitative Disclosure about Interest Risk

The majority of our Australian and New Zealand bank loans have variable rates and a change of approximately 1% in short-term interest rate would have resulted in the increase or decrease of approximately \$97,000 and \$387,000 increase or decrease in our interest expense for the three and nine months ended September 30, 2003, respectively.

During the second quarter of 2003, we renewed a loan agreement extending our AUS\$30,000,000 loan facility in Australia. The amended and restated loan agreement provides for a fixed interest rate on a portion of the total loan facility.

Item 4 – Controls and Procedures

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

The Company carried out an evaluation, as of the end of the quarterly period covered by this report, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Nothing has come to management's attention to indicate that there has been any change in the Company's internal controls that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – Other Information

Item 1 - Legal Proceedings

For a description of legal proceedings, please refer to Item 3 entitled Legal Proceedings contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Item 2 - Change in Securities

Not applicable.

Item 3 - Defaults upon Senior Securities

Not applicable.

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

None

Item 5 - Other Information

Not applicable.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

- | | |
|-------|--|
| 10.49 | Omnibus Agreement between Citadel Cinemas, Inc. and Sutton Hill Capital, LLC, dated October 22, 2003, filed herewith. |
| 10.50 | Pledge Agreement between Citadel Cinemas, Inc. and Sutton Hill Capital, LLC, dated October 22, 2003, filed herewith. |
| 10.51 | Guarantee of Lenders Obligation Under Standby Credit Agreement in favor of Sutton Hill Capital, LLC, dated October 22, 2003, filed herewith. |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, filed herewith. |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes - Oxley Act of 2002, filed herewith. |
| 32 | Certifications Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002, filed herewith. |

(b) Reports on Form 8-K

Report on Form 8-K, dated August 7, 2003, under Item 5. Other Events which included the Registrant's Press Release including financial information disclosure and discussion regarding the Company's operating results for the three months ended March 31, 2003.

Report on Form 8-K, dated August 14, 2003, under Item 5. Other Events which included the Registrant's Press Release including financial information disclosure and discussion regarding the Company's operating results for the three and six months ended June 30, 2003.

SIGNATURES

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

READING INTERNATIONAL, INC.

Date: November 14, 2003

By: /s/ James J. Cotter

James J. Cotter
Chief Executive Officer

Date: November 14, 2003

By: /s/ Andrzej Matyczynski

Andrzej Matyczynski
Chief Financial Officer

Omnibus Amendment Agreement

This omnibus amendment agreement (this "Agreement") is entered into as of this 22nd day of October, 2003, by and among Citadel Cinemas, Inc. ("Citadel"), Sutton Hill Capital LLC ("Sutton Capital"), Nationwide Theatres Corp ("Nationwide"), Sutton Hill Associates ("Sutton Associates"), and Reading International, Inc. ("Reading"), with reference to the following facts:

WHEREAS, Citadel and Sutton Capital are (i) the tenant and landlord, respectively, of the improvements located at 205 - 209 East 57th Street and 957 Third Avenue, New York, New York, consisting of a cinema and a Wendy's restaurant, and referred to herein as the "Sutton Cinema Property" and with respect to the "landlord" interest under the lease pertaining to the Wendy's restaurant (the "Wendy's Lease"), and (ii) the sub-tenant and sub-landlord of the land underlying the Sutton Cinema Property (the "Land" and collectively with the Sutton Cinema Property and the landlord interest in the Wendy's Lease, referred to herein as the "Sutton Property") owned by Nationwide, all under a master lease (the "Master Lease") between Citadel and Sutton Hill dated as of July 28, 2000 as amended and restated as of January 29, 2002 and (iii) the option holder and option grantor, respectively, of an option to acquire the Land under the Master Lease and a related option agreement dated as of July 28, 2000, as amended and restated as of January 29, 2003 (the "Fee Option Agreement");

WHEREAS, the Master Lease covers properties in addition to the Sutton Property and, together with the Fee Option Agreement grants an option on the part of Citadel to purchase the Sutton Property, which option can only be exercised in 2010 and can only be exercised in connection with the purchase by Citadel of all of the other properties covered by the Master Lease (the "Citadel Purchase Option");

WHEREAS, Reading is the parent of Citadel, and Reading and Sutton Capital are parties to a standby line of credit agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002 (the "Standby Credit Agreement") pursuant to which Reading has agreed to lend to Sutton Capital, commencing July 2007, \$18 million in order to provide liquidity to Sutton Capital (the principal amount of Reading's loan commitment under the Standby Credit Agreement, being referred to herein as the "Standby Credit Commitment");

WHEREAS, Reading, Sutton Capital and Nationwide are also parties to an intercreditor agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002 (the "Intercreditor Agreement") addressing the respective rights and obligations of Reading and Nationwide as creditors of Sutton Capital;

WHEREAS, Sutton Associates is the parent of Sutton Capital, and has entered into a pledge agreement dated as of July 28, 2000, as amended and restated as of January 29,

2002 (the "Sutton Pledge Agreement") securing various obligations of Sutton Capital to Reading under the Standby Credit Agreement and/or the Intercreditor Agreement;

WHEREAS, the parties would like to sell the Sutton Property to 205-209 57th Street Associates LLC, a third party (referred to herein collectively with its successors, assigns and/or title holding nominee as the "Buyer"); and

WHEREAS, the parties wish to provide to Citadel the full economic benefit of the sale of Sutton Property, as though Citadel had in fact exercised its Citadel Purchase Option with respect to the Sutton Property, but Citadel does not wish at this time to exercise its Citadel Purchase Option with respect to the remainder of the properties subject to its Citadel Purchase Option or to commit to exercise its Citadel Purchase Option in the future, and Sutton Capital does not wish to lose the benefit of its bargain that the Citadel Purchase Option be exercised on an all-or-none basis, and not on a basis that would allow Citadel to, in essence, pick and choose among the various assets subject to its Citadel Purchase Option;

WHEREAS, a portion of the purchase price to be paid by Buyer will be in the form of a promissory note and it is the intention of the parties that the principal amount of that promissory note will be lent to Sutton Capital under the Standby Credit Agreement on a date sooner than it would have otherwise been available to Sutton Capital or, in the event of a default by the Buyer, that the Sutton Property may be taken back by Sutton Capital and returned to the Master Lease, if alternative arrangements are not made for the funding of the Standby Credit Agreement, and the rights and obligations of the parties under the Master Lease and the Standby Credit Agreement shall be reinstated as provided herein;

NOW THEREFORE, in consideration of the above stated premises, and other good and valid consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

1. Sale of Sutton Property. Each of Citadel, Sutton Capital and Nationwide hereby agree to sell their respective interests in the Sutton Property to the Buyer with the intent that upon the completion of such sale transaction, Buyer will be the fee owner of the Sutton Property subject only to easements and interests of record, the lease with respect to the Wendy's Lease, and Citadel's rights under Citadel License (as defined below). Nationwide will sell its fee interest in the Land. Sutton Capital will sell its tenancy in the Land and its ownership interest in the Sutton Cinema Property and its landlord interest in the Wendy's Lease. Citadel will sell its sub-tenancy in the Land, its tenancy in the Sutton Cinema Property, its landlord interest in the Wendy's Lease and its rights under its Citadel Purchase Option. The consideration to be paid by the Buyer will be allocated \$5 million to Nationwide and Sutton Capital (to be further allocated between them as they may determine) and \$13 million to Citadel, and will be paid \$5 million in cash to Nationwide and Sutton Hill at the closing (to be allocated between them as they may determine), and \$13 million, in the form of a purchase money promissory

note (the "Purchase Money Note") secured by a first mortgage on the Sutton Property (the "Mortgage") and by certain guarantees and other security interests (such other guarantees and security interests being collectively referred to herein as the "Ancillary Security Documents") all to or for the benefit of Citadel. In addition, it is understood that Citadel has negotiated the right to retain a license to operate a cinema in the cinema portion of the Sutton Property (the "Cinema License"), and a right to purchase up to a 25% equity interest in the Buyer or in lieu thereof to receive a payment in the amount of \$650,000 (the "Citadel Reinvestment Option") and that in connection with such Citadel Reinvestment Option the Buyer has agreed to issue in favor of Citadel a second promissory note in the amount of \$650,000 (the "In Lieu Note") that will also be secured by the Mortgage. All costs and expenses of the selling group (including, without limitation, filing fees, title fees, and attorneys fees, will be shared 50% by Nationwide and Sutton Capital (to be further allocated between them as they may determine) and 50% by Citadel.

2. Amendment of Master Lease. The Master Lease will be amended, effective upon the sale of the Sutton Property, to eliminate the Sutton Cinema Property from the Master Lease and to reflect the receipt by Nationwide and Sutton Capital of \$5 million in consideration of their respective interests in the Sutton Property. This amendment will provide, in material part, as follows:
 - a. The rent payable under the Master Lease (the "Rent") will be reduced by \$429,080 annually (i.e. 8.5816% of \$5 million);
 - b. The "Acquisition Cost" (as defined in the Master Lease) will be reduced to \$33 million;
 - c. The rent adjustment provisions set forth in the definition of "Applicable Rent Amount" (as defined in the Master Lease) will be likewise adjusted to reflect a ratio of Standby Credit Commitment to Net Acquisition Cost of 13/28ths or 46.42%, where "Net Acquisition Cost" means Acquisition Cost of \$33 million less the previously paid "Option Fee" (as defined in the Master Lease) of \$5 million;
 - d. All references to the Sutton Property and or the right of Citadel to purchase the Sutton Property will be eliminated; and
 - e. To make such other conforming changes are needed to conform with the intentions of the parties as evidenced by this Agreement.
3. Amendment of Standby Credit Agreement. The Standby Credit Agreement will be amended, effective as of the sale of the Sutton Property, to reflect the receipt by Nationwide and Sutton Capital of \$5 million. This amendment will provide in material part as follows:

- a. The "Commitment" (as defined in the Standby Credit Agreement) will be reduced from \$18 million to \$13 million;
- b. The "Initial Drawdown Date" (as defined in the Standby Credit Agreement) will be moved forward to the earlier of the date on which Citadel is paid the full principal amount of the Purchase Money Note or that date ninety (90) days after Purchase Money Note is otherwise due and payable (by acceleration or otherwise); provided, that Citadel will retain the right to use up to \$5 million of such proceeds to fund (in whole or in part) its Citadel Reinvestment Option (the "Reinvestment Funds"). If Citadel uses such Reinvestment Funds to fund its Citadel Reinvestment Option, then the remainder of the Standby Line of Credit can be drawn down beginning on July 28, 2007 (the original Initial Drawdown Date);
- c. Section 2.2 will be modified to provide as follows: (i) in the event of a payment of principal of the Purchase Money Note, Sutton Capital shall be deemed to have given a Notice of Borrowing in the amount of such principal payment (less, if applicable, the Reinvestment Funds), Sutton Capital shall retain the amount of such principal payment as a draw down under the Standby Credit Agreement, and Reading shall be deemed to have funded the Standby Credit Agreement in the amount of such principal payment, and (ii) in the event that, as of the maturity of the Purchase Money Note (by acceleration or otherwise), there shall remain unpaid principal of the Purchase Money Note (other than the Reinvestment Funds), Sutton Capital shall be deemed to have given a Notice of Borrowing in the amount of such remaining unpaid principal on the date of such maturity, in which event, Citadel shall have the option of either (A) paying the balance of such funds (up to a maximum funding of \$13 million) in satisfaction of its funding obligations under the Standby Credit Agreement or (B) assigning to Sutton Capital (or causing Citadel to assign to Sutton Capital, as the case may be) the Purchase Money Note, the In Lieu Note (if not previously satisfied), (1) the Mortgage and the Ancillary Security Documents (the "Sutton Sales Proceeds") in accordance with paragraph 5, below, in which case the Initial Drawdown Date will be deferred until July 29, 2007.

A provision will be added authorizing Sutton Capital at any time prior to the funding of the Borrowing, to elect to defer borrowing under the Standby Line of Credit. In the event that (i) Sutton Capital elects to defer borrowing all or any portion of the amount of any actual or deemed Notice of Borrowing, notwithstanding (ii) Reading's tender for borrowing of the difference between \$13 million and the Reinvestment Funds (the

- - - - -
(1) The In Lieu Note may be paid prior to the maturity of the Purchase Money Note, in which case Citadel will not be required to deliver the In Lieu Note or any proceeds therefrom in order to perform under this alternative performance provision and the term "Sutton Sales Proceeds" will from such date be deemed not to include either the In Lieu Note or any payments with respect thereto.

"Available Funding") or Sutton Capital's possession of the Available Funding as "Pledgee" under the "Citadel Pledge Agreement" as hereinafter defined, Sutton Capital will be liable to Reading for the spread between rate paid by Citadel's bank on its cash deposits (currently 1%) and the Interest Rate (as such term is defined under the Standby Credit Agreement) on the Available Funding from the date of such tender or possession until drawdown by Sutton Capital.

- d. A provision will be added to the Standby Credit Agreement to the effect that in the event that Citadel fails to timely exercise its Citadel Purchase Option for any reason other than default by Sutton Capital of its obligations under the Master Lease, the Standby Credit Agreement and/or any of the "Related Documents" (as such term is defined in the Standby Credit Agreement), the principal amount of any loan outstanding under the Standby Credit Agreement will be immediately and automatically forgiven without the need for any other acts or actions by Reading or Sutton Capital; provided, however, that Sutton Capital will remain liable to Reading for any and all accrued but unpaid interest and/or any other amounts (other than principal) accrued and unpaid under the Standby Credit Agreement and/or any of the Related Documents. (2)
- e. The note previously executed and delivered by Sutton Capital in the form attached as Exhibit A to the Standby Credit Agreement shall be returned to Sutton Capital, and Sutton Capital shall execute and deliver to Reading a new note in the same form, subject to the following modifications: (i) the principal amount of such note shall be \$13,000,000, (ii) the note shall not be negotiable, and (iii) the note shall provide that repayment of the same is subject to the provisions of the Standby Credit Agreement;
- f. Section 4.1 of the Standby Credit Agreement will be modified to provide that the items identified in subparts (a), (b), (f), (g), (i), and (j) will be delivered to Reading upon, or within three business days following, the closing of the sale of the Sutton Property, and that the requirements of subparts (h) and (k) will be satisfied by the delivery of a Borrowers certificate to such effect, countersigned by Nationwide, and delivered by Borrower and Nationwide contemporaneously with the drawdown of the facility. The note identified in subpart (a) and the security agreement and pledge agreement identified in subpart (f) of Section 4.1. of the Standby Credit Agreement shall be modified to provide that they evidence and secure the obligation of Sutton Capital to repay only such portion of the

(2) The purpose of this debt forgiveness provision is to provide to Citadel the same benefits as it would have had if it had exercised its Citadel Purchase Option with respect to the Sutton Property exclusively, but to provide to Sutton Capital the benefit of its bargain that the Citadel Purchase Option be exercised on an all-or-nothing basis and not on a some but not others basis, in the event that ultimately, at the end of the term of the Citadel Purchase Option, Citadel does not elect to acquire the remainder of the properties then subject to the Master Lease.

Standby Credit Facility that has actually been funded and not repaid (or forgiven in accordance with paragraph 3(d), above).

- g. Section 7.3 of the Standby Credit Agreement will be modified to reduce the maximum indebtedness of the Borrower from \$29 million to \$24 million;
 - h. All references to Citadel's option to purchase the Sutton Property and/or to the Cotter/Forman Guaranty will be eliminated; and
 - i. To make such other conforming changes as may be needed to conform the Standby Credit Agreement and all of the "Related Documents" as such term is defined in the Standby Credit Agreement with the intentions of the parties as evidenced by this Agreement.
4. The Sutton Pledge Agreement. The Sutton Pledge Agreement will be amended effective as of the sale of the Sutton Property to conform with the changes made to the Master Lease, the Standby Credit Agreement, the Intercreditor Agreement and the Related Documents, and to otherwise conform to the intentions of the parties as evidenced by this Agreement.
5. Additional Agreements. It is acknowledged by the parties that there is a risk that the Buyer may default under the Purchase Money Note which may jeopardize Sutton Capital's ability to obtain acceleration of its drawdown under the Standby Credit Agreement. It is also acknowledged that, in the event that Citadel chooses to exercise its Citadel Reinvestment Option and to use the Reinvestment Funds to fund such exercise, Sutton Capital will be deferring until July 29, 2007 its right to otherwise receive, as drawdowns under the Standby Line of Credit, that portion of the proceeds from the Sutton Property used to so fund the Citadel Reinvestment Option. In order to address these risks, Citadel has agreed to guarantee the obligations of Reading under the Standby Credit Agreement (the "Citadel Guarantee"), and to pledge to Sutton Capital its interest in the Sutton Sales Proceeds and, should it choose to exercise its Citadel Reinvestment Option, its resultant interest in the Buyer (the "Reinvestment Interest"), in each case to secure its obligations under the Citadel Guarantee. (the "Citadel Pledge"). The items pledged pursuant to the Citadel Pledge are referred to herein as the "Collateral." In furtherance of the pledge, Citadel will (i) endorse and deliver the Purchase Money Note and the In Lieu Note, (3) (ii) assign and record the assignment of the Mortgage, and (iii) assign the Ancillary Security Documents, in each case to Sutton Capital. In the event that the Purchase Money Note is not paid upon maturity (whether by acceleration or otherwise), Reading shall have the option, on or before the Initial Drawdown Date (as modified by paragraph 3(b), above), to fund from other sources the remaining portion of the Standby Credit Commitment

- - - - -
(3) To the extent that Citadel elects to surrender the In Lieu Note for payment, Sutton Capital will promptly upon request release and reassign the same to Citadel, in which case the In Lieu Note will no longer be deemed to be included within the Sutton Sales Proceeds.

or to assign to Sutton Capital the entire ownership interest in the Sutton Sales Proceeds free and clear of all liens and other claims (other than the rights of Sutton Capital created by this Agreement and/or the "Pledgor Permitted Liens" as such term is defined in the Citadel Pledge Agreement). Only if Reading does neither on or before the Initial Drawdown Date, will Citadel be in default under the Citadel Guarantee for Reading's failure to fund the Notice of Borrowing deemed given upon maturity of the Purchase Money Note, and Sutton Capital may thereafter foreclose its security interest in the Collateral as provided in the Citadel Pledge Agreement. The obligations of Citadel and Sutton Capital under the Citadel Guarantee and under the Citadel Pledge are set out in the Citadel Guarantee Agreement and the Citadel Pledge Agreement attached as Attachments 1 and 2 to this agreement. Citadel's obligations under the Citadel Guarantee and the Citadel Pledge will dissolve and be of no further force or effect immediately upon the earlier of (i) the funding of the entirety of the Standby Credit Commitment and (ii) the surrender by Reading and/or Citadel of the Sutton Sale Proceeds (the "Termination Date").

6. Effect of Exercise of Rights. In the event that Citadel transfers its entire right, title and interest in the Sutton Sales Proceeds to Sutton Capital, or Sutton Capital acquires ownership of the Sutton Sales Proceeds through exercise of its rights under the Citadel Pledge Agreement, or otherwise, Sutton Capital agrees to foreclose on such Collateral as provided hereinbelow.

a. Sutton Capital will, in consultation and cooperation with Citadel, promptly move to foreclose the Mortgage and/or to enforce its rights under the Ancillary Security Documents, and at any mortgage sale will bid (unless otherwise agreed with Citadel) the full amount of the indebtedness secured by the Mortgage. In the event that the property is sold to a higher bidder, the proceeds will be applied as follows: (i) first, to pay the costs of collection and enforcement of the Mortgage, (ii) second, to accrued interest and late fees on the Purchase Money Note (which will be reimbursed to Citadel as a credit against payments of rent made under the Master Lease), (iii) third, to fund the full amount of the Standby Credit Commitment, and (iv) fourth, to pay principal and accrued interest and late fees on the In Lieu Note. (With respect to item (iii), above, Sutton Capital shall be deemed to have given a Notice of Borrowing as of the date on which it receives such sums in the amount thereof.) In the event that Sutton Capital obtains ownership of the Sutton Property, either through foreclosure, a deed in lieu of foreclosure or otherwise, then the Sutton Property (including without limitation the fee interest in the Sutton Property) will be added back to the Master Lease and to the Purchase Option, with no increase in rent or adjustment to the exercise price of the Purchase Option (such option to include the fee interest in the Sutton Property and to have an exercise price equal to \$33 million (or after credit of the \$5,000,000 option fee previously paid by Citadel to Sutton Capital, \$28,000,000));

- b. The Standby Loan Agreement will be modified so as to make the "Initial Drawdown Date" July 29, 2007 and so as to eliminate the changes made under Sections 3.b, 3.c, 3.d, 3.f, 3.h (to the extent it relates to the Citadel's option to purchase the Sutton Property), and 3.i (to the extent necessary to reflect the deletion of the foregoing provisions).

7. Miscellaneous Provisions.

- a. Interpretation: This Agreement is to be interpreted in a fair and evenhanded manner, with the attention of achieving the overall intentions of the parties and without reference to any rule of interpretation or construction putting responsibility for ambiguity or uncertainty upon the drafting party. Section headings are for the convenience of the parties only, and are not to be used as an aid to interpretation of this Agreement.
- b. Choice of Law: This Agreement shall be governed by and construed under the laws of the State of New York, as such laws are applicable to contracts between parties located in and to be fully performed within the State of New York.
- c. Counterpart Execution: This Agreement may be executed in any one or more counterparts.

IN WITNESS WHEREOF, this Agreement has been entered into as of the date first set forth above.

Citadel Cinemas, Inc.

By: /s/ S. Craig Tompkins

Its: Vice Chairman

Reading International, Inc.

By: /s/ S. Craig Tompkins

Its: Executive Vice President

Sutton Hill Capital, LLC.

By: /s/ James D. Vandever

Its: Manager

Sutton Hill Associates

By: /s/ Michael R. Forman

Its: Partner

Nationwide Theatres Corp.

By: /s/ James D. Vandever

Its: Vice President

ATTACHMENT 1

GUARANTEE OF LENDER'S OBLIGATIONS UNDER STANDBY CREDIT
AGREEMENT

GUARANTEE, dated as of October __, 2003 (this "Guarantee"), from CITADEL CINEMAS, INC, a Nevada corporation (the "Guarantor"), in favor of SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (the "Sutton Capital"), and its successors and assigns.

WHEREAS, the Guarantor wishes to induce the Sutton Capital to enter into a new amendment and restatement of a certain Operating Lease (as defined below) with the Guarantor and to enter into certain related transactions; and

WHEREAS, the Sutton Hill is unwilling to enter into the amendment and restatement of the Operating Lease and the related transactions unless the Guarantor enters into this Guarantee of the obligations of the Lender (as defined below) which is an Affiliate (as defined below) of the Guarantor to Sutton Capital under the Standby Credit Agreement (as defined below) and/or the Intercreditor Agreement (as defined below);

NOW, THEREFORE, in order to induce Sutton Capital to enter into the new amendment and restatement of the Operating Lease and the related transactions, the Guarantor hereby agrees as follows:

SECTION 1

DEFINED TERMS

RULES OF CONSTRUCTION

1.1 DEFINITIONS

As used in this Guarantee, capitalized terms defined in the preamble, Preliminary Statements and other Sections of this Guarantee shall have the meanings set forth therein, terms defined in Exhibit A shall have the meanings set forth therein, and capitalized terms used herein or in Exhibit A but not otherwise defined herein or in Exhibit A shall, except as otherwise provided in the Standby Credit Agreement, have the meanings set forth in the Standby Credit Agreement.

1.2 ACCOUNTING TERMS

All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles.

1.3 USE OF CERTAIN TERMS

Unless the context of this Guarantee requires otherwise, the plural includes the singular, the singular includes the plural, and "including" has the inclusive meaning of "including without

limitation." The words "hereof," "herein," "hereby," "hereunder," and other similar terms of this Guarantee refer to this Guarantee as a whole and not exclusively to any particular provision of this Guarantee. All pronouns and any variations thereof shall be deemed to refer to masculine, feminine, or neuter, singular or plural, as the identity of the Person or Persons may require.

1.4 HEADINGS AND REFERENCES

Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Guarantee. Unless otherwise provided, references to Articles, Sections, Schedules, and Exhibits shall be deemed references to Articles, Sections, Schedules, and Exhibits of this Guarantee. References to this Guarantee and any other Operative Document include this Guarantee and the other Operative Documents as the same may be modified, amended, restated or supplemented from time to time pursuant to the provisions hereof or thereof. A reference to any Law shall mean that Law as it may be amended, modified or supplemented from time to time, and any successor Law. A reference to a Person includes the successors and assigns of such Person, but such reference shall not increase, decrease or otherwise modify in any way the provisions in this Guarantee governing the assignment of rights and obligations under or the binding effect of any provision of this Guarantee.

SECTION 2

GUARANTEE

2.1 GUARANTEE

Subject to the terms and conditions in this Guarantee, the Guarantor absolutely, unconditionally and irrevocably guarantees to Sutton Capital that the Lender will duly and punctually perform, comply with, and observe all Obligations as and when required in accordance with the terms thereof and subject to the conditions thereof, in each case, without regard to whether such Obligation is direct or indirect, absolute or contingent, now or hereafter existing or owing, voluntary or involuntary, created or arising by contract, operation of Law or otherwise, all to the same extent, except as otherwise specifically provided herein, as if the Guarantor were the Lender under the Standby Credit Agreement and/or under the Intercreditor Agreement; provided, however, that the foregoing limitation imposing on the Guarantor obligations hereunder as if it were the Lender under the Standby Credit Agreement (except as herein set forth) and/or under the Intercreditor Agreement shall not limit obligations of the Guarantor hereunder to the extent the limitations (including termination, disavowal, rejection or reduction) of any such obligation of the Lender results from an Insolvency or Liquidation Proceeding, and in such event the Guarantor shall be liable in respect of obligations of the Lender pursuant to the Standby Credit Agreement and/or under the Intercreditor Agreement as if no such Insolvency or Liquidation Proceeding had been initiated.

2.2 GUARANTEE ABSOLUTE

Subject to the terms and conditions of the Guarantee, including without limitation Section 2.7, this Guarantee is an absolute, unlimited and continuing guaranty of performance and payment (and not of collection) of the Obligations. This Guarantee is in no way conditioned upon any attempt to collect from the Lender or upon any other event of contingency, and shall be binding upon and enforceable against the Guarantor without regard to the validity or enforceability of any Operative Document, or of any term thereof or obligation thereunder.

The obligations of the Guarantor set forth herein constitute full recourse obligations of the Guarantor enforceable against it to the full extent of all its assets and properties. Without limiting the foregoing, it is agreed and understood that repeated and successive demands may be made and recoveries may be had hereunder as and when, from time to time, the Lender shall be in default with respect to the Obligations under the terms of the Standby Credit Agreement and/or the Intercreditor Agreement and that, notwithstanding the recovery hereunder for or in respect of any given default with respect to the Obligations by the Lender under the Standby Credit Agreement and/or under the Intercreditor Agreement, this Guarantee shall remain in full force and effect said shall apply to each and every subsequent default with respect to the Obligations; but the foregoing shall not limit rights and remedies under the Standby Credit Agreement, the Intercreditor Agreement, or the Obligations hereunder.

2.3 REINSTATEMENT

In case any Operative Document or obligation thereunder shall be terminated as a result of the rejection thereof by any trustee, receiver or liquidating agent of the Lender or any of its properties in any Insolvency or Liquidation Proceeding, the Guarantor's obligations hereunder shall continue to the same extent as if such agreement had not been so rejected. The Guarantor agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time payment to Sutton Capital of the Obligations or any part thereof is rescinded or must otherwise be returned by Sutton Capital upon the Insolvency or Liquidation Proceeding, as though such payment to Sutton Capital had not been made.

2.4 ENFORCEMENT

The Guarantor shall pay all costs, expenses and damages incurred (including reasonable attorneys' fees and disbursements) in connection with the enforcement of the obligations to the extent that such costs, expenses and damages are not paid by the Lender, said in connection with the enforcement of the obligations of the Guarantor under this Guarantee.

2.5 RIGHTS OF SETOFF, ETC.

The obligations of the Guarantor hereunder shall be subject to the same counterclaims, setoffs, deductions and defenses as would be available to the Guarantor if the Guarantor were the Lender under the Standby Credit Agreement, and/or the Intercreditor Agreement. Except as provided in the immediately preceding sentence, the obligations of the Guarantor hereunder shall not be subject to any counterclaims, setoffs, deductions or defenses (other than payment, performance or affirmative discharge, release or termination of this Guarantee by Sutton Capital) that the Guarantor may have against the Lender 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 Guarantor shall have any knowledge or notice thereof) whatsoever which might constitute a legal or equitable discharge or defense (except as provided in Section 4.1(b)) including (a) the amending, modifying, supplementing or terminating (by operation of law or otherwise), expressly or impliedly, of any Operative Document, or any other instrument applicable to the Lender or to its Obligations, or any part thereof; (b) any failure on the part of the Lender to perform or comply with any term of any Operative Document or any failure of any other Person (other than Sutton Capital and its Affiliates, to the extent such failure constitutes a defense to performance by the lender under the Standby Credit Agreement of its obligations thereunder) to perform or comply with any term of any Operative Document; (c) any waiver, consent, change, extension, indulgence or other action or any action or inaction under or in respect of any Operative Document or this Guarantee (except for any written waiver or modification of the provisions of this Guarantee signed by the parties hereto), whether or not Sutton Capital, the Lender or the Guarantor has notice or knowledge of any of the foregoing; (d) any Insolvency or Liquidation Proceeding or any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding with respect to the Guarantor or its properties, or any action taken by any trustee or receiver or by any court in any such proceeding; (e) any furnishing or acceptance of additional or substitute security or any release (whether for valuable consideration or otherwise) of any security (and the Guarantor authorizes Sutton Capital to furnish, accept or release said security); (f) any limitation on the liability or Obligations of the Lender under any Operative Document (except as expressly set forth therein) or any termination (by operation of law or otherwise), cancellation (by operation of law or otherwise), frustration or unenforceability, in whole or in part, of any Operative Document, or any term thereof or Obligation thereunder, except to the extent my such limitation, termination, cancellation, frustration or unenforceability arises in favor of the Lender thereunder based on circumstances, conditions or events which would have limited, terminated, cancelled, frustrated or rendered unenforceable the obligations of the Guarantor, if the Guarantor had been the lender under the Standby Credit Agreement; (g) any lien, charge or encumbrance on or affecting the Guarantor's or the Lender's respective assets and properties; (h) any act, omission or breach on the part of Sutton Capital or any Assignee under any Operative Document, or my other agreement at any time existing between Sutton Capital and the Lender or any other Law or other agreement applicable to Sutton Capital or any Obligation, except to the extent such act, omission or breach would have resulted in the limitation or termination of any liability of the Guarantor if the Guarantor had been the Lender under the Standby Credit Agreement and/or the Intercreditor Agreement; (i) any claim as a result of any other dealings among Sutton Capital and the Guarantor, except to the extent such act, omission or breach would have resulted in the limitation or termination of any liability of the Guarantor if the Guarantor had been the Lender under the Standby Credit Agreement and/or the Intercreditor Agreement; (j) the assignment or transfer of this Guarantee, any Operative Document (in accordance with and subject to the terms thereof) or any other agreement or instrument referred to in any Operative Document or applicable to the Lender or the Obligations by Sutton Capital to any other Person; (k) any change in the name of Sutton Capital, the Lender or my other Person referred to herein; (l) any merger or consolidation of the Lender or the Guarantor into or with any other Person or any sale, lease or transfer of any other assets of the Lender or the Guarantor to any other Person, whether or not permitted pursuant to the terms of the Operative Documents; (m) the availability to Sutton Capital of claims against other parties

with respect to the Obligations (whether or not such parties are then solvent) or the release of any or all of such claims (whether for valuable consideration or otherwise); or (n) any change in the ownership of any shares of capital stock of or other evidences of equity interests in the Guarantor or the Lender (including any such change which results in the Lender no longer owning capital stock of, or any such interests in, the Guarantor), whether or not permitted pursuant to the terms of the Operative Documents; provided, however, that, notwithstanding the foregoing, this Guarantee shall not constitute a waiver or release by the Lender or the Guarantor of any claim of the Lender or the Guarantor which may be asserted against Sutton Capital or any other party in a separate action or proceeding, or if required by applicable Law as a compulsory counterclaim in such action.

2.6 WAIVER

The Guarantor unconditionally waives: (a) notice of any of the matters referred to in Section 2.5 hereof; (b) all notices which may be required by statute, rule of law or otherwise to preserve any rights against the Guarantor hereunder, including notice of the acceptance of this Guarantee by Sutton Capital, or the creation, renewal, extension, modification or accrual of the Obligations or notice of any other matters relating thereto, any presentment, demand, notice of dishonor, protest or nonpayment of any damages or other amounts payable under any Operative Document; (c) any requirement for the enforcement, assertion or exercise of any right, remedy, power or privilege under or in respect of any Operative Document, including diligence in collection or protection of or realization upon the 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 Operative Document, except that this shall not relieve Sutton Capital of any such obligation if and to the extent required by the terms of the Operative Documents or required by Law; (f) the occurrence of every other condition precedent to which the Guarantor or the Lender may otherwise be entitled, except as provided in any Operative Document; and (g) the right to require Sutton Capital to proceed against the Lender or any other Person liable on the Obligations, to proceed against or exhaust security held from the Lender or any other Person, or to pursue any other remedy in Sutton Capital's power whatsoever, and the Guarantor waives the right to have the property of the Lender first applied to the discharge of the Obligations.

Sutton Capital may, at its election, exercise any right or remedy it might have against the Lender or any security held by Sutton Capital, 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 Guarantor hereunder, except to the extent the Obligations have been indefeasibly paid or satisfied, and the Guarantor waives 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 Guarantor against the Lender or any such security, whether resulting from such election by Sutton Capital or otherwise. Except to the extent provided in the first sentence of Section 2.5 hereof, the Guarantor waives any defense arising by reason of any disability or other defense of the Lender (which may nevertheless be asserted in a separate action or proceeding against Sutton Capital or any other party), or by reason of the cessation of the liability, either in whole or in part, of the Lender to the Obligations (other than as a result of payment, performance or affirmative discharge, release or termination of this Guarantee by Sutton Capital).

2.7 LIMITATIONS ON AMOUNT AND DURATION OF THIS GUARANTEE

Notwithstanding anything herein to the contrary, the Guarantor's total obligations and liabilities of any nature under this Guarantee shall in no event exceed thirteen million dollars (\$13,000,000) in the aggregate. All obligations and liabilities of any nature under this Guarantee shall terminate as of the Termination Date.

2.8 PLEDGE AGREEMENT

This Guarantee is secured by a Pledge Agreement entered into on the date hereof by Guarantor as pledgor and Sutton Capital as pledgee.

SECTION 3

REPRESENTATIONS & WARRANTIES

The Guarantor represents and warrants to Sutton Capital that the following statements are true and correct in all material respects:

3.1 CORPORATE EXISTENCE; COMPLIANCE WITH LAW.

The Guarantor (a) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Nevada, and (b) has full power, authority and legal right to own and operate its properties and to conduct its business as presently conducted.

3.2 OWNERSHIP OF GUARANTOR

All of the Guarantor's common stock is owned beneficially and of record by the Lender or a Subsidiary of Lender.

SECTION 4

MISCELLANEOUS

4.1 PARTIES.

(a) This Guarantee shall inure to the benefit of Sutton Capital and its successors, assigns or transferees, and shall be binding upon the Guarantor and its successors and assigns. Except as provided in Section 4.1(b), the Guarantor may not delegate any of its duties under this Guarantee without the prior written consent of Sutton Capital. Upon notice to the Guarantor, Sutton Capital and its successors, assigns and transferees may assign its or their rights and benefits under this Guarantee to (i) any financial institutions providing financing to Sutton Capital in connection with the Property or Equipment or any trustee for such financial institutions, and (ii) any purchaser or transferee of all or a substantial portion of the rights and

interests of Sutton Capital and its successors, assigns or transferees in and to the Theatre Properties and Equipment.

(b) If in connection with a Business Sale (i) either (A) the Lender shall assign to any Person the Lender's obligations under the Standby Credit Agreement or (B) the Lender shall transfer the capital stock of the Guarantor to any Person which is not an Affiliate of the Lender (whether by transfer of the stock of the Guarantor or any Subsidiary of the Lender which owns such stock, by merger of the Lender or any such Subsidiary of the Lender, or otherwise), and (ii) a Suitable Replacement either assumes the Lender's obligations under the Standby Credit Agreement or executes and delivers to Sutton Capital a Guarantee substantially similar to this Guarantee (subject to such modifications as may be reasonably acceptable to Sutton Capital), this Guarantee shall be terminated and the Guarantor shall have no further liability hereunder with respect to Obligations thereafter arising.

4.2 NOTICES.

All notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder 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 through the 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 clauses (a), (b) or (c) of this Section 4.2. 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 Sutton Capital:

Sutton Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Ira Levin
Telecopier: (310) 855-8416

If to the Guarantor:

Citadel Cinemas, Inc.
c/o Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, California 90071

4.3 REMEDIES.

The Guarantor stipulates that the remedies at law in respect of any default or threatened default by the Guarantor in the performance of or compliance with any of the terms of this Guarantee are not and will not be adequate, and that any of such terms may be specifically enforced by a decree for specific performance or by an injunction against violation of any such terms or otherwise, in each case to the same extent as if the Guarantor were the Lender under the Standby Credit Agreement and/or the Intercreditor Agreement subject to the proviso in Section 2.1 hereof.

4.4 RIGHT TO DEAL WITH THE LENDER.

At any time and from time to time, without terminating, affecting or impairing the validity of this Guarantee or the obligations of the Guarantor hereunder, Sutton Capital may deal with the Lender in the same manner and as fully and as if this Guarantee did not exist and shall be entitled, among other things, to grant the Lender, without notice or demand and without affecting the Guarantor's liability hereunder, such extension or extensions of time to perform, renew, compromise, accelerate or otherwise change the time for performance of or otherwise change the terms of performance or any part thereof contained in or arising under any Operative Document, or to waive any Obligation of the Lender to perform any act or acts as Sutton Capital may deem advisable.

4.5 SUBROGATION.

The Guarantor will not exercise any rights which it may acquire by way of subrogation hereunder, by any payment made hereunder or otherwise, until the Termination Date. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time prior to the Termination Date, such amount shall be held in trust for the benefit of Sutton Capital and shall forthwith be credited and applied upon the Obligations, whether matured or unmatured, in accordance with the terms of the Operative Documents. If (a) the Guarantor shall make payment to Sutton Capital or any successor, assignee or transferee of Sutton Capital of all or any part of the Obligations and (b) the Termination Date occurs, Sutton Capital or any such successor, assignee or transferee of Sutton Capital will, at the Guarantor's request and expense, execute and deliver to the Guarantor appropriate documents necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

4.6 SURVIVAL OF REPRESENTATIONS, WARRANTIES, ETC.

All representations, warranties, 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 Sutton Capital and shall continue in full force and effect until the Termination Date.

4.7 GOVERNING LAW.

THIS GUARANTEE HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE GUARANTOR AND SUTTON CAPITAL AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAWS OF THE STATE OF NEW YORK, THIS GUARANTEE, AND THE RIGHTS AND DUTIES OF THE GUARANTOR AND SUTTON CAPITAL HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 51401 AND 51402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

4.8 CONSENT TO JURISDICTION.

THE GUARANTOR HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTIES, 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 GUARANTEE, AND TO THE EXTENT PRMITTED BY APPLICABLE LAW, THE 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 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 GUARANTEE OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE SUTTON CAPITAL OR ANY ASSIGNEE FROM OBTAINING JURISDICTION OVER THE GUARANTOR IN ANY COURT OTHERWISE HAVING JURISDICTION.

4.9 WAIVER OF JURY TRIAL.

TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE 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. THE 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 GUARANTEE OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

THE GUARANTOR AND SUTTON CAPITAL EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM RELATED TO THIS GUARANTEE. THE GUARANTOR AND SUTTON CAPITAL ACKNOWLEDGE THAT THE PROVISIONS OF SECTIONS 4.7, 4.8 AND 4.9 HAVE

BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

4.10 SEVERABILITY.

If any term of this Guarantee or any application thereof shall be invalid or unenforceable, the remainder of this Guarantee and any other application of such term shall not be affected thereby. Any term of this Guarantee may be amended, modified, waived, discharged or terminated only by an instrument in writing signed by the Guarantor and Sutton Capital.

4.11 COUNTERPARTS.

This Guarantee may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

4.12 NO WAIVER.

No delay on the part of Sutton Capital in exercising any power or right hereunder or under any Operative Document 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 Sutton Capital 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 Sutton Capital may or will otherwise have. The Guarantor hereby agrees and acknowledges that to the extent in any instance claims under this Guarantee consist of claims for the payment of money only, Sutton Capital, at its sole option, shall have the right to bring a motion or proceeding under New York State Civil Practice Law and Rules Section 3213.

4.13 LIMITATIONS.

In no event shall the Guarantor have any liability to Sutton Capital 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).

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Guarantee to be executed and delivered as of the day and year first above written.

GUARANTOR

CITADEL CINEMAS, INC.

By: _____
Name: _____
Title: _____

Acknowledged and Agreed:

SUTTON CAPITAL

SUTTON HILL CAPITAL, L.L.C.

By: _____
Name: _____
Title: _____

EXHIBIT A

DEFINED TERMS

"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) Sutton Capital and its Affiliates (the "Sutton Capital's Affiliates") shall not include the Guarantor and Lender and its Subsidiaries; and (b) the Guarantor and Lender and its Subsidiaries (including the Guarantor), on the one hand, and Sutton Capital and Sutton Capital's Affiliates, on the other hand, shall not be considered Affiliates of each other.

"Business Sale" has the meaning set forth in the Operating Lease.

"Insolvency or Liquidation Proceeding" means:

(a) The entry of a decree or order for relief in respect of the Lender 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 Lender 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 Lender 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 the Lender 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 Lender 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.

"Intercreditor Agreement" means the Amended and Restated Intercreditor Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 as further amended and restated as of even date herewith between Sutton Hill Capital, Reading International, Inc. and Nationwide Theatres Corp., as the same may be amended, restated, modified, or supplemented from time to time.

"Law" shall mean any law (including, without limitation, any environmental Law), treaty, statute, rule, regulation, ordinance, order, directive, code, interpretation, judgment, decree, injunction, writ, determination, award, permit, license, authorization, direction, requirement or decision of or agreement with or by any governmental or governmental department, commission, board, court, authority, agency, official or officer having jurisdiction of the matter in question.

"Lender" means Reading International, Inc. in its capacity as Lender under the Standby Credit Agreement, and in its capacity as a party to the Intercreditor Agreement, and, in each case, its successors and assigns.

"Mortgage" means that certain first mortgage of even date herewith securing the Note.

"Note" means that certain purchase money promissory note of even date herewith between Purchaser as payor and Guarantor as payee.

"Obligations" means all obligations, covenants, and undertakings of Reading International, Inc. contained in the Operative Documents.

"Omnibus Agreement" means that certain Omnibus Amendment Agreement dated as of even date herewith by and among Lender, Guarantor, Sutton Capital, Sutton Hill Associates and Nationwide Theater Corp.

"Operating Lease" means the Amended and Restated Operating Lease Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 and as further amended and restated as of even date herewith between Sutton Hill Capital, L.L.C., as Lessor, and Citadel Cinemas, Inc., as Lessee, as the same may be amended, restated, modified or supplemented from time to time.

"Operative Documents" means the Standby Credit Agreement and each agreement, certificate or instrument delivered by the Lender pursuant to the terms of the Standby Credit Agreement, the Intercreditor Agreement and each agreement, certificate or instrument delivered by the Lender pursuant to the terms of the Intercreditor Agreement.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, limited liability company, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"Purchaser" means collectively 205-209 East 57th Street Associates, LLC, its successors and assigns, including any title holding nominee that it may designate to hold title to the Sutton Property (as such term is defined in the Omnibus Agreement).

"Standby Credit Agreement" means the Amended and Restated Standby Credit Agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002, as further amended and restated as of even date herewith between Sutton Hill Capital, L.L.C. as Borrower and Reading International, Inc. as Lender, as the same may be amended, restated, modified or supplemented from time to time.

"Subsidiary" of any Person means 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" has the meaning set forth in the Operating Lease.

"Termination Date" has the meaning set forth in the Omnibus Agreement.

Attachment 2

PLEDGE AGREEMENT

THE PLEDGE AGREEMENT, dated as of this ____ day of October, 2003 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into by and between CITADEL CINEMAS, INC, a Nevada corporation (the "Pledgor"), and SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (together with its permitted successors and assigns, the "Pledgee").

WITNESSETH:

WHEREAS, the Pledgor wishes to induce the Pledgee to enter into a new amendment and restatement of a certain Master Lease (as defined below) with the Pledgor and to enter into certain related transactions, including the transfer of its interest in the Sutton Property, as hereinbelow defined; and

WHEREAS, the Pledgee is unwilling to enter into the amendment and restatement of the Master Lease and the related transactions unless the Pledgor enters into a Guarantee (as defined below) and enters into this Agreement to secure Pledgor's obligations under the Guarantee;

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 Standby Credit Agreement (as defined below) and used herein are so used as so defined, and the following terms shall have the following meanings:

"Ancillary Security Documents" shall mean all such further documentation, including, without limitation, any guarantees, guaranteeing the performance by the Purchaser of its obligations under the Notes and/or the Mortgage and any security agreements securing the performance of the guarantor under any one or more such guarantees.

"Citadel Reinvestment Option" means Citadel's right under the Purchase and Sale Agreement to acquire an equity interest in 205-209 East 57th Street Associates, LLC (referred to herein collectively with a title holding nominee that it may designate to hold title to the Sutton Property, as the "Purchaser").

"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.

"Credit Bid Amount" shall mean the aggregate amount of (i) the outstanding principal balance of the Notes, (ii) all accrued and unpaid interest and late fees due under the Notes, (iii) all costs incurred by Pledgee in connection with the collection and enforcement of the Notes and the Mortgage and Ancillary Security Documents, together with any sums advanced by the Pledgee to protect the security of the Mortgage and/or any one or more of the Ancillary Security Documents, (iv) all amounts advanced by the Pledgor to protect the security of the Mortgage and/or any one or more of the Ancillary Security Documents, and (v) all costs incurred by Pledgor in connection with the exercise of the secured party's rights under the Ancillary Security Documents.

"Event of Default" shall mean the occurrence of any of the following events: (1) an Event of Default (as defined in the Standby Credit Agreement), (2) a default on the part of Pledgor under the Guarantee, or (3) 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 under clauses (2) or (3) 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.

"Guarantee" shall mean the Guarantee from Pledgor to Pledgee entered into as of the date hereof of the obligations of Reading International, Inc., as lender under a certain Standby Credit Agreement to Pledgee as borrower and/or as a party to the Intercreditor Agreement ("Lender").

"In Lieu Note" shall mean that certain promissory note of even date herewith in the amount of \$650,000, issued by the Purchaser to Pledgor and secured by the Mortgage.

"Intercreditor Agreement" shall mean that certain amended and restated intercreditor agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002 and as of even date herewith by and among Reading International, Inc., Nationwide Theatres, Inc. and Pledgee, as the same may be amended, modified and supplemented from time to time.

"Master Lease" shall mean the Master Lease Agreement between Pledgee, as lessor, and Pledgor, as lessee, dated as of July 28, 2000, as amended and restated as of January 29, 2002 and as of even date herewith, as the same may be 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).

"Mortgage" shall mean that certain first mortgage of even date herewith securing the Notes.

"Notes" shall mean, collectively and without differentiation, the Purchase Money Promissory Note and the In Lieu Note.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of the Pledgor to the Pledgee from time to time outstanding under the Operative Documents, 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 Operative Documents.

"Omnibus Amendment Agreement" shall mean that certain agreement dated as of even date herewith by and among Pledgee, Pledgor, Lender, Sutton Hill Associates (the parent of Sutton Capital), and Nationwide Theaters Corp.

"Operative Documents" shall mean the Guarantee and any documents securing the performance of the Guarantee.

"Pledgor Permitted Liens" shall mean (i) any rights held by the Purchaser to offset against its obligation under the Purchase Money Note the exercise price in the event that Pledgor elects to exercise the Citadel Reinvestment Option and (ii) any liens placed upon or any claims made against the Collateral, or any part or portion thereof, to the extent that such liens or claims are approved by the Pledgee and/or the result of the acts or omissions of the Pledgee.

"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 interest and principal payments under the Notes, subject to the provisions of Sections 4(e) and 7.

"Purchase Money Promissory Note" shall mean that certain purchase money promissory note of even date herewith in the amount of \$13,000,000 issued by the Purchaser to Pledgor and secured by the Mortgage.

"Purchase and Sale Agreement" means that certain purchase and sale agreement dated of even date herewith between Pledgor and Purchaser, pertaining to the sale of that certain real and personal property located at 205-209 East 57th Street and 957 Third Avenue, New York, New York, commonly known as the "Sutton Cinema" and the associated Wendy's restaurant.

"Standby Credit Agreement" shall mean the Amended and Restated Standby Credit Agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002, and as of even date herewith between Pledgee as borrower and Reading International, Inc. as lender, as the same may be amended, modified and supplemented from time to time.

"Sutton Property" means the real and personal property subject to the Purchase and Sale Agreement.

"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.

"Termination Date" has the meaning set forth in the Omnibus Agreement.

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 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) the Notes;
- b) the Mortgage;
- c) the Ancillary Security Documents; and

d) all Proceeds of any and all of the foregoing (including, without limitation, (i) all proceeds from and payments on the Notes, (ii) all benefits and proceeds of and from any related policy of title insurance and hazard insurance, (iii) all benefits and proceeds of and from any condemnation proceedings concerning the Sutton Property, (iv) all rights and benefits in and under the Notes, the Mortgage and the Ancillary Security Documents, which the Pledgor now has or may at anytime hereafter have, and (v) the Sutton Property, to the extent that Pledgee or Pledgor exercises their respective rights under the Notes, Mortgage and/or any one or more of the Ancillary Security Documents (and/or accepts a deed in lieu of foreclosure) and acquires title to such property..

This Agreement shall create a continuing security interest in the Collateral which shall remain in effect until the Termination Date.

SECTION 3. Certain Covenants Of Pledgor. Concurrently with the closing of the transaction governed by the Purchase and Sale Agreement, Pledgor shall do each of the following:

- a) execute and deliver to Pledgee an Assignment of the Mortgage in the form attached hereto as Exhibit "A" (the "Assignment");
- b) deliver to Pledgee the original of the Notes, endorsed in blank;
- c) deliver to the Pledgee the original of the Ancillary Security Documents, endorsed in such form as may be reasonably required by the Pledgee in order to perfect its security interest in such Ancillary Security Documents and/or to facilitate the exercise by the Pledgee of its rights under this Agreement;
- d) notify the maker/mortgagee under the Notes and the Mortgage (the "Obligor") in writing of this Agreement with instructions that all payments under or pursuant to the Note are to be made directly to Pledgee at Pledgee's address set forth in Section 9, below;
- e) procure an ALTA lender's policy of title insurance with form 100 endorsement insuring Pledgor in the amount of the principal balance of the Notes that the Mortgage is a valid lien and charge on the Sutton Property, subject only to title matters approved in writing by Pledgee (the "Title Policy) and deliver the original of such policy, together with an endorsement insuring Pledgee (such endorsement to be acquired at Pledgee's cost) that, by valid assignment, the mortgagee's interest in the Mortgage has been assigned to Pledgee; and
- f) provide Pledgee with such other documentation and information as Pledgee may reasonably request.

SECTION 4. Further Assurances; Affirmative Covenants.

The Pledgor covenants and agrees that, from and after the date of this Agreement until the Termination Date:

- 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, Pledgor Permitted Liens, Liens for Taxes and governmental charges and levies which are not delinquent, which are being contested by or on behalf of the Pledgor or which are the obligation of Pledgee or any of its Affiliates to pay pursuant to any agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Pledgee or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any 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 or pursuant to the terms of this Agreement.

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 any such persons who are making such claims in their capacity as claimants against and/or creditors of the Pledgee.

e) Notwithstanding anything in this Pledge Agreement to the contrary, at the election of Pledgor, up to five million dollars (\$5,000,000) of the Proceeds of the Purchase Money Promissory Note and/or the Mortgage shall be used to fund the exercise price of the Citadel Reinvestment Option and in such event shall be released as Collateral automatically. Pledgee will execute and deliver proper instruments acknowledging such release and authorizes Pledgor to file amendments to any financing statements reflecting such release. In the event of any such release, the equity interest acquired by the Pledgor will be treated as proceeds from the Collateral, and any certificate or documentation evidencing Pledgor's interest in the Purchaser will be promptly delivered to Pledgee, together with such stock powers or transfer documents, executed in blank, as the Pledgee may reasonably request in order to perfect and/or to facilitate the enforcement of the security interest granted to it by this Agreement.

f) Pledgee will be responsible for all transfer and filing fees and taxes, if any, related to the granting and perfection of the security interests granted by this Agreement.

SECTION 5. Pledgee's Right to Assign Collateral in Lieu of Performance. In the event that the Lender is in breach of its obligations under the Standby Line of Credit, Pledgor shall have the option, exercisable within five (5) business days to assign to Pledgee its entire ownership interest in the Purchase Money Promissory Note (and, if not previously satisfied as contemplated by Section 7, below, in the In Lieu Note), the Mortgage and the Ancillary Security Documents free and clear of all liens and other claims (other than the rights of Sutton Capital created by this Agreement and/or any Pledgor Permitted Lien). If Pledgor does so in a timely manner, then Pledgor shall be relieved of further obligations accruing under the Guarantee and this Agreement.

SECTION 6. Remedies.

(a) Upon the occurrence of an Event of Default, 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; provided however that in any private or public sale, the Pledgee agrees to make a bid in the amount of the Credit Bid Amount. 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 therefore, 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 and/or the Pledgor in connection therewith (provided that the reimbursement of Pledgee's costs and expenses shall take priority over the reimbursement of the Pledgor's costs and expenses);

ii. SECOND, to the Pledgor in an amount equal to any and all interest and late fees accrued under the Purchase Money Promissory Note;

iii. THIRD, to fund the obligations of the Lender under the Standby Credit Facility; 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.

The amount distributed to Pledgee pursuant to item (iii), above, shall constitute a Loan made by the Lender under, and pursuant to, the Standby Credit Agreement.

(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.

(e) In the event that Pledgee becomes the owner of the Purchase Money Promissory Note (and, if not previously satisfied as contemplated by Section 7, below, the In Lieu Note), the Mortgage and the Ancillary Security Documents following a private sale or otherwise, and provided that Pledgor reimburses Pledgee all of the costs and expenses incurred by Pledgee in conducting such private sale, Pledgee agrees to use reasonable good faith efforts thereafter to initiate and pursue, in consultation and cooperation with Pledgor, foreclosure proceedings pursuant to the terms of the Mortgage. At the foreclosure, Pledgee shall make a credit bid in the amount of the Credit Bid Amount. Pledgee also agrees to use reasonable good faith efforts, again in consultation and cooperation with Pledgor, to exercise its rights under the Ancillary Security Documents, provided that Pledgor shall be responsible for advancing the costs thereof, which costs shall, to the extent permitted by the Notes, the Mortgage and/or the Ancillary

Security Documents, be added to the indebtedness evidenced or secured thereby. After such foreclosure, Pledgee agrees to take the following actions:

i) If Pledgee's bid is the high bid at the foreclosure sale (or, alternatively, if Pledgee elects, in Pledgee's sole and absolute discretion, but with Pledgor's consent, such consent not to be unreasonably withheld or delayed, accepts a deed to the Sutton Property in lieu of foreclosure), the Master Lease shall be deemed to have been automatically amended to restore the Sutton Property to the Master Lease as provided in the Omnibus Agreement.

ii) If Pledgee is not the successful bidder, Pledgee shall disburse the proceeds from the foreclosure as follows: (A) first, to Pledgee in an amount equal to the costs incurred by Pledgee in connection with the collection and enforcement of the Notes, the Mortgage and/or the Ancillary Security Documents, together with any sums advanced by Pledgee to protect the security of the Mortgage, (B) second, to Pledgor in an amount equal to the costs incurred by Pledgor in connection with the collection and enforcement of the Notes, the Mortgage and/or the Ancillary Security Documents, together with any sums advanced by Pledgor to protect the security of the Mortgage, (C) third, to Pledgor in an amount equal to the accrued interest and/or late fees on the Purchase Money Note, (D) fourth, to Pledgee in an amount equal to the unpaid principal under the Purchase Money Note, and (E) fifth, to Pledgor in an amount equal to the unpaid principal and interest under the In Lieu Note. The amount distributed to Pledgee pursuant to item (D), above, shall constitute a Loan made by the Lender under, and pursuant to, the Standby Credit Agreement.

Except as expressly set forth above, Pledgee shall have no obligation to take any action with respect to the Notes, the Mortgage or the Ancillary Security Documents and shall incur no liability for any failure to take any such action.

SECTION 7. Payments under Notes and Mortgage. Pledgee shall receive all payments made by the maker of the Notes as additional collateral under this Agreement, subject to the following:

a) Provided Pledgor is not in default under the terms of the Guaranty, Pledgee will, upon the request of Pledgor in the form of a declaration that it intends to promptly surrender such In Lieu Note to the maker thereof for payment, promptly release and reassign to the Pledgor the In Lieu Promissory Note so that the same may be so tendered for payment by the Pledgee, and any payments of interest on the Purchase Money Note and any payment of interest, late fees and/or principal on the In Lieu Note shall be remitted to Pledgor promptly following receipt by Pledgee and will not be treated as Proceeds or Collateral under this Agreement;

b) Payments in reimbursement for sums advanced by Pledgor or Pledgee to protect the security of the Mortgage, shall be remitted to, or retained by, the party who advanced such sums, as appropriate, it being understood that the first dollars paid by the maker of the Purchase Money Note shall, in the event of advances made by both Pledgor and Pledgee shall be in reimbursement of the amounts advanced by Pledgee; and

c) Payments of principal on the Purchase Money Note may, in the Pledgee's discretion, be retained by Pledgee as Proceeds for purposes of securing the obligation of the Lender to make advances under the Standby Credit Agreement.

SECTION 8. Pledgee Appointed Attorney-in-Fact.

Upon the occurrence and during the continuance of an Event of Default which is not waived by the Pledgee, 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, 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 9. Pledgee May Perform. If the Pledgor fails to perform any agreement, 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 9 shall be added to the Obligations and secured by the Collateral.

SECTION 10. 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 and the Pledgee, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

SECTION 11. 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 Termination Date, (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 12. Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any Operative 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 12. All notices shall be effective upon delivery to 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:
Citadel Cinemas, Inc.
c/o 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
4.14 LOS ANGELES, CA 90071

Telecopier No. (213) 235-2229

(b) If to the Pledgee:
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:

4.14.1.1.1. 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 13. 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 14. 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 15. 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 16. 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 17. 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 18. 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 19. 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 20. Termination. Upon the Termination Date, 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. Pledgee authorizes Pledgor to file termination statements in connection with such termination.

SECTION 21. Limited Recourse. 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 Master Lease 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:

CITADEL CINEMAS, INC.

By: _____
Name:
Title:

PLEDGEE:

SUTTON HILL CAPITAL, L.L.C.

By: _____
Name:
Title:

PLEDGE AGREEMENT

THE PLEDGE AGREEMENT, dated as of this 22nd day of October, 2003 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into by and between CITADEL CINEMAS, INC, a Nevada corporation (the "Pledgor"), and SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (together with its permitted successors and assigns, the "Pledgee").

WITNESSETH:

WHEREAS, the Pledgor wishes to induce the Pledgee to enter into a new amendment and restatement of a certain Master Lease (as defined below) with the Pledgor and to enter into certain related transactions, including the transfer of its interest in the Sutton Property, as hereinbelow defined; and

WHEREAS, the Pledgee is unwilling to enter into the amendment and restatement of the Master Lease and the related transactions unless the Pledgor enters into a Guarantee (as defined below) and enters into this Agreement to secure Pledgor's obligations under the Guarantee;

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 Standby Credit Agreement (as defined below) and used herein are so used as so defined, and the following terms shall have the following meanings:

"Ancillary Security Documents" shall mean all such further documentation, including, without limitation, any guarantees, guaranteeing the performance by the Purchaser of its obligations under the Notes and/or the Mortgage and any security agreements securing the performance of the guarantor under any one or more such guarantees.

"Citadel Reinvestment Option" means Citadel's right under the Purchase and Sale Agreement to acquire an equity interest in 205-209 East 57th Street Associates, LLC (referred to herein collectively with a title holding nominee that it may designate to hold title to the Sutton Property, as the "Purchaser").

"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.

"Credit Bid Amount" shall mean the aggregate amount of (i) the outstanding principal balance of the Notes, (ii) all accrued and unpaid interest and late fees due under the Notes, (iii) all costs incurred by Pledgee in connection with the collection and enforcement of the Notes and the Mortgage and Ancillary Security Documents, together with any sums advanced by the Pledgee to protect the security of the Mortgage and/or any one or more of the Ancillary Security Documents, (iv) all amounts advanced by the Pledgor to protect the security of the Mortgage and/or any one or more of the Ancillary Security Documents, and (v) all costs incurred by Pledgor in connection with the exercise of the secured party's rights under the Ancillary Security Documents.

"Event of Default" shall mean the occurrence of any of the following events: (1) an Event of Default (as defined in the Standby Credit Agreement), (2) a default on the part of Pledgor under the Guarantee, or (3) 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 under clauses (2) or (3) 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.

"Guarantee" shall mean the Guarantee from Pledgor to Pledgee entered into as of the date hereof of the obligations of Reading International, Inc., as lender under a certain Standby Credit Agreement to Pledgee as borrower and/or as a party to the Intercreditor Agreement ("Lender").

"In Lieu Note" shall mean that certain promissory note of even date herewith in the amount of \$650,000, issued by the Purchaser to Pledgor and secured by the Mortgage.

"Intercreditor Agreement" shall mean that certain amended and restated intercreditor agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002 and as of even date herewith by and among Reading International, Inc., Nationwide Theatres, Inc. and Pledgee, as the same may be amended, modified and supplemented from time to time.

"Master Lease" shall mean the Master Lease Agreement between Pledgee, as lessor, and Pledgor, as lessee, dated as of July 28, 2000, as amended and restated as of January 29, 2002 and as of even date herewith, as the same may be 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).

"Mortgage" shall mean that certain first mortgage of even date herewith securing the Notes.

"Notes" shall mean, collectively and without differentiation, the Purchase Money Promissory Note and the In Lieu Note.

"Obligations" shall mean any and all indebtedness, debts, obligations, and liabilities of the Pledgor to the Pledgee from time to time outstanding under the Operative Documents, 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 Operative Documents.

"Omnibus Amendment Agreement" shall mean that certain agreement dated as of even date herewith by and among Pledgee, Pledgor, Lender, Sutton Hill Associates (the parent of Sutton Capital), and Nationwide Theaters Corp.

"Operative Documents" shall mean the Guarantee and any documents securing the performance of the Guarantee.

"Pledgor Permitted Liens" shall mean (i) any rights held by the Purchaser to offset against its obligation under the Purchase Money Note the exercise price in the event that Pledgor elects to exercise the Citadel Reinvestment Option and (ii) any liens placed upon or any claims made against the Collateral, or any part or portion thereof, to the extent that such liens or claims are approved by the Pledgee and/or the result of the acts or omissions of the Pledgee.

"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 interest and principal payments under the Notes, subject to the provisions of Sections 4(e) and 7.

"Purchase Money Promissory Note" shall mean that certain purchase money promissory note of even date herewith in the amount of \$13,000,000 issued by the Purchaser to Pledgor and secured by the Mortgage.

"Purchase and Sale Agreement" means that certain purchase and sale agreement dated of even date herewith between Pledgor and Purchaser, pertaining to the sale of that certain real and personal property located at 205-209 East 57th Street and 957 Third Avenue, New York, New York, commonly known as the "Sutton Cinema" and the associated Wendy's restaurant.

"Standby Credit Agreement" shall mean the Amended and Restated Standby Credit Agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002, and as of even date herewith between Pledgee as borrower and Reading International, Inc. as lender, as the same may be amended, modified and supplemented from time to time.

"Sutton Property" means the real and personal property subject to the Purchase and Sale Agreement.

"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.

"Termination Date" has the meaning set forth in the Omnibus Agreement.

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 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) the Notes;
- b) the Mortgage;
- c) the Ancillary Security Documents; and

d) all Proceeds of any and all of the foregoing (including, without limitation, (i) all proceeds from and payments on the Notes, (ii) all benefits and proceeds of and from any related policy of title insurance and hazard insurance, (iii) all benefits and proceeds of and from any condemnation proceedings concerning the Sutton Property, (iv) all rights and benefits in and under the Notes, the Mortgage and the Ancillary Security Documents, which the Pledgor now has or may at anytime hereafter have, and (v) the Sutton Property, to the extent that Pledgee or Pledgor exercises their respective rights under the Notes, Mortgage and/or any one or more of the Ancillary Security Documents (and/or accepts a deed in lieu of foreclosure) and acquires title to such property.

This Agreement shall create a continuing security interest in the Collateral which shall remain in effect until the Termination Date.

SECTION 3. Certain Covenants Of Pledgor. Concurrently with the closing of the transaction governed by the Purchase and Sale Agreement, Pledgor shall do each of the following:

- a) execute and deliver to Pledgee an Assignment of the Mortgage in the form attached hereto as Exhibit "A" (the "Assignment");
- b) deliver to Pledgee the original of the Notes, endorsed in blank;
- c) deliver to the Pledgee the original of the Ancillary Security Documents, endorsed in such form as may be reasonably required by the Pledgee in order to perfect its security interest in such Ancillary Security Documents and/or to facilitate the exercise by the Pledgee of its rights under this Agreement;
- d) notify the maker/mortgagee under the Notes and the Mortgage (the "Obligor") in writing of this Agreement with instructions that all payments under or pursuant to the Note are to be made directly to Pledgee at Pledgee's address set forth in Section 9, below;
- e) procure an ALTA lender's policy of title insurance with form 100 endorsement insuring Pledgor in the amount of the principal balance of the Notes that the Mortgage is a valid lien and charge on the Sutton Property, subject only to title matters approved in writing by Pledgee (the "Title Policy) and deliver the original of such policy, together with an endorsement insuring Pledgee (such endorsement to be acquired at Pledgee's cost) that, by valid assignment, the mortgagee's interest in the Mortgage has been assigned to Pledgee; and
- f) provide Pledgee with such other documentation and information as Pledgee may reasonably request.

SECTION 4. Further Assurances; Affirmative Covenants.

The Pledgor covenants and agrees that, from and after the date of this Agreement until the Termination Date:

- 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, Pledgor Permitted Liens, Liens for Taxes and governmental charges and levies which are not delinquent, which are being contested by or on behalf of the Pledgor or which are the obligation of Pledgee or any of its Affiliates to pay pursuant to any agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Pledgee or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any 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 or pursuant to the terms of this Agreement.

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 any such persons who are making such claims in their capacity as claimants against and/or creditors of the Pledgee.

e) Notwithstanding anything in this Pledge Agreement to the contrary, at the election of Pledgor, up to five million dollars (\$5,000,000) of the Proceeds of the Purchase Money Promissory Note and/or the Mortgage shall be used to fund the exercise price of the Citadel Reinvestment Option and in such event shall be released as Collateral automatically. Pledgee will execute and deliver proper instruments acknowledging such release and authorizes Pledgor to file amendments to any financing statements reflecting such release. In the event of any such release, the equity interest acquired by the Pledgor will be treated as proceeds from the Collateral, and any certificate or documentation evidencing Pledgor's interest in the Purchaser will be promptly delivered to Pledgee, together with such stock powers or transfer documents, executed in blank, as the Pledgee may reasonably request in order to perfect and/or to facilitate the enforcement of the security interest granted to it by this Agreement.

f) Pledgee will be responsible for all transfer and filing fees and taxes, if any, related to the granting and perfection of the security interests granted by this Agreement.

SECTION 5. Pledgee's Right to Assign Collateral in Lieu of Performance. In the event that the Lender is in breach of its obligations under the Standby Line of Credit, Pledgor shall have the option, exercisable within five (5) business days to assign to Pledgee its entire ownership interest in the Purchase Money Promissory Note (and, if not previously satisfied as contemplated by Section 7, below, in the In Lieu Note), the Mortgage and the Ancillary Security Documents free and clear of all liens and other claims (other than the rights of Sutton Capital created by this Agreement and/or any Pledgor Permitted Lien). If Pledgor does so in a timely manner, then Pledgor shall be relieved of further obligations accruing under the Guarantee and this Agreement.

SECTION 6. Remedies.

(a) Upon the occurrence of an Event of Default, 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; provided however that in any private or public sale, the Pledgee agrees to make a bid in the amount of the Credit Bid Amount. 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 therefore, 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 and/or the Pledgor in connection therewith (provided that the reimbursement of Pledgee's costs and expenses shall take priority over the reimbursement of the Pledgor's costs and expenses);

ii. SECOND, to the Pledgor in an amount equal to any and all interest and late fees accrued under the Purchase Money Promissory Note;

iii. THIRD, to fund the obligations of the Lender under the Standby Credit Facility; 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.

The amount distributed to Pledgee pursuant to item (iii), above, shall constitute a Loan made by the Lender under, and pursuant to, the Standby Credit Agreement.

(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.

(e) In the event that Pledgee becomes the owner of the Purchase Money Promissory Note (and, if not previously satisfied as contemplated by Section 7, below, the In Lieu Note), the Mortgage and the Ancillary Security Documents following a private sale or otherwise, and provided that Pledgor reimburses Pledgee all of the costs and expenses incurred by Pledgee in conducting such private sale, Pledgee agrees to use reasonable good faith efforts thereafter to initiate and pursue, in consultation and cooperation with Pledgor, foreclosure proceedings pursuant to the terms of the Mortgage. At the foreclosure, Pledgee shall make a credit bid in the amount of the Credit Bid Amount. Pledgee also agrees to use reasonable good faith efforts, again in consultation and cooperation with Pledgor, to exercise its rights under the Ancillary Security Documents, provided that Pledgor shall be responsible for advancing the costs thereof, which costs shall, to the extent permitted by the Notes, the Mortgage and/or the Ancillary

Security Documents, be added to the indebtedness evidenced or secured thereby. After such foreclosure, Pledgee agrees to take the following actions:

i) If Pledgee's bid is the high bid at the foreclosure sale (or, alternatively, if Pledgee elects, in Pledgee's sole and absolute discretion, but with Pledgor's consent, such consent not to be unreasonably withheld or delayed, accepts a deed to the Sutton Property in lieu of foreclosure), the Master Lease shall be deemed to have been automatically amended to restore the Sutton Property to the Master Lease as provided in the Omnibus Agreement.

ii) If Pledgee is not the successful bidder, Pledgee shall disburse the proceeds from the foreclosure as follows: (A) first, to Pledgee in an amount equal to the costs incurred by Pledgee in connection with the collection and enforcement of the Notes, the Mortgage and/or the Ancillary Security Documents, together with any sums advanced by Pledgee to protect the security of the Mortgage, (B) second, to Pledgor in an amount equal to the costs incurred by Pledgor in connection with the collection and enforcement of the Notes, the Mortgage and/or the Ancillary Security Documents, together with any sums advanced by Pledgor to protect the security of the Mortgage, (C) third, to Pledgor in an amount equal to the accrued interest and/or late fees on the Purchase Money Note, (D) fourth, to Pledgee in an amount equal to the unpaid principal under the Purchase Money Note, and (E) fifth, to Pledgor in an amount equal to the unpaid principal and interest under the In Lieu Note. The amount distributed to Pledgee pursuant to item (D), above, shall constitute a Loan made by the Lender under, and pursuant to, the Standby Credit Agreement.

Except as expressly set forth above, Pledgee shall have no obligation to take any action with respect to the Notes, the Mortgage or the Ancillary Security Documents and shall incur no liability for any failure to take any such action.

SECTION 7. Payments under Notes and Mortgage. Pledgee shall receive all payments made by the maker of the Notes as additional collateral under this Agreement, subject to the following:

a) Provided Pledgor is not in default under the terms of the Guaranty, Pledgee will, upon the request of Pledgor in the form of a declaration that it intends to promptly surrender such In Lieu Note to the maker thereof for payment, promptly release and reassign to the Pledgor the In Lieu Promissory Note so that the same may be so tendered for payment by the Pledgee, and any payments of interest on the Purchase Money Note and any payment of interest, late fees and/or principal on the In Lieu Note shall be remitted to Pledgor promptly following receipt by Pledgee and will not be treated as Proceeds or Collateral under this Agreement;

b) Payments in reimbursement for sums advanced by Pledgor or Pledgee to protect the security of the Mortgage, shall be remitted to, or retained by, the party who advanced such sums, as appropriate, it being understood that the first dollars paid by the maker of the Purchase Money Note shall, in the event of advances made by both Pledgor and Pledgee shall be in reimbursement of the amounts advanced by Pledgee; and

c) Payments of principal on the Purchase Money Note may, in the Pledgee's discretion, be retained by Pledgee as Proceeds for purposes of securing the obligation of the Lender to make advances under the Standby Credit Agreement.

SECTION 8. Pledgee Appointed Attorney-in-Fact.

Upon the occurrence and during the continuance of an Event of Default which is not waived by the Pledgee, 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, 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 9. Pledgee May Perform. If the Pledgor fails to perform any agreement, 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 9 shall be added to the Obligations and secured by the Collateral.

SECTION 10. 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 and the Pledgee, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

SECTION 11. 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 Termination Date, (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 12. Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any Operative 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 12. All notices shall be effective upon delivery to 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:
Citadel Cinemas, Inc.
c/o 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

(b) If to the Pledgee:
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

Each such notice, request or other communication shall be effective when actually received.

SECTION 13. 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 14. 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 15. 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 16. 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 17. 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 18. 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 19. 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 20. Termination. Upon the Termination Date, 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. Pledgee authorizes Pledgor to file termination statements in connection with such termination.

SECTION 21. Limited Recourse. 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 Master Lease 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:

CITADEL CINEMAS, INC.

By: /s/ S. Craig Tompkins

Name: S. Craig Tompkins
Title: Vice Chairman

PLEDGEE:

SUTTON HILL CAPITAL, L.L.C.

By: /s/ James D. Vandever

Name: James D. Vandever
Title: Vice President

GUARANTEE OF LENDER'S OBLIGATIONS UNDER STANDBY CREDIT
AGREEMENT

GUARANTEE, dated as of October 22, 2003 (this "Guarantee"), from CITADEL CINEMAS, INC, a Nevada corporation (the "Guarantor"), in favor of SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (the "Sutton Capital"), and its successors and assigns.

WHEREAS, the Guarantor wishes to induce the Sutton Capital to enter into a new amendment and restatement of a certain Operating Lease (as defined below) with the Guarantor and to enter into certain related transactions; and

WHEREAS, the Sutton Hill is unwilling to enter into the amendment and restatement of the Operating Lease and the related transactions unless the Guarantor enters into this Guarantee of the obligations of the Lender (as defined below) which is an Affiliate (as defined below) of the Guarantor to Sutton Capital under the Standby Credit Agreement (as defined below) and/or the Intercreditor Agreement (as defined below);

NOW, THEREFORE, in order to induce Sutton Capital to enter into the new amendment and restatement of the Operating Lease and the related transactions, the Guarantor hereby agrees as follows:

SECTION 1

DEFINED TERMS

RULES OF CONSTRUCTION

1.1 DEFINITIONS

As used in this Guarantee, capitalized terms defined in the preamble, Preliminary Statements and other Sections of this Guarantee shall have the meanings set forth therein, terms defined in Exhibit A shall have the meanings set forth therein, and capitalized terms used herein or in Exhibit A but not otherwise defined herein or in Exhibit A shall, except as otherwise provided in the Standby Credit Agreement, have the meanings set forth in the Standby Credit Agreement.

1.2 ACCOUNTING TERMS

All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles.

1.3 USE OF CERTAIN TERMS

Unless the context of this Guarantee requires otherwise, the plural includes the singular, the singular includes the plural, and "including" has the inclusive meaning of "including without

limitation." The words "hereof," "herein," "hereby," "hereunder," and other similar terms of this Guarantee refer to this Guarantee as a whole and not exclusively to any particular provision of this Guarantee. All pronouns and any variations thereof shall be deemed to refer to masculine, feminine, or neuter, singular or plural, as the identity of the Person or Persons may require.

1.4 HEADINGS AND REFERENCES

Section and other headings are for reference only, and shall not affect the interpretation or meaning of any provision of this Guarantee. Unless otherwise provided, references to Articles, Sections, Schedules, and Exhibits shall be deemed references to Articles, Sections, Schedules, and Exhibits of this Guarantee. References to this Guarantee and any other Operative Document include this Guarantee and the other Operative Documents as the same may be modified, amended, restated or supplemented from time to time pursuant to the provisions hereof or thereof. A reference to any Law shall mean that Law as it may be amended, modified or supplemented from time to time, and any successor Law. A reference to a Person includes the successors and assigns of such Person, but such reference shall not increase, decrease or otherwise modify in any way the provisions in this Guarantee governing the assignment of rights and obligations under or the binding effect of any provision of this Guarantee.

SECTION 2

GUARANTEE

2.1 GUARANTEE

Subject to the terms and conditions in this Guarantee, the Guarantor absolutely, unconditionally and irrevocably guarantees to Sutton Capital that the Lender will duly and punctually perform, comply with, and observe all Obligations as and when required in accordance with the terms thereof and subject to the conditions thereof, in each case, without regard to whether such Obligation is direct or indirect, absolute or contingent, now or hereafter existing or owing, voluntary or involuntary, created or arising by contract, operation of Law or otherwise, all to the same extent, except as otherwise specifically provided herein, as if the Guarantor were the Lender under the Standby Credit Agreement and/or under the Intercreditor Agreement; provided, however, that the foregoing limitation imposing on the Guarantor obligations hereunder as if it were the Lender under the Standby Credit Agreement (except as herein set forth) and/or under the Intercreditor Agreement shall not limit obligations of the Guarantor hereunder to the extent the limitations (including termination, disavowal, rejection or reduction) of any such obligation of the Lender results from an Insolvency or Liquidation Proceeding, and in such event the Guarantor shall be liable in respect of obligations of the Lender pursuant to the Standby Credit Agreement and/or under the Intercreditor Agreement as if no such Insolvency or Liquidation Proceeding had been initiated.

2.2 GUARANTEE ABSOLUTE

Subject to the terms and conditions of the Guarantee, including without limitation Section 2.7, this Guarantee is an absolute, unlimited and continuing guaranty of performance and payment (and not of collection) of the Obligations. This Guarantee is in no way conditioned upon any attempt to collect from the Lender or upon any other event of contingency, and shall be binding upon and enforceable against the Guarantor without regard to the validity or enforceability of any Operative Document, or of any term thereof or obligation thereunder.

The obligations of the Guarantor set forth herein constitute full recourse obligations of the Guarantor enforceable against it to the full extent of all its assets and properties. Without limiting the foregoing, it is agreed and understood that repeated and successive demands may be made and recoveries may be had hereunder as and when, from time to time, the Lender shall be in default with respect to the Obligations under the terms of the Standby Credit Agreement and/or the Intercreditor Agreement and that, notwithstanding the recovery hereunder for or in respect of any given default with respect to the Obligations by the Lender under the Standby Credit Agreement and/or under the Intercreditor Agreement, this Guarantee shall remain in full force and effect said shall apply to each and every subsequent default with respect to the Obligations; but the foregoing shall not limit rights and remedies under the Standby Credit Agreement, the Intercreditor Agreement, or the Obligations hereunder.

2.3 REINSTATEMENT

In case any Operative Document or obligation thereunder shall be terminated as a result of the rejection thereof by any trustee, receiver or liquidating agent of the Lender or any of its properties in any Insolvency or Liquidation Proceeding, the Guarantor's obligations hereunder shall continue to the same extent as if such agreement had not been so rejected. The Guarantor agrees that this Guarantee shall continue to be effective or be reinstated, as the case may be, if at any time payment to Sutton Capital of the Obligations or any part thereof is rescinded or must otherwise be returned by Sutton Capital upon the Insolvency or Liquidation Proceeding, as though such payment to Sutton Capital had not been made.

2.4 ENFORCEMENT

The Guarantor shall pay all costs, expenses and damages incurred (including reasonable attorneys' fees and disbursements) in connection with the enforcement of the obligations to the extent that such costs, expenses and damages are not paid by the Lender, said in connection with the enforcement of the obligations of the Guarantor under this Guarantee.

2.5 RIGHTS OF SETOFF, ETC.

The obligations of the Guarantor hereunder shall be subject to the same counterclaims, setoffs, deductions and defenses as would be available to the Guarantor if the Guarantor were the Lender under the Standby Credit Agreement, and/or the Intercreditor Agreement. Except as provided in the immediately preceding sentence, the obligations of the Guarantor hereunder shall not be subject to any counterclaims, setoffs, deductions or defenses (other than payment, performance or affirmative discharge, release or termination of this Guarantee by Sutton Capital) that the Guarantor may have against the Lender 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 Guarantor shall have any knowledge or notice thereof) whatsoever which might constitute a legal or equitable discharge or defense (except as provided in Section 4.1(b)) including (a) the amending, modifying, supplementing or terminating (by operation of law or otherwise), expressly or impliedly, of any Operative Document, or any other instrument applicable to the Lender or to its Obligations, or any part thereof; (b) any failure on the part of the Lender to perform or comply with any term of any Operative Document or any failure of any other Person (other than Sutton Capital and its Affiliates, to the extent such failure constitutes a defense to performance by the lender under the Standby Credit Agreement of its obligations thereunder) to perform or comply with any term of any Operative Document; (c) any waiver, consent, change, extension, indulgence or other action or any action or inaction under or in respect of any Operative Document or this Guarantee (except for any written waiver or modification of the provisions of this Guarantee signed by the parties hereto), whether or not Sutton Capital, the Lender or the Guarantor has notice or knowledge of any of the foregoing; (d) any Insolvency or Liquidation Proceeding or any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceeding with respect to the Guarantor or its properties, or any action taken by any trustee or receiver or by any court in any such proceeding; (e) any furnishing or acceptance of additional or substitute security or any release (whether for valuable consideration or otherwise) of any security (and the Guarantor authorizes Sutton Capital to furnish, accept or release said security); (f) any limitation on the liability or Obligations of the Lender under any Operative Document (except as expressly set forth therein) or any termination (by operation of law or otherwise), cancellation (by operation of law or otherwise), frustration or unenforceability, in whole or in part, of any Operative Document, or any term thereof or Obligation thereunder, except to the extent my such limitation, termination, cancellation, frustration or unenforceability arises in favor of the Lender thereunder based on circumstances, conditions or events which would have limited, terminated, cancelled, frustrated or rendered unenforceable the obligations of the Guarantor, if the Guarantor had been the lender under the Standby Credit Agreement; (g) any lien, charge or encumbrance on or affecting the Guarantor's or the Lender's respective assets and properties; (h) any act, omission or breach on the part of Sutton Capital or any Assignee under any Operative Document, or my other agreement at any time existing between Sutton Capital and the Lender or any other Law or other agreement applicable to Sutton Capital or any Obligation, except to the extent such act, omission or breach would have resulted in the limitation or termination of any liability of the Guarantor if the Guarantor had been the Lender under the Standby Credit Agreement and/or the Intercreditor Agreement; (i) any claim as a result of any other dealings among Sutton Capital and the Guarantor, except to the extent such act, omission or breach would have resulted in the limitation or termination of any liability of the Guarantor if the Guarantor had been the Lender under the Standby Credit Agreement and/or the Intercreditor Agreement; (j) the assignment or transfer of this Guarantee, any Operative Document (in accordance with and subject to the terms thereof) or any other agreement or instrument referred to in any Operative Document or applicable to the Lender or the Obligations by Sutton Capital to any other Person; (k) any change in the name of Sutton Capital, the Lender or my other Person referred to herein; (l) any merger or consolidation of the Lender or the Guarantor into or with any other Person or any sale, lease or transfer of any other assets of the Lender or the Guarantor to any other Person, whether or not permitted pursuant to the terms of the Operative Documents; (m) the availability to Sutton Capital of claims against other parties

with respect to the Obligations (whether or not such parties are then solvent) or the release of any or all of such claims (whether for valuable consideration or otherwise); or (n) any change in the ownership of any shares of capital stock of or other evidences of equity interests in the Guarantor or the Lender (including any such change which results in the Lender no longer owning capital stock of, or any such interests in, the Guarantor), whether or not permitted pursuant to the terms of the Operative Documents; provided, however, that, notwithstanding the foregoing, this Guarantee shall not constitute a waiver or release by the Lender or the Guarantor of any claim of the Lender or the Guarantor which may be asserted against Sutton Capital or any other party in a separate action or proceeding, or if required by applicable Law as a compulsory counterclaim in such action.

2.6 WAIVER

The Guarantor unconditionally waives: (a) notice of any of the matters referred to in Section 2.5 hereof; (b) all notices which may be required by statute, rule of law or otherwise to preserve any rights against the Guarantor hereunder, including notice of the acceptance of this Guarantee by Sutton Capital, or the creation, renewal, extension, modification or accrual of the Obligations or notice of any other matters relating thereto, any presentment, demand, notice of dishonor, protest or nonpayment of any damages or other amounts payable under any Operative Document; (c) any requirement for the enforcement, assertion or exercise of any right, remedy, power or privilege under or in respect of any Operative Document, including diligence in collection or protection of or realization upon the 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 Operative Document, except that this shall not relieve Sutton Capital of any such obligation if and to the extent required by the terms of the Operative Documents or required by Law; (f) the occurrence of every other condition precedent to which the Guarantor or the Lender may otherwise be entitled, except as provided in any Operative Document; and (g) the right to require Sutton Capital to proceed against the Lender or any other Person liable on the Obligations, to proceed against or exhaust security held from the Lender or any other Person, or to pursue any other remedy in Sutton Capital's power whatsoever, and the Guarantor waives the right to have the property of the Lender first applied to the discharge of the Obligations.

Sutton Capital may, at its election, exercise any right or remedy it might have against the Lender or any security held by Sutton Capital, 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 Guarantor hereunder, except to the extent the Obligations have been indefeasibly paid or satisfied, and the Guarantor waives 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 Guarantor against the Lender or any such security, whether resulting from such election by Sutton Capital or otherwise. Except to the extent provided in the first sentence of Section 2.5 hereof, the Guarantor waives any defense arising by reason of any disability or other defense of the Lender (which may nevertheless be asserted in a separate action or proceeding against Sutton Capital or any other party), or by reason of the cessation of the liability, either in whole or in part, of the Lender to the Obligations (other than as a result of payment, performance or affirmative discharge, release or termination of this Guarantee by Sutton Capital).

2.7 LIMITATIONS ON AMOUNT AND DURATION OF THIS GUARANTEE

Notwithstanding anything herein to the contrary, the Guarantor's total obligations and liabilities of any nature under this Guarantee shall in no event exceed thirteen million dollars (\$13,000,000) in the aggregate. All obligations and liabilities of any nature under this Guarantee shall terminate as of the Termination Date.

2.8 PLEDGE AGREEMENT

This Guarantee is secured by a Pledge Agreement entered into on the date hereof by Guarantor as pledgor and Sutton Capital as pledgee.

SECTION 3

REPRESENTATIONS & WARRANTIES

The Guarantor represents and warrants to Sutton Capital that the following statements are true and correct in all material respects:

3.1 CORPORATE EXISTENCE; COMPLIANCE WITH LAW.

The Guarantor (a) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Nevada, and (b) has full power, authority and legal right to own and operate its properties and to conduct its business as presently conducted.

3.2 OWNERSHIP OF GUARANTOR

All of the Guarantor's common stock is owned beneficially and of record by the Lender or a Subsidiary of Lender.

SECTION 4

MISCELLANEOUS

4.1 PARTIES.

(a) This Guarantee shall inure to the benefit of Sutton Capital and its successors, assigns or transferees, and shall be binding upon the Guarantor and its successors and assigns. Except as provided in Section 4.1(b), the Guarantor may not delegate any of its duties under this Guarantee without the prior written consent of Sutton Capital. Upon notice to the Guarantor, Sutton Capital and its successors, assigns and transferees may assign its or their rights and benefits under this Guarantee to (i) any financial institutions providing financing to Sutton Capital in connection with the Property or Equipment or any trustee for such financial institutions, and (ii) any purchaser or transferee of all or a substantial portion of the rights and

interests of Sutton Capital and its successors, assigns or transferees in and to the Theatre Properties and Equipment.

(b) If in connection with a Business Sale (i) either (A) the Lender shall assign to any Person the Lender's obligations under the Standby Credit Agreement or (B) the Lender shall transfer the capital stock of the Guarantor to any Person which is not an Affiliate of the Lender (whether by transfer of the stock of the Guarantor or any Subsidiary of the Lender which owns such stock, by merger of the Lender or any such Subsidiary of the Lender, or otherwise), and (ii) a Suitable Replacement either assumes the Lender's obligations under the Standby Credit Agreement or executes and delivers to Sutton Capital a Guarantee substantially similar to this Guarantee (subject to such modifications as may be reasonably acceptable to Sutton Capital), this Guarantee shall be terminated and the Guarantor shall have no further liability hereunder with respect to Obligations thereafter arising.

4.2 NOTICES.

All notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder 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 through the 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 clauses (a), (b) or (c) of this Section 4.2. 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 Sutton Capital:

Sutton Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Ira Levin
Telecopier: (310) 855-8416

If to the Guarantor:

Citadel Cinemas, Inc.
c/o Reading International, Inc.
550 South Hope Street
Suite 1825
Los Angeles, California 90071

4.3 REMEDIES.

The Guarantor stipulates that the remedies at law in respect of any default or threatened default by the Guarantor in the performance of or compliance with any of the terms of this Guarantee are not and will not be adequate, and that any of such terms may be specifically enforced by a decree for specific performance or by an injunction against violation of any such terms or otherwise, in each case to the same extent as if the Guarantor were the Lender under the Standby Credit Agreement and/or the Intercreditor Agreement subject to the proviso in Section 2.1 hereof.

4.4 RIGHT TO DEAL WITH THE LENDER.

At any time and from time to time, without terminating, affecting or impairing the validity of this Guarantee or the obligations of the Guarantor hereunder, Sutton Capital may deal with the Lender in the same manner and as fully and as if this Guarantee did not exist and shall be entitled, among other things, to grant the Lender, without notice or demand and without affecting the Guarantor's liability hereunder, such extension or extensions of time to perform, renew, compromise, accelerate or otherwise change the time for performance of or otherwise change the terms of performance or any part thereof contained in or arising under any Operative Document, or to waive any Obligation of the Lender to perform any act or acts as Sutton Capital may deem advisable.

4.5 SUBROGATION.

The Guarantor will not exercise any rights which it may acquire by way of subrogation hereunder, by any payment made hereunder or otherwise, until the Termination Date. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time prior to the Termination Date, such amount shall be held in trust for the benefit of Sutton Capital and shall forthwith be credited and applied upon the Obligations, whether matured or unmatured, in accordance with the terms of the Operative Documents. If (a) the Guarantor shall make payment to Sutton Capital or any successor, assignee or transferee of Sutton Capital of all or any part of the Obligations and (b) the Termination Date occurs, Sutton Capital or any such successor, assignee or transferee of Sutton Capital will, at the Guarantor's request and expense, execute and deliver to the Guarantor appropriate documents necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

4.6 SURVIVAL OF REPRESENTATIONS, WARRANTIES, ETC.

All representations, warranties, 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 Sutton Capital and shall continue in full force and effect until the Termination Date.

4.7 GOVERNING LAW.

THIS GUARANTEE HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE GUARANTOR AND SUTTON CAPITAL AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAWS OF THE STATE OF NEW YORK, THIS GUARANTEE, AND THE RIGHTS AND DUTIES OF THE GUARANTOR AND SUTTON CAPITAL HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 51401 AND 51402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

4.8 CONSENT TO JURISDICTION.

THE GUARANTOR HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTIES, 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 GUARANTEE, AND TO THE EXTENT PRMITTED BY APPLICABLE LAW, THE 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 IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTINO OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS GUARANTEE OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE SUTTON CAPITAL OR ANY ASSIGNEE FROM OBTAINING JURISDICTION OVER THE GUARANTOR IN ANY COURT OTHERWISE HAVING JURISDICTION.

4.9 WAIVER OF JURY TRIAL.

TO THE EXTENT PERMITTED BY APPLICABLE LAW, THE 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. THE 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 GUARANTEE OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

THE GUARANTOR AND SUTTON CAPITAL EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM RELATED TO THIS GUARANTEE. THE GUARANTOR AND SUTTON CAPITAL ACKNOWLEDGE THAT THE PROVISIONS OF SECTIONS 4.7, 4.8 AND 4.9 HAVE

BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

4.10 SEVERABILITY.

If any term of this Guarantee or any application thereof shall be invalid or unenforceable, the remainder of this Guarantee and any other application of such term shall not be affected thereby. Any term of this Guarantee may be amended, modified, waived, discharged or terminated only by an instrument in writing signed by the Guarantor and Sutton Capital.

4.11 COUNTERPARTS.

This Guarantee may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

4.12 NO WAIVER.

No delay on the part of Sutton Capital in exercising any power or right hereunder or under any Operative Document 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 Sutton Capital 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 Sutton Capital may or will otherwise have. The Guarantor hereby agrees and acknowledges that to the extent in any instance claims under this Guarantee consist of claims for the payment of money only, Sutton Capital, at its sole option, shall have the right to bring a motion or proceeding under New York State Civil Practice Law and Rules Section 3213.

4.13 LIMITATIONS.

In no event shall the Guarantor have any liability to Sutton Capital 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).

[Signature page follows]

IN WITNESS WHEREOF, the undersigned have caused this Guarantee to be executed and delivered as of the day and year first above written.

GUARANTOR

CITADEL CINEMAS, INC.

By: /s/ S. Craig Tompkins

Name: S. Craig Tompkins
Title: Vice Chairman

Acknowledged and Agreed:

SUTTON CAPITAL

SUTTON HILL CAPITAL, L.L.C.

By: /s/ James D. Vandever

Name: James D. Vandever
Title: Manager

EXHIBIT A

DEFINED TERMS

"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) Sutton Capital and its Affiliates (the "Sutton Capital's Affiliates") shall not include the Guarantor and Lender and its Subsidiaries; and (b) the Guarantor and Lender and its Subsidiaries (including the Guarantor), on the one hand, and Sutton Capital and Sutton Capital's Affiliates, on the other hand, shall not be considered Affiliates of each other.

"Business Sale" has the meaning set forth in the Operating Lease.

"Insolvency or Liquidation Proceeding" means:

(a) The entry of a decree or order for relief in respect of the Lender 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 Lender 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 Lender 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 the Lender 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 Lender 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.

"Intercreditor Agreement" means the Amended and Restated Intercreditor Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 as further amended and restated as of even date herewith between Sutton Hill Capital, Reading International, Inc. and Nationwide Theatres Corp., as the same may be amended, restated, modified, or supplemented from time to time.

"Law" shall mean any law (including, without limitation, any environmental law), treaty, statute, rule, regulation, ordinance, order, directive, code, interpretation, judgment, decree, injunction, writ, determination, award, permit, license, authorization, direction, requirement or

decision of or agreement with or by any governmental or governmental department, commission, board, court, authority, agency, official or officer having jurisdiction of the matter in question.

"Lender" means Reading International, Inc. in its capacity as Lender under the Standby Credit Agreement, and in its capacity as a party to the Intercreditor Agreement, and, in each case, its successors and assigns.

"Mortgage" means that certain first mortgage of even date herewith securing the Note.

"Note" means that certain purchase money promissory note of even date herewith between Purchaser as payor and Guarantor as payee.

"Obligations" means all obligations, covenants, and undertakings of Reading International, Inc. contained in the Operative Documents.

"Omnibus Agreement" means that certain Omnibus Amendment Agreement dated as of even date herewith by and among Lender, Guarantor, Sutton Capital, Sutton Hill Associates and Nationwide Theater Corp.

"Operating Lease" means the Amended and Restated Operating Lease Agreement dated as of July 28, 2000 as amended and restated as of January 29, 2002 and as further amended and restated as of even date herewith between Sutton Hill Capital, L.L.C., as Lessor, and Citadel Cinemas, Inc., as Lessee, as the same may be amended, restated, modified or supplemented from time to time.

"Operative Documents" means the Standby Credit Agreement and each agreement, certificate or instrument delivered by the Lender pursuant to the terms of the Standby Credit Agreement, the Intercreditor Agreement and each agreement, certificate or instrument delivered by the Lender pursuant to the terms of the Intercreditor Agreement.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, limited liability company, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

"Purchaser" means collectively 205-209 East 57th Street Associates, LLC, its successors and assigns, including any title holding nominee that it may designate to hold title to the Sutton Property (as such term is defined in the Omnibus Agreement).

"Standby Credit Agreement" means the Amended and Restated Standby Credit Agreement dated as of July 28, 2000, as amended and restated as of January 29, 2002, as further amended and restated as of even date herewith between Sutton Hill Capital, L.L.C. as Borrower and Reading International, Inc. as Lender, as the same may be amended, restated, modified or supplemented from time to time.

"Subsidiary" of any Person means 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" has the meaning set forth in the Operating Lease.

"Termination Date" has the meaning set forth in the Omnibus Agreement.

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

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

- The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- The information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

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

Dated: November 14, 2003

/s/ James J. Cotter

Name: James J. Cotter
Title: Chief Executive Officer

/s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer