

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 19, 2000

Citadel Holding Corporation

(Exact name of registrant as specified in its charter)

Nevada

(State or other Jurisdiction of
incorporation)

1-8625

(Commission File Number)

95-3885184

(I.R.S. 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) 239-0540

NA

(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets

On September 19, 2000, Citadel Holding Corporation ("Citadel") completed the acquisition via merger (the "OBI Merger") of Off Broadway Investments, Inc. ("OBI"). A press release reporting the closing of the OBI Merger is attached as Exhibit 99.1 and incorporated herein by reference. Information regarding the OBI Merger and OBI, and the other information required by Item 2 of Form 8-K, has been previously reported in Citadel's definitive proxy statement dated August 12, 2000 (the "Proxy Statement"), under the caption "Proposal No. 2: Proposal to Authorize the Issuance of Class A Non-Voting Common Stock and Class B Voting Common Stock to Complete the Acquisition by Merger of OBI," which information is incorporated herein by reference. As previously reported in the Proxy Statement, after adjusting for non-recurring expenses and payments to affiliates of OBI, OBI had cash flow for the fiscal year ended December 31, 1999 of approximately \$1.9 million. The corresponding adjusted cash flow for the six months ended June 29, 2000 was approximately \$0.7 million. The reduction in cash flow was due to the Minetta Lane Theatre being dark from April 2000 to the end of July 2000, due to an unexpected show cancellation.

Item 5. Other Events.

On September 1, 2000, the series of transactions referred to in the Proxy Statement as the "Sutton Hill Transactions" became effective (except for the closing of the OBI Merger). Such transactions are also described in the press release attached as Exhibit 99.1, which is incorporated herein by reference.

Item 7. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired

Financial statements of OBI as required by Item 7(a) of Form 8-K for and as of the end of the fiscal years ended December 30, 1999 and December 31, 1998, and for and as of the end of the periods ended March 30, 2000 and April 1, 1999, were included in the Proxy Statement and are incorporated herein by reference. Additional financial statements required by Item 7(a) are attached to this Report as Exhibit 99.2.

(b) Pro forma financial information

Certain pro forma financial information was included in the Proxy Statement and is incorporated herein by reference. Additional pro forma financial required by Item 7(b) of Form 8-K are attached to this Report as Exhibit 99.2.

(c) Exhibits

- 2.1 Agreement and Plan of Merger, dated as of July 28, 2000, among Citadel, Citadel Off Broadway Theatres, Inc., OBI, Michael R. Forman, and James J. Cotter. (Incorporated by reference to Exhibit A to the Proxy Statement. Schedules to the Agreement and Plan of Merger are listed in the table of contents thereto and will be filed with the Commission on request of the Commission.)

- 10.1 Agreement of Purchase and Sale of Membership Interest, dated as of July 28, 2000, among Citadel Cinemas, Inc. ("Citadel Cinemas"), James J. Cotter, and Michael R. Forman.
- 10.2 Promissory Note, dated as of July 28, 2000, from Citadel Cinemas payable to James J. Cotter, in the principal amount of \$2,250,000.
- 10.3 Promissory Note, dated as of July 28, 2000, from Citadel Cinemas payable to Michael R. Forman in the principal amount of \$2,250,000.
- 10.4 Guaranty, dated as of July 28, 2000, by Citadel of Citadel Cinemas's obligations under the Promissory Note to James J. Cotter.
- 10.5 Guaranty, dated as of July 28, 2000, by Citadel of Citadel Cinemas's obligations under the Promissory Note to Michael R. Forman.
- 10.6 Lease Agreement, dated as of July 28, 2000, between Sutton Hill Capital, L.L.C. ("SHC") and Citadel Cinemas.
- 10.7 Lease Guarantee, dated as of July 28, 2000, by Citadel of Citadel Cinemas's obligations under the Lease Agreement.
- 10.8 Agreement With Respect to Fee Option, dated as of July 28, 2000, between SHC and Citadel Realty, Inc.
- 10.9 Guaranty, dated as of July 28, 2000, by Citadel of Citadel Realty, Inc.'s obligations under the Agreement With Respect to Fee Option.
- 10.10 Guaranty, dated as of July 28, 2000, by James J. Cotter and Michael R. Forman.
- 10.11 Letter, dated as of July 28, 2000, from SHC to Citadel and Citadel Cinemas with respect to financial statements.
- 10.12 Letter, dated as of July 28, 2000, from Citadel Cinemas to City Cinemas, Inc. with respect to employees.
- 10.13 Guaranty, dated as of July 28, 2000, by Sutton Hill Associates with respect to certain obligations of SHC.
- 10.14 License Agreement, dated as of July 28, 2000, between SHC and Citadel Cinemas.

- 10.15 Administrative Services Agreement, dated as of July 28, 2000, between City Cinemas, Inc. and Citadel Cinemas.
- 10.16 Submanagement Agreement, dated as of July 28, 2000, between City Cinemas, Inc. and Citadel Cinemas.
- 10.17 Citadel Standby Credit Facility, dated as of July 28, 2000, between SHC and Citadel.
- 10.18 Registration Rights Agreement, dated as of September 20, 2000, among Citadel, James J. Cotter, and Michael R. Forman.
- 99.1 Press release dated September 22, 2000.
- 99.2 Financial statements of OBI for and as of the end of the periods ended June 30, 2000 and June 30, 1999.
- 99.3 Pro forma financial statements.
- 99.4 Independent Auditor's consent.

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 hereunto duly authorized.

Citadel Holding Corporation

Date: October 4, 2000

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

AGREEMENT OF PURCHASE AND SALE

OF MEMBERSHIP INTEREST

among

CITADEL CINEMAS, INC.

Buyer,

and

James J. Cotter

and

Michael R. Forman,

Sellers

Dated as of July 28, 2000

TABLE OF CONTENTS

ARTICLE I	DEFINITIONS.....	1
Section 1.1	Definition of Certain Terms.....	1
Section 1.2	Construction.....	3
ARTICLE II	SALE AND PURCHASE OF THE MEMBERSHIP INTEREST.....	4
Section 2.1	Place and Date.....	4
Section 2.2	Purchase Price.....	4
ARTICLE III	REPRESENTATIONS AND WARRANTIES OF SELLER.....	4
Section 3.1	Authorization, etc.....	4
Section 3.2	Ownership of Membership Interest.....	4
Section 3.3	No Conflicts, etc.....	4
Section 3.4	Litigation.....	5
Section 3.5	Brokers, Finders, etc.....	5
ARTICLE IV	REPRESENTATIONS AND WARRANTIES OF BUYER.....	5
Section 4.1	Corporate Status.....	5
Section 4.2	Authorization, etc.....	5
Section 4.3	No Conflicts, etc.....	5
Section 4.4	Litigation.....	6
Section 4.5	Brokers, Finders, etc.....	6
ARTICLE V	COVENANTS.....	6
Section 5.1	Covenants of Sellers.....	6
Section 5.2	Covenants of Buyer.....	7
ARTICLE VI	CLOSING CONDITIONS AND DELIVERIES.....	8
Section 6.1	Conditions to Obligations of Each Party.....	8
Section 6.2	Conditions to Seller's Obligations.....	8
Section 6.3	Conditions to Buyer's Obligations.....	8
Section 6.4	Buyer's Closing Documents.....	9
Section 6.5	Seller's Closing Documents.....	9
Section 6.6	Conditions Generally.....	10
ARTICLE VII	INDEMNIFICATION.....	10
Section 7.1	By Sellers.....	10
Section 7.2	By Buyer.....	10
Section 7.3	Indemnification Procedures.....	11
Section 7.4	Expiration of Representations and Warranties, etc.....	12
Section 7.5	Exclusive Remedy; Certain Limitations on Indemnification.....	12
ARTICLE VIII	MISCELLANEOUS.....	12
Section 8.1	Severability.....	12
Section 8.2	Notices.....	12
Section 8.3	Attorneys' Fees.....	14
Section 8.4	Headings.....	14

Section 8.5	Entire Agreement.....	14
Section 8.6	Counterparts.....	14
Section 8.7	Governing Law, etc.....	14
Section 8.8	Binding Effect.....	14
Section 8.9	Assignment.....	15
Section 8.10	No Third Party Beneficiaries.....	15
Section 8.11	Amendment; Waivers, etc.....	15
Section 8.12	Transaction Costs.....	15

EXHIBITS

- Exhibit A - Form of Note
- Exhibit B - Form of Buyer's Counsels' Opinions
- Exhibit C - Form of Sellers' Counsel's Opinion
- Exhibit D - Assignment of Membership Interest

AGREEMENT OF PURCHASE AND SALE OF
MEMBERSHIP INTEREST

THIS AGREEMENT OF PURCHASE AND SALE OF MEMBERSHIP INTEREST, dated as of July 28, 2000, among Citadel Cinemas, Inc., a Nevada corporation ("Buyer"), and James J. Cotter and Michael R. Forman (each, a "Seller", and collectively, "Sellers").

R E C I T A L S

1. Each Seller owns a membership interest (each, a "Membership Interest") in Angelika Film Centers, L.L.C., a New York limited liability company (the "Company"), representing approximately 8.33% of the aggregate membership interests in the Company, which Membership Interests were formerly owned by Sutton Hill Associates;

2. Buyer wishes to purchase the Membership Interests owned by Sellers and Sellers wish to sell the Membership Interests to Buyer upon the terms and conditions hereinafter set forth; and

C. Capitalized terms used herein without separate definition have the meanings given to such terms in Section 1.1;

NOW, THEREFORE, in consideration of the mutual covenants, representations and warranties made herein and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definition of Certain Terms. The terms defined in this

Section 1.1, whenever used in this Agreement, shall have the respective meanings indicated below for all purposes of this Agreement.

"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) Sellers and their Affiliates (the "Sellers' Affiliates") shall not include Guarantor and its Subsidiaries; and (b) Guarantor and its Subsidiaries (including Buyer), on the one hand, and Sellers and Sellers' Affiliates, on the other hand, shall not be considered Affiliates of each other.

"Agreement" means this Agreement of Purchase and Sale of Membership

Interest (including the Exhibits), as the same may from time to time be amended, supplemented or waived.

"Applicable Law" means all applicable provisions of all (i) constitutions, treaties, statutes, laws (including the common law), rules, regulations, ordinances, codes or orders of any Governmental Authority, (ii) Governmental Approvals, and (iii) orders, decisions, injunctions, judgments, awards and decrees of or agreements with any Governmental Authority.

"Buyer" has the meaning set forth in the first paragraph of this Agreement.

"Buyer Indemnitees" has the meaning set forth in Section 7.1.

"Buyer's Closing Documents" has the meaning set forth in Section 6.4.

"Citadel Guarantee" means the guarantees of the obligations of Buyer under this Agreement and the Notes, dated as of the date hereof, by Guarantor in favor of each Seller and his successors and assigns, as the same may be amended, restated, modified or supplemented from time to time.

"Closing" has the meaning set forth in Section 2.1.

"Closing Date" has the meaning set forth in Section 2.1.

"Company" has the meaning set forth in Recital A of this Agreement.

"Consent" means any consent, approval, authorization, stipulation, waiver, permit, grant, franchise, concession, agreement, license, exemption or order of, registration, certificate, declaration or filing with, or report or notice to, any Person, including any Governmental Authority.

"\$" or "dollars" means lawful money of the United States of America.

"Governmental Approval" means any Consent of, with or to any Governmental Authority.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the United States, any State of the United States or any political subdivision thereof, and any tribunal or arbitrator(s) of competent jurisdiction, and any self-regulatory organization.

"Guarantor" means Citadel Holding Corporation, a Nevada corporation (an Affiliate of Buyer), and its successors and assigns.

"include", "includes", "included" and "including" shall be construed as if

followed by the phrase "without being limited to" or "without limitation."

"Indemnified Party" has the meaning set forth in Section 7.3.

"Indemnifying Party" has the meaning set forth in Section 7.3.

"Lien" means any security interest, mortgage, pledge, hypothecation,

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

"Losses" has the meaning set forth in Section 7.1.

"Membership Interests" has the meaning set forth in Recital A of this

Agreement.

"Notes" has the meaning set forth in Section 2.2.

"Notice" has the meaning set forth in Section 8.2.

"Person" means any natural person, firm, partnership, association,

corporation, company, limited liability company, trust, business trust,
Governmental Authority or other entity.

"Purchase Price" has the meaning set forth in Section 2.2.

"Seller" has the meaning set forth in the first paragraph of this

Agreement.

"Sellers" has the meaning set forth in the first paragraph of this

Agreement.

"Seller Indemnitees" has the meaning set forth in Section 7.2.

"Sellers' Closing Documents" has the meaning set forth in Section 6.5.

Section 1.2 Construction. All references herein to a Section, Article

or Exhibit are to a Section, Article or Exhibit of or to this Agreement, unless
otherwise indicated.

ARTICLE II

SALE AND PURCHASE OF THE MEMBERSHIP INTERESTS

Section 2.1 Place and Date. Subject to the terms and conditions set forth

in this Agreement, on the Closing Date, each Seller will sell his Membership
Interest to Buyer without recourse except as hereinafter provided, and Buyer
will purchase the Membership Interests from Sellers. The closing of the sale and
purchase of the Membership Interests (the "Closing") shall take place at 10:00
A.M. local time on the date hereof or, if later, the third business day after
the

satisfaction of the conditions set forth in Article VI, at the offices of Duane, Morris & Heckscher LLP, 380 Lexington Avenue, New York, New York 10168, or such other time and place upon which the parties may agree. The day on which the Closing actually occurs is the "Closing Date."

Section 2.2 Purchase Price. On the terms and subject to the conditions

set forth in this Agreement, Buyer agrees to pay to each Seller at the Closing for such Seller's Membership Interest the sum of \$2,250,000, for an aggregate purchase price of \$4,500,000 (the "Purchase Price"). The Purchase Price shall be paid by Buyer to each Seller by the making and delivery by Buyer on the Closing Date of a promissory note in the aggregate principal amount of the Purchase Price payable to such Seller in the form of Exhibit A attached hereto (such notes and any promissory note or notes of Buyer issued in substitution thereof hereinafter referred to as the "Notes").

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF SELLERS

Each Seller, as to himself severally, represents and warrants to Buyer as of the date hereof as follows:

Section 3.1 Authorization, etc. Such Seller is competent to execute and

deliver this Agreement, to perform his obligations hereunder and to consummate the transactions contemplated hereby. Each Seller has duly executed and delivered this Agreement. This Agreement is a legal, valid and binding obligation of such Seller, enforceable against him in accordance with its terms.

Section 3.2 Ownership of Membership Interest. Such Seller is the sole

owner, beneficially and of record, of his Membership Interest and has good and valid title to such Membership Interest, free and clear of all Liens of any kind, other than those arising from acts of Buyer.

Section 3.3 No Conflicts, etc. The execution, delivery and performance

by such Seller of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not conflict with or result in a violation of or under (with or without the giving of notice or the lapse of time or both) (a) any Applicable Law applicable to such Seller or any of his properties or assets, or (b) any contract, agreement or other instrument applicable to such Seller or to which such Seller or his Membership Interest is subject, except for violations and defaults that, individually and in the aggregate, have not and shall not materially impair the ability of such Seller to perform his obligations under this Agreement. No Governmental Approval or other Consent is required to be obtained or made by such Seller in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 3.4 Litigation. There is no action, claim, suit or proceeding

pending, or to such Seller's knowledge threatened in writing, by or against or affecting such Seller or the Membership Interest in connection with or relating to the transactions contemplated by this Agreement or of any action taken or to be taken in connection herewith or the consummation of the transactions contemplated hereby.

Section 3.5 Brokers, Finders, etc. All negotiations relating to this

Agreement, and the transactions contemplated hereby, have been carried on without the participation of any Person acting on behalf of such Seller or its Affiliates in such manner as to give rise to any valid claim against Buyer for any brokerage or finder's commission, fee or similar compensation.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Sellers as of the date hereof as follows:

Section 4.1 Corporate Status. Buyer is a corporation duly organized,

validly existing and in good standing under the laws of the State of Nevada.

Section 4.2 Authorization, etc. Buyer has the corporate power and

authority to execute and deliver this Agreement, to perform fully its obligations hereunder, and to consummate the transactions contemplated hereby. The execution and delivery by Buyer of this Agreement, and the consummation of the transactions contemplated hereby, have been duly authorized by all requisite corporate action of Buyer. Buyer has duly executed and delivered this Agreement. This Agreement is a legal, valid and binding obligation of Buyer, enforceable against it in accordance with its terms.

Section 4.3 No Conflicts, etc. The execution, delivery and performance

by Buyer of this Agreement, and the consummation of the transactions contemplated hereby, do not and will not conflict with or result in a violation of or under (with or without the giving of notice or the lapse of time or both) (a) the certificate of incorporation or bylaws of Buyer, (b) any Applicable

Law applicable to Buyer or to which Buyer or any material portion of its assets is subject, or (c) any contract, agreement or other instrument applicable to Buyer or any of its properties or assets, except for violations and defaults that, individually and in the aggregate, have not and shall not materially impair the ability of Buyer to perform its obligations under this Agreement. No Governmental Approval or other Consent is required to be obtained or made by Buyer in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 4.4 Litigation. There is no action, claim, suit or proceeding pending, or to Buyer's knowledge threatened in writing, by or against or affecting Buyer in connection with or relating to the transactions contemplated by this Agreement or of any action taken or to be taken in connection herewith or the consummation of the transactions contemplated hereby.

Section 4.5 Brokers, Finders, etc. All negotiations relating to this Agreement and the transactions contemplated hereby have been carried on without the participation of any Person acting on behalf of Buyer or its Affiliates in such manner as to give rise to any valid claim against either Seller for any brokerage or finder's commission, fee or similar compensation.

ARTICLE V

COVENANTS

Section 5.1 Covenants of Sellers. (a) Public Announcements. Except as required by Applicable Law (in which case the nature of the announcement shall be described to Buyer (and Buyer shall be allowed reasonable time to comment) prior to dissemination to the public), each Seller shall not, and shall not permit his Affiliates to, make any public announcement in respect of this Agreement or the transactions contemplated hereby without the prior written consent of Buyer; provided, however, that a Seller need not consult with Buyer with respect to any public disclosure which is substantially similar to a prior public disclosure either heretofore made or hereafter made in conformance with the terms hereof, and provided, further, that a Seller shall promptly provide to Buyer a copy of any such disclosure permitted to be made by such Seller without prior consultation with Buyer.

(b) Pre-Closing Actions. As promptly as practicable, each Seller will:

- (i) use commercially reasonable efforts to take all actions and to do all things reasonably necessary, proper or advisable to consummate the transactions contemplated hereby;
- (ii) file or supply, or cause to be filed or supplied, all applications, notifications and information required to be filed or supplied by such Seller pursuant to Applicable Law in connection with this Agreement and the sale and transfer of his Membership Interest pursuant hereto;
- (iii) use all reasonable efforts to obtain, or cause to be obtained, all Consents (including all Governmental Approvals and any Consents) necessary to be obtained by him in order to consummate the transactions contemplated pursuant to this Agreement;
- and (iv) coordinate and cooperate with Buyer in exchanging such information and supplying such assistance as may be reasonably requested by Buyer in connection with any filings and other actions contemplated by Section 5.2(b) hereof.

(c) Further Assurances. Following the Closing, each Seller shall, from

time to time, execute and deliver such additional instruments, documents, conveyances or assurances and take such other actions as shall be necessary, or otherwise reasonably requested by Buyer, to confirm and assure the rights and obligations provided for in this Agreement and render effective the consummation of the transactions contemplated hereby.

Section 5.2 Covenants of Buyer. (a) Public Announcements. Except as

required by Applicable Law (in which case the nature of the announcement shall be described to Sellers (and Sellers shall be allowed reasonable time to comment) prior to dissemination to the public), Buyer shall not, and shall not permit its Affiliates to, make any public announcement in respect of this Agreement or the transactions contemplated hereby without the prior written consent of Sellers; provided, however, that Buyer need not consult with Sellers with respect to any public disclosure which is substantially similar to a prior public disclosure either heretofore made or hereafter made in conformance with the terms hereof.

(b) Pre-Closing Actions. As promptly as practicable, Buyer will: (i)

use commercially reasonable efforts to take all actions and to do all things reasonably necessary, proper or advisable to consummate the transactions contemplated hereby; (ii) file or supply, or cause to be filed or supplied, all applications, notifications and information required to be filed or supplied by Buyer pursuant to Applicable Law in connection with this Agreement and the sale and transfer of the Membership Interests pursuant hereto; (iii) use all reasonable efforts to obtain, or cause to be obtained, all Consents (including all Governmental Approvals and any Consents) necessary to be obtained by it in order to consummate the transactions contemplated pursuant to this Agreement; and (iv) coordinate and cooperate with Sellers in exchanging such information and supplying such assistance as may be reasonably requested by Sellers in connection with any filings and other actions contemplated by Section 5.1(b) hereof.

(c) Further Assurances. Following the Closing, Buyer shall, from time

to time, execute and deliver such additional instruments, documents, conveyances or assurances and take such other actions as shall be necessary, or otherwise reasonably requested by Sellers, to confirm and assure the rights and obligations provided for in this Agreement and render effective the consummation of the transactions contemplated hereby (including, without limitation, execution and delivery of such documents as Buyer may reasonably request to constitute the Buyer as a member of the Company, under Section III.5.3 of the operating agreement of the Company or otherwise).

ARTICLE VI

CLOSING CONDITIONS AND DELIVERIES

Section 6.1 Conditions to Obligations of Each Party. The obligations of

the parties to consummate the transactions contemplated hereby at the Closing shall be subject to the fulfillment on or prior to the Closing Date of the following conditions:

(a) No Injunction, etc. Consummation of the transactions

contemplated hereby shall not have been restrained, enjoined or otherwise prohibited by any Applicable Law, including any order, injunction, decree or judgment of any court or other Governmental Authority. No court or other Governmental Authority shall have determined that any Applicable Law makes illegal the consummation of the transactions contemplated hereby.

Section 6.2 Conditions to Sellers' Obligations. The obligations of

Sellers to transfer the Membership Interests to Buyer in accordance with this Agreement and to otherwise consummate the transactions contemplated hereby at the Closing shall be subject to the satisfaction of the following conditions precedent on or prior to the Closing Date:

(a) all representations and warranties of Buyer contained in this Agreement shall have been true when made and shall be true in all material respects at and as of the Closing Date as if such representations and warranties were made at and as of the Closing Date, and Buyer shall have performed and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Buyer prior to or at the Closing; and

(b) Buyer shall have tendered to Sellers Buyer's Closing Documents.

Section 6.3 Conditions to Buyer's Obligations. The obligation of Buyer to

pay the Purchase Price by delivering the Notes, to purchase the Membership Interests and otherwise to consummate the transactions contemplated hereby at the Closing shall be subject to the satisfaction of the following conditions precedent on or prior to the Closing Date:

(a) all representations and warranties of Sellers contained in this Agreement shall have been true in all material respects when made and shall be true in all material respects at and as of the Closing Date as if such representations and warranties were made at and as of the Closing Date, and Sellers shall have performed and complied in all material respects with all covenants, agreements and conditions required by this Agreement to be performed or complied with by Sellers prior to or at the Closing Date;

(b) Sellers shall have obtained releases of all financing statements, if any, filed against Sellers or their predecessor as a debtor under the Uniform Commercial Code of any jurisdiction with respect to the Membership Interests; and

(c) Buyer shall have received Sellers' Closing Documents.

Section 6.4 Buyer's Closing Documents. At the Closing, Buyer shall

deliver to Sellers the following documents duly executed and, where applicable, acknowledged by Buyer (the documents described in this Section 6.4 being collectively referred to herein as "Buyer's Closing Documents"):

(a) the Notes;

(b) the Citadel Guarantee;

(c) a certificate of the secretary of Buyer with respect to (i) the approval by the board of directors of Buyer approving the transaction contemplated hereby and (ii) the authority of the person(s) executing this Agreement and the Buyer's Closing Documents on behalf of Buyer;

(d) a certificate of Buyer, dated as of the Closing Date, certifying that the representations and warranties of Buyer contained in this Agreement are true in all material respects at and as of the Closing Date; and

(e) legal opinions addressed to Sellers from Duane, Morris & Heckscher LLP and Kummer Kaempfer Bonner & Renshaw, counsel to Buyer, in the forms set forth in Exhibit B hereto, which opinions Buyer hereby instructs its counsel to deliver to Sellers for their benefit.

Section 6.5 Sellers' Closing Documents. At the Closing, Sellers shall

deliver to Buyer the following documents duly executed and, where applicable, acknowledged by Sellers (the documents described in this Section 6.5 being collectively referred to as "Sellers' Closing Documents"):

(a) a certificate of each Seller, dated as of the Closing Date, certifying that the representations and warranties of such Seller contained in this Agreement are true in all material respects at and as of the Closing Date, subject, however, to the provisions of Section 7.4 hereof;

(b) a legal opinion addressed to Buyer from Whitman Breed Abbott & Morgan LLP, counsel to Sellers, in the form set forth in Exhibit C hereto, which opinion Sellers hereby instruct their counsel to deliver to Buyer for its benefit; and

(c) an assignment from each Seller of his Membership Interest in the form of Exhibit D hereto.

Section 6.6 Conditions Generally. The foregoing conditions are for the

benefit only of the party for whom they are specified to be conditions precedent and Buyer, in its discretion, or Sellers may, in their sole discretion, waive any or all such conditions.

ARTICLE VII

INDEMNIFICATION

Section 7.1 By Sellers. Subject to the terms and conditions of this

Article VII, each Seller covenants and agrees to defend, indemnify and hold harmless Buyer, its officers, directors, employees, agents, advisers, representatives and Affiliates (including, after the Closing, the Company) (collectively, the "Buyer Indemnitees") from and against, and pay or reimburse Buyer Indemnitees for, any and all claims, liabilities, obligations, losses, fines, penalties, costs, proceedings, judgments, deficiencies or damages (whether absolute, accrued, conditional or otherwise and whether or not resulting from third party claims), including out-of-pocket expenses, court costs, expert witness fees and reasonable attorneys' fees incurred in the investigation or defense of any of the same or in asserting any of their respective rights hereunder (collectively, the "Losses"), resulting from or arising out of:

(a) any misrepresentation or breach of any warranty of such Seller contained in this Agreement; provided, however, that, for purposes of this Article VII, any claim for indemnification by a Buyer Indemnitee under this clause (a) may be made no later than six months from and after the Closing Date, excepting only that any claim for misrepresentation or breach of warranty under Section 3.2 may be made at any time; or

(b) any failure of such Seller to perform any covenant or agreement made or contained in this Agreement or fulfill any obligation in respect thereof.

Section 7.2 By Buyer. Subject to the terms and conditions of this

Article VII, Buyer covenants and agrees to defend, indemnify and hold harmless each Seller and his heirs, executors, administrators, distributees, legal representatives and Affiliates (collectively, the "Seller Indemnitees") from and against any and all Losses resulting from or arising out of:

(a) any misrepresentation or breach of any warranty of Buyer contained in this Agreement; provided, however, that, for purposes of this Article VII, any claim for indemnification by a Seller Indemnitee under this clause (a) may be made no later than six months from and after the Closing Date;

(b) any failure of Buyer to perform any covenant or agreement made or contained in this Agreement or fulfill any other obligation in respect thereof; or

(c) to the extent arising from or relating to this Agreement or the other elements of the transactions entered into between Sellers or any of their Affiliates, on the one hand, and Buyer or any of its Affiliates, on the other hand, on or as of the date

hereof: (i) insufficient or inadequate disclosure by Buyer or any of its Affiliates under any Applicable Law relating to proxies, (ii) failure by Buyer or any of its Affiliates to follow proper procedures and other matters relating to the fact that Buyer is owned by a Person the shares of which are traded publicly or (iii) alleged breaches of fiduciary duty by Buyer or any of its Affiliates or the existence of conflict of interest; provided, however, that, with respect to claims or liability arising under clause (iii), Buyer shall not be obligated to indemnify a Seller to the extent the claimant has been successful in such claim on the merits; provided, further, that the Buyer shall have no obligations for indemnity to a Seller or persons claiming through him with respect to actual losses or damages ultimately and finally determined and adjudged to be payable to the extent based on a breach by such Seller of his obligations hereunder or for which Sellers are obligated to indemnify Citadel pursuant to Section 8.12 of a certain Merger Agreement, dated the date hereof, among Citadel, Citadel Broadway, Inc., a wholly-owned subsidiary of Citadel, Off Broadway Investments, Inc., and Sellers.

Section 7. 3 Indemnification Procedures. In the case of any claim asserted

by a third party against a party entitled to indemnification under this Agreement (the "Indemnified Party"), written notice shall be given by the Indemnified Party to the party required to provide indemnification (the "Indemnifying Party") as soon as practicable after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and the Indemnified Party shall permit the Indemnifying Party (at the expense of such Indemnifying Party) to assume, and the Indemnifying Party shall assume, the defense of any third party claim or any litigation with a third party resulting therefrom; provided, however, that (i) the counsel for the Indemnifying Party who shall conduct the defense of such claim or litigation shall be subject to the approval of the Indemnified Party (which approval shall not be unreasonably withheld or delayed), (b) the Indemnified Party may participate in such defense at such Indemnified Party's expense, and (c) the omission by any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except and only to the extent that such Indemnifying Party is actually and materially damaged as a result of such failure to give notice. Except with the prior consent of the Indemnified Party, no Indemnifying Party, in the defense of any such claim or litigation, shall consent to entry of any judgment or enter into any settlement that provides for injunctive or other nonmonetary relief affecting the Indemnified Party that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Indemnified Party of a general release from all liability with respect to such claim or litigation. If the Indemnified Party shall in good faith determine that the conduct of the defense of any claim subject to indemnification hereunder or any proposed settlement of any such claim by the Indemnifying Party might be expected to affect adversely the Indemnified Party's tax liability or the ability of the Indemnified Party to conduct its business, or that the Indemnified Party may have available to it one or more defenses or counterclaims that are inconsistent with one or more of those that may be available to the Indemnifying Party in respect of such claim or any litigation relating thereto, the Indemnified Party shall have the right at all times to take over and assume control over the defense, settlement, negotiations or litigation relating to any such claim at the sole cost of the Indemnifying Party; provided, however, that, if the Indemnified Party does so take over and assume control, the Indemnified Party shall not settle such claim or litigation without the consent of the Indemnifying Party, such

consent not to be unreasonably withheld or delayed. If the Indemnifying Party does not accept the defense of any matter as above provided, the Indemnified Party shall have the full right to defend against any such claim or demand at the sole cost of the Indemnifying Party and shall be entitled to settle or agree to pay in full such claim or demand. In any event, the Indemnifying Party and the Indemnified Party shall reasonably cooperate in the defense of any claim or litigation subject to this Article VII and the records of each shall be reasonably available to the other with respect to such defense.

Section 7.4 Expiration of Representations and Warranties, etc. All

representations and warranties contained in this Agreement shall survive the Closing for a period of six (6) months; provided, however, that the representations and warranties stated in Section 3.2 shall survive indefinitely.

Section 7.5 Exclusive Remedy; Certain Limitations on Indemnification.

Absent fraud or criminal activity, the indemnifications provided for in this Article VII shall be the sole and exclusive post-Closing remedies available to any party against any other party for any claims under or based upon this Agreement. In no event shall the aggregate liability of any Indemnifying Party hereunder exceed the amount of the Purchase Price and in no event shall any Indemnifying Party be liable to any Indemnified Party for special, indirect or consequential damages or loss of profits.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Severability. If any provision of this Agreement, including

any phrase, sentence, clause, Section or subsection, is inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

Section 8.2 Notices. All notices, requests, demands, approvals, consents,

waivers and other communications required or permitted to be given under this Agreement (each, a "Notice") shall be in writing and shall be (a) delivered personally, (b) mailed by first-class, registered or certified mail, return receipt requested, postage prepaid, (c) sent by next-day or overnight mail or delivery, or (d) sent by facsimile transmission, provided that the original copy thereof also is sent by prepaid, first-class certified or registered mail.

(i) if to Buyer, to:

Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548
Attention: President

with a copy to:

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, NY 10168
Facsimile: (212) 692-1020
Attention: Michael H. Margulis, Esq.

(ii) if to either Seller, to him at:

120 North Robertson Boulevard
Los Angeles, CA 90048
Facsimile: (310) 652-6490

with a copy to:

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, NY 10166
Facsimile: (212) 351-3131
Attention: Howard E. Peskoe, Esq.

and

120 North Robertson Boulevard
Los Angeles, CA 90048
Facsimile: (310) 652-6490
Attention: Ira Levin

or, in each case, at such other address as may be specified in a Notice to the other party hereto. All Notices shall be deemed effective and given upon receipt or refusal of receipt.

Section 8.3 Attorneys' Fees. If any party hereto initiates any legal

action arising out of or in connection with this Agreement, the prevailing party shall be entitled to recover from the other party all reasonable attorneys' fees, expert witness fees and expenses incurred by the prevailing party in connection therewith.

Section 8.4 Headings. The headings contained in this Agreement are for

purposes of convenience only and shall not affect the meaning or interpretation of this Agreement.

Section 8.5 Entire Agreement. This Agreement (including the Exhibits

hereto) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

Section 8.6 Counterparts. This Agreement may be executed (including by

facsimile transmission) with counterpart signature pages or in several counterparts, each of which shall be deemed an original and all of which shall together constitute one and the same instrument.

Section 8.7 GOVERNING LAW, ETC. THIS AGREEMENT SHALL BE GOVERNED IN ALL

RESPECTS, INCLUDING AS TO VALIDITY, INTERPRETATION AND EFFECT, BY THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS RULES THEREOF. EACH OF BUYER AND EACH SELLER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, AND THE FEDERAL COURTS OF THE UNITED STATES OF AMERICA LOCATED IN THE SOUTHERN DISTRICT OF NEW YORK SOLELY IN RESPECT OF THE INTERPRETATION AND ENFORCEMENT OF THE PROVISIONS OF THIS AGREEMENT AND OF THE DOCUMENTS REFERRED TO IN THIS AGREEMENT, AND HEREBY WAIVE, AND AGREE NOT TO ASSERT, AS A DEFENSE IN ANY ACTION, SUIT OR PROCEEDING FOR THE INTERPRETATION OR ENFORCEMENT HEREOF OR OF ANY SUCH DOCUMENT, THAT IT IS NOT SUBJECT THERETO OR THAT SUCH ACTION, SUIT OR PROCEEDING MAY NOT BE BROUGHT OR IS NOT MAINTAINABLE IN SAID COURTS OR THAT THE VENUE THEREOF MAY NOT BE APPROPRIATE OR THAT THIS AGREEMENT OR ANY OF SUCH DOCUMENT MAY NOT BE ENFORCED IN OR BY SAID COURTS, AND THE PARTIES HERETO IRREVOCABLY AGREE THAT ALL CLAIMS WITH RESPECT TO SUCH ACTION OR PROCEEDING SHALL BE HEARD AND DETERMINED IN SUCH A NEW YORK STATE OR FEDERAL COURT. EACH OF BUYER AND EACH SELLER HEREBY CONSENTS TO AND GRANTS ANY SUCH COURT JURISDICTION OVER THE PERSON OF SUCH PARTIES AND OVER THE SUBJECT MATTER OF ANY SUCH DISPUTE AND AGREES THAT MAILING OF PROCESS OR OTHER PAPERS IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING IN THE MANNER PROVIDED IN SECTION 8.2, OR IN SUCH OTHER MANNER AS MAY BE PERMITTED BY LAW, SHALL BE VALID AND SUFFICIENT SERVICE THEREOF.

Section 8.8 Binding Effect. This Agreement shall be binding upon and

inure to the benefit of the parties hereto and their respective heirs,
successors and permitted assigns.

Section 8.9 Assignment. This Agreement shall not be assignable or

otherwise transferable by Buyer or either Seller without the prior written
consent of the Sellers or Buyer, respectively, which consent shall not be
unreasonably withheld or denied; provided, however, that Buyer may assign this
Agreement to any of its Affiliates (it being understood and agreed that no such
assignment by Buyer pursuant to this proviso shall relieve Buyer of any of its
obligations hereunder).

Section 8.10 No Third Party Beneficiaries. Except as provided in

Article VII with respect to indemnification of Indemnified Parties hereunder,
nothing in this Agreement shall confer any rights upon any Person other than the
parties hereto and their respective heirs, legal representatives, successors and
permitted assigns.

Section 8.11 Amendment; Waivers, etc. No discharge of this Agreement,

and no waiver hereunder, shall be valid or binding unless set forth in writing
and duly executed by the party against whom enforcement of the discharge or
waiver is sought. Any such waiver shall constitute a waiver only with respect
to the specific matter described in such writing and shall in no way impair the
rights of the party granting such waiver in any other respect or at any other
time. Neither the waiver by any of the parties hereto of a breach of or a
default under any of the provisions of this Agreement, nor the failure by any of
the parties, on one or more occasions, to enforce any of the provisions of this
Agreement or to exercise any right or privilege hereunder, shall be construed as
a waiver of any other breach or default of a similar nature, or as a waiver of
any of such provisions, rights or privileges hereunder. No amendment to this
Agreement shall be valid or binding unless set forth in writing and duly
executed by all the parties hereto.

Section 8.12 Transaction Costs Except to the extent as may otherwise

expressly be provided hereby, Buyer, on the one hand, and Sellers, on the other
hand, shall bear their respective expenses, costs and fees (including attorney's
fees) in connection with the transactions contemplated hereby, including the
preparation, execution and delivery of this Agreement and compliance herewith.
If any real property transfer taxes are payable with respect to the transactions
contemplated hereby, Sellers shall pay the lesser of the amount of such taxes
and one-sixth of the amount of such taxes which would have been paid if all of
the membership interests of the Company were transferred (such amount to be
shared equally between Sellers), and Buyer shall pay any balance thereof.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

/s/ James J. Cotter

James J. Cotter

/s/ Michael R. Forman

Michael R. Forman

PROMISSORY NOTE

TWO MILLION TWO
HUNDRED FIFTY THOUSAND DOLLARS
\$2,250,000

New York, New York
July 28, 2000

FOR VALUE RECEIVED, CITADEL CINEMAS, INC., a Nevada corporation (the "Maker"), hereby promises to pay to JAMES J. COTTER (the "Holder"), at such place as the Holder may designate in writing, the principal amount of Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000), payable on the second anniversary of the date of this Note (the "Maturity Date"), together with interest thereon at the rate of eight and one-quarter percent (8.25%) per annum, calculated on the basis of a year of 360 days and the actual number of days elapsed, such interest to be payable in arrears on a quarterly basis on the first day of September, December, March and June of each year, commencing on September 1, 2000.

Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Agreement of Purchase and Sale of Membership Interest, dated as of the date hereof, among the Maker, the Holder, and Michael R. Forman (the "Other Holder"), as the same may be amended, modified, supplemented or extended (the "Agreement of Purchase and Sale"). This Note and a similar note issued to the Other Holder (the "Other Note") are made and delivered pursuant to the Agreement of Purchase and Sale, representing the Purchase Price payable in accordance with the terms thereof.

1. Payments and Prepayments. All payments of principal and interest

hereunder shall be payable in lawful money of the United States and in same day funds. If any payment on this Note becomes due and payable on a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close, the maturity thereof shall be extended to the next succeeding business day and, with respect to payments of principal, interest thereon shall be payable during such extension at the then applicable rate.

2. Events of Default; Remedies. (a) The Maker shall be in default

hereunder upon the occurrence of any of the following events:

(i) Failure of the Maker to pay any installment of principal or interest, as and when due and payable, whether by reason of maturity, acceleration or otherwise, provided, in the case of interest, that such failure continues for ten (10) business days after notice from the Holder;

(ii) The entry of a decree or order for relief in respect of the Maker or Guarantor 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 Maker or Guarantor or of any substantial part of their respective property, or ordering the winding up or liquidation of their 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 Maker or Guarantor of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, and the continuance of any such case unstayed and in effect for a period of sixty (60) consecutive days;

(iii) The commencement by the Maker or Guarantor 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 either of them 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 Maker or Guarantor or of any substantial part of their respective property, or the making by either of them of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

(iv) A default by the Maker shall have occurred and not been cured after the giving of any notice of default required and passage of any time for cure permitted under the Other Note or the Lease entered into or contemplated to be entered into between the Maker and Sutton Hill Capital, L.L.C.

(v) A default by the Guarantor under the Citadel Guarantee in favor of the Holder past notice and time to cure if required or if the Citadel Guarantee ceases to be in full force and effect.

(b) Upon the occurrence of any event or condition of default hereunder, or any time thereafter, the Holder at its option may, by notice to the Maker (except that, in the case of a default described in Section 2(a)(ii) or (iii), no such notice shall be required), accelerate the maturity of this Note and declare all of the indebtedness or any portion thereof to be immediately due and payable together with accrued interest thereon, and payment thereof may be enforced by suit or other process of law.

(c) From and after acceleration or upon the maturity hereof (whether at the Maturity Date or otherwise), this Note shall bear interest, until repaid in full, at the rate of 9: %.

3. Collection Expenses. If the Holder shall institute any proceedings to

enforce payment of all or any part of any sum due the Holder hereunder, or if this Note is placed in the hands of an attorney for collection, or if it is collected through any legal proceedings, the Maker agrees to pay all costs, expenses and fees incurred by the Holder, including reasonable attorney's fees.

4. Obligation Absolute. The obligations under this Note are absolute and

unconditional obligations of the Maker and no modification, release, consent, waiver,

rearrangement or amendment shall impair the obligations of the Maker hereunder.

5. Governing Law. THIS NOTE SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING

AS TO VALIDITY, INTERPRETATION AND EFFECT, BY THE INTERNAL LAWS OF THE STATE OF
NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS RULES THEREOF.

6. Waivers. Except as otherwise provided herein or in the Citadel

Guarantee, the Maker and each surety, guarantor, endorser and other party ever
liable for payment of any sum of money payable on this Note jointly and
severally waive notice, presentment, demand for payment, protest, notice of
protest and non-payment or dishonor, notice of acceleration, notice of intent to
accelerate, notice of intent to demand, diligence in collecting, grace, and all
other formalities of any kind, and consent to all extensions without notice for
any period or periods of time and partial payments, before and after maturity,
all without prejudice to the Holder. The Maker waives the right to interpose
counterclaims (other than mandatory counterclaims) of any kind or description in
any litigation between the Maker and the Holder relating to this Note, provided
that the foregoing shall not limit set-off rights any party may have. THE MAKER
WAIVES THE RIGHT, IN ANY LITIGATION INVOLVING THIS NOTE, TO TRIAL BY JURY.

The Holder shall similarly have the right to deal in any way, at any time,
with one or more of the foregoing parties without notice to any other party, and
to grant any such party any extensions of time for payment of said indebtedness,
or to release or substitute any such party, or to grant any other indulgences or
forebearances whatsoever, without notice to any party and without in any way
affecting the personal liability of any party hereunder.

7. Modification of Note. Any provision of this Note may be modified,

altered, amended, waived, discharged or terminated if, but only if, such
modification, alteration, amendment, waiver, discharge or termination is in
writing and is signed by the Holder and Maker. Any such modification,
alteration, amendment or waiver shall constitute a modification, alteration,
amendment or waiver only with respect to the specific matter described in such
writing and shall in no way impair the rights of the party granting such
modification, alteration, amendment or waiver in any other respect or at any
other time.

8. Successors. The Holder may not assign, negotiate, pledge, encumber or

otherwise transfer or grant a participation in this Note or any interest of the
Holder herein without the written consent of the Maker, which may be withheld in
its sole discretion. The term "Maker" shall include the Maker's successors and
assigns and the term "Holder" shall include the Holder's permitted successors
and assigns.

IN WITNESS WHEREOF, the Maker has hereby caused this Note to be signed on its behalf, in its corporate name and by its duly authorized officer, as of the date first written above.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

PROMISSORY NOTE

TWO MILLION TWO
HUNDRED FIFTY THOUSAND DOLLARS
\$2,250,000

New York, New York
July 28, 2000

FOR VALUE RECEIVED, CITADEL CINEMAS, INC., a Nevada corporation (the "Maker"), hereby promises to pay to MICHAEL R. FORMAN (the "Holder"), at such place as the Holder may designate in writing, the principal amount of Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000), payable on the second anniversary of the date of this Note (the "Maturity Date"), together with interest thereon at the rate of eight and one-quarter percent (8.25%) per annum, calculated on the basis of a year of 360 days and the actual number of days elapsed, such interest to be payable in arrears on a quarterly basis on the first day of September, December, March and June of each year, commencing on September 1, 2000.

Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Agreement of Purchase and Sale of Membership Interest, dated as of the date hereof, among the Maker, the Holder, and James J. Cotter (the "Other Holder"), as the same may be amended, modified, supplemented or extended (the "Agreement of Purchase and Sale"). This Note and a similar note issued to the Other Holder (the "Other Note") are made and delivered pursuant to the Agreement of Purchase and Sale, representing the Purchase Price payable in accordance with the terms thereof.

1. Payments and Prepayments. "All payments of principal and interest

hereunder shall be payable in lawful money of the United States and in same day funds. If any payment on this Note becomes due and payable on a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or required by law to close, the maturity thereof shall be extended to the next succeeding business day and, with respect to payments of principal, interest thereon shall be payable during such extension at the then applicable rate.

2. Events of Default; Remedies. (a) The Maker shall be in default

hereunder upon the occurrence of any of the following events:

(i) Failure of the Maker to pay any installment of principal or interest, as and when due and payable, whether by reason of maturity, acceleration or otherwise, provided, in the case of interest, that such failure continues for ten (10) business days after notice from the Holder;

(ii) The entry of a decree or order for relief in respect of the Maker or Guarantor 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 Maker or Guarantor or of any substantial part of their respective property, or ordering the

winding up or liquidation of their 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 Maker or Guarantor of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, and the continuance of any such case unstayed and in effect for a period of sixty (60) consecutive days;

(iii) The commencement by the Maker or Guarantor 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 either of them 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 Maker or Guarantor or of any substantial part of their respective property, or the making by either of them of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

(iv) A default by the Maker shall have occurred and not been cured after the giving of any notice of default required and passage of any time for cure permitted under the Other Note or the Lease entered into or contemplated to be entered into between the Maker and Sutton Hill Capital, L.L.C.

(v) A default by the Guarantor under the Citadel Guarantee in favor of the Holder past notice and time to cure if required or if the Citadel Guarantee ceases to be in full force and effect.

(b) Upon the occurrence of any event or condition of default hereunder, or any time thereafter, the Holder at its option may, by notice to the Maker (except that, in the case of a default described in Section 2(a)(ii) or (iii), no such notice shall be required), accelerate the maturity of this Note and declare all of the indebtedness or any portion thereof to be immediately due and payable together with accrued interest thereon, and payment thereof may be enforced by suit or other process of law.

(c) From and after acceleration or upon the maturity hereof (whether at the Maturity Date or otherwise), this Note shall bear interest, until repaid in full, at the rate of 9: %.

3. Collection Expenses. If the Holder shall institute any proceedings to -----
enforce payment of all or any part of any sum due the Holder hereunder, or if this Note is placed in the hands of an attorney for collection, or if it is collected through any legal proceedings, the Maker agrees to pay all costs, expenses and fees incurred by the Holder, including reasonable attorney's fees.

4. Obligation Absolute. The obligations under this Note are absolute and -----

unconditional obligations of the Maker and no modification, release, consent, waiver, rearrangement or amendment shall impair the obligations of the Maker hereunder.

5. Governing Law. THIS NOTE SHALL BE GOVERNED IN ALL RESPECTS, INCLUDING

AS TO VALIDITY, INTERPRETATION AND EFFECT, BY THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICT OF LAWS RULES THEREOF.

6. Waivers. Except as otherwise provided herein or in the Citadel

Guarantee, the Maker and each surety, guarantor, endorser and other party ever liable for payment of any sum of money payable on this Note jointly and severally waive notice, presentment, demand for payment, protest, notice of protest and non-payment or dishonor, notice of acceleration, notice of intent to accelerate, notice of intent to demand, diligence in collecting, grace, and all other formalities of any kind, and consent to all extensions without notice for any period or periods of time and partial payments, before and after maturity, all without prejudice to the Holder. The Maker waives the right to interpose counterclaims (other than mandatory counterclaims) of any kind or description in any litigation between the Maker and the Holder relating to this Note, provided that the foregoing shall not limit set-off rights any party may have. THE MAKER WAIVES THE RIGHT, IN ANY LITIGATION INVOLVING THIS NOTE, TO TRIAL BY JURY.

The Holder shall similarly have the right to deal in any way, at any time, with one or more of the foregoing parties without notice to any other party, and to grant any such party any extensions of time for payment of said indebtedness, or to release or substitute any such party, or to grant any other indulgences or forbearances whatsoever, without notice to any party and without in any way affecting the personal liability of any party hereunder.

7. Modification of Note. Any provision of this Note may be modified,

altered, amended, waived, discharged or terminated if, but only if, such modification, alteration, amendment, waiver, discharge or termination is in writing and is signed by the Holder and Maker. Any such modification, alteration, amendment or waiver shall constitute a modification, alteration, amendment or waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party granting such modification, alteration, amendment or waiver in any other respect or at any other time.

8. Successors. The Holder may not assign, negotiate, pledge, encumber or

otherwise transfer or grant a participation in this Note or any interest of the Holder herein without the written consent of the Maker, which may be withheld in its sole discretion. The term "Maker" shall include the Maker's successors and assigns and the term "Holder" shall include the Holder's permitted successors and assigns.

IN WITNESS WHEREOF, the Maker has hereby caused this Note to be signed on its behalf, in its corporate name and by its duly authorized officer, as of the date first written above.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski

Title: Chief Financial Officer

CITADEL HOLDING CORPORATION GUARANTY

GUARANTY AGREEMENT (this "Guaranty"), dated as of July 28, 2000, between CITADEL HOLDING CORPORATION, a Nevada corporation (together with its successors, the "Guarantor"), and JAMES J. COTTER (a "Beneficiary").

RECITALS

A. The Guarantor is the indirect owner of all of the outstanding common stock of Citadel Cinemas, Inc. (the "Company").

B. Pursuant to an Agreement of Purchase and Sale of Membership Interest, dated as of July 28, 2000 ("Purchase Agreement"), the Company is on the date hereof purchasing from the Beneficiary the Membership Interest (as defined in the Purchase Agreement) held by the Beneficiary in exchange for a note (the "Note") in the principal amount equal to the Purchase Price (as defined in the Purchase Agreement) payable to the Beneficiary and is assuming pursuant thereto certain obligations and indemnities for the benefit of the Beneficiary.

C. It is a condition to the Beneficiary's obligations under the Purchase Agreement that this Guaranty shall have been executed and delivered by the Guarantor and shall be in full force and effect.

NOW THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby agrees as follows:

1. Guaranty of Obligations. The Guarantor hereby

unconditionally guarantees to the Beneficiary the due and punctual payment when due of all amounts now due or hereafter becoming due in respect of the Company's obligations arising under the Note and under the Purchase Agreement (including, without limitation, Section 7.2 thereof) (such obligations being herein called the "Obligations"), and agrees to pay any and all reasonable expenses incurred by the Beneficiary in enforcing any rights under this Guaranty. This Guaranty is a primary and original obligation of the Guarantor and is an absolute, unconditional, continuing and irrevocable guaranty of payment and not of collectibility or performance and is in no way conditioned or contingent upon any attempt to collect from the Company or to realize upon any property constituting security for the Obligations; provided, however, that, in respect of the Company's obligations arising under the Purchase Agreement and the Guarantor's obligations hereunder in respect of such obligations of the Company, the Guarantor shall be obligated hereunder to the same extent, except as otherwise specifically provided herein, as if the Guarantor were the Company under the Purchase Agreement; provided, further, however, that the immediately foregoing limitation on the Guarantor's Obligations

Agreement (except as set forth herein) 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 Company results from (a) any insolvency or bankruptcy case or proceeding (including any case under the U.S. Bankruptcy Code of 1978, as amended), or any receivership, liquidation, reorganization or other similar case or proceeding relative to the Company or all or substantially all of its assets, or (b) any liquidation, dissolution, reorganization or winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment of all or substantially all of the assets of the Company for the benefit of creditors or any other marshalling of assets and liabilities of the Company (the events in clauses (a), (b) and (c) collectively referred to as an "Insolvency or Liquidation Proceeding"), and in such event the Guarantor shall be liable in respect of obligations of the Company pursuant to the Purchase Agreement as if no such Insolvency or Liquidation Proceeding had been initiated. If the Company shall fail to pay any of the Obligations when and as the same shall become due and payable, the Guarantor shall forthwith pay such Obligations, in immediately available funds, directly to the Beneficiary at his address specified herein or at such other place as the Beneficiary shall direct. If the Beneficiary shall be entitled to acceleration of payment of the Obligations and such acceleration is stayed, enjoined or otherwise prevented, the Guarantor, upon demand therefor, will pay to the Beneficiary the sums which would otherwise have been due to the Beneficiary in respect of the Obligations had such acceleration occurred. The Guarantor hereby waives diligence, presentment or protest. Each default in payment of any of the Obligations shall give rise to a separate cause of action hereunder and separate suits may be brought hereunder as each cause of action arises.

2. Character of Obligations Hereunder: Subrogation. (a) The

right of the Beneficiary to enforce the obligations of the Guarantor hereunder by any proceedings, whether by action at law, suit in equity or otherwise, shall not be impaired by any right, claim or defense (against the Company or any other person, including the other Seller, as defined in the Purchase Agreement) of any character whatsoever, including without limitation any right, claim or defense of rescission, recoupment, reduction, limitation, termination, setoff, counterclaim, waiver, frustration, surrender, alteration or compromise. Without limiting the generality of the foregoing, such obligations of the Guarantor shall not be discharged, released or impaired or otherwise affected by: (i) any renewal, extension, amendment or modification of or addition or supplement to or deletion from this Guaranty or the Note; (ii) any inability or failure on the part of the Company to perform or comply with the Purchase Agreement; (iii) any

waiver, consent, extension, indulgence or other action or inaction (including, without limitation, any lack of diligence) under or in respect of this Guaranty, the Note, or any obligation or liability of the Company, or any other person, or any exercise or nonexercise of any right, power or remedy under or in respect of any such agreement or any such obligation or liability; (iv) any bankruptcy, insolvency, moratorium, reorganization, arrangement, or the like, relating to the Company; and (v) any limitation or any party's obligation or liability under any such agreement or any such obligation or liability or any termination, cancellation, frustration, invalidity or enforceability, in whole or in part, of any such agreement or any such obligation or liability or any term of any thereof. Notwithstanding any provision hereof to the contrary, the Guarantor shall be entitled to exercise against its liability in respect of the Obligations hereunder any rights of offset or recoupment which the Company may be entitled to exercise in accordance with the Note (including under the New York State Debtor and Creditor Law) as if the Guarantor were the Company.

(b) This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Beneficiary upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

(c) The Guarantor will not exercise any rights which it may acquire by way of subrogation under this Guaranty, by any payment made hereunder or otherwise, until all of the Obligations shall have been paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Obligations shall not have been indefeasibly paid in full, such amount shall be held in trust for the benefit of the Beneficiary and shall forthwith be paid to the Beneficiary and applied upon the Obligations, whether matured or unmatured. If (i) the Guarantor shall make payment to the Beneficiary of all or any part of the Obligations and (ii) all the Obligations shall be paid in full and the Note shall no longer be in effect, the Beneficiary will, at the Guarantor's request, execute and deliver to the Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

3. Representations and Warranties of the Guarantor. The

Guarantor represents and warrants to the Beneficiary that:

(a) The Guarantor is a corporation duly organized and validly existing under the laws of Nevada and has full power, authority and legal right to carry on its business as currently conducted, to own its properties and to enter into and perform its obligations under this Guaranty;

(b) The execution, delivery and performance by the Guarantor of this Guaranty have been duly authorized by all necessary corporate action and do not and will not contravene any presently existing law or any governmental rule, regulation or order applicable to the Guarantor or its properties;

(c) The execution, delivery and performance by the Guarantor of this Guaranty do not require the consent or approval or authorization or order of, the giving of notice to, or the registration with, or the taking of any other action in respect of, any governmental authority or agency, foreign or domestic, other than such as have been duly obtained, given or taken; and

(d) This Guaranty has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms.

4. Miscellaneous.

(a) No failure on the part of a Beneficiary to exercise, no delay in exercising, and no course of dealing with respect to, any right or remedy hereunder will operate as a waiver thereof; nor will any single or partial exercise of any right or remedy hereunder preclude any exercise of any other right or remedy. This Guaranty may not be amended or modified except by written agreement of the Guarantor and the Beneficiary.

(b) All notices in connection with this Guaranty shall be in writing, shall be deemed given and shall become effective when delivered by hand or courier service or received by telex, telecopier, telegram, cable or registered or certified first-class mail, postage prepaid, addressed as follows: if to the Guarantor, at 550 South Hope Street, Suite 1825, Los Angeles, California 90071 if to the Beneficiary, addressed to: 120 North Robertson Blvd., Los Angeles, California 90048 or at such other addresses which either of the foregoing shall from time to time designate in writing.

(c) If the Guarantor fails to pay any amount hereunder in respect of any of the guaranteed Obligations, a Beneficiary may (but shall not be obligated to) pay such amount. In such case, the amount paid, and the reasonable expenses of the Beneficiary incurred in connection therewith, shall be payable by the Guarantor to the Beneficiary upon demand.

(d) The terms of this Guaranty shall be binding upon the Guarantor and its successors and assigns and shall inure to the benefit of, and be enforceable by, the Beneficiary and his respective successors and assigns.

(e) This Guaranty shall be construed in accordance with and governed by the internal laws of the State of New York.

(f) If any term of this Guaranty and any other application thereof shall be invalid or unenforceable, the remainder of this Guaranty and any other application of such terms shall not be affected thereby.

(g) Each of the parties hereto (i) hereby irrevocably submits to the nonexclusive jurisdiction of the Supreme Court of the State of New York, New York County (without prejudice to the right of any party to remove to the United States District Court for the Southern District of New York) and to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Guaranty or the subject matter hereof or any of the transactions contemplated hereby or thereby brought by either of the parties hereto or their successors or assigns, (ii) hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such Federal court, (iii) hereby waives any right it may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Guaranty, and (iv) to the extent permitted by applicable law, hereby irrevocably 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 subject to the jurisdiction of the above-named courts, 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 Guaranty or the subject matter hereof may not be enforced in or by such court. A final judgment obtained in respect of any action, suit or proceeding referred to in this Section 4 shall be conclusive and may be enforced in other jurisdictions by suit or judgment or in any manner as provided by applicable law. Each of the parties hereto hereby consents to service of process by registered mail, Federal Express, DHL or similar courier at the address to which notices to it are to be given, it being agreed that service in such manner shall constitute valid service upon such party or its respective successors or assigns in connection with any such action or proceeding only; provided, however, that nothing in this Section 4 shall affect the right of any of such parties or their respective successors or assigns to serve legal process in any other manner permitted by applicable law or affect the right of any of such parties or its respective successors or assigns to bring any action or proceeding against any other one of such parties or its respective property in the courts of other jurisdictions.

IN WITNESS WHEREOF, the parties hereto have caused this Guaranty to be duly executed as of the date first set forth herein.

GUARANTOR:

CITADEL HOLDING CORPORATION

By: /s/ Andrzej Matczynski

Name: Andrzej Matczynski
Title: Chief Financial Officer

BENEFICIARY:

/s/ James J. Cotter

James J. Cotter

CITADEL HOLDING CORPORATION GUARANTY

GUARANTY AGREEMENT (this "Guaranty"), dated as of July 28, 2000, between CITADEL HOLDING CORPORATION, a Nevada corporation (together with its successors, the "Guarantor"), and MICHAEL R. FORMAN (a "Beneficiary").

RECITALS

A. The Guarantor is the indirect owner of all of the outstanding common stock of Citadel Cinemas, Inc. (the "Company").

B. Pursuant to an Agreement of Purchase and Sale of Membership Interest, dated as of July 28, 2000 ("Purchase Agreement"), the Company is on the date hereof purchasing from the Beneficiary the Membership Interest (as defined in the Purchase Agreement) held by the Beneficiary in exchange for a note (the "Note") in the principal amount equal to the Purchase Price (as defined in the Purchase Agreement) payable to the Beneficiary and is assuming pursuant thereto certain obligations and indemnities for the benefit of the Beneficiary.

C. It is a condition to the Beneficiary's obligations under the Purchase Agreement that this Guaranty shall have been executed and delivered by the Guarantor and shall be in full force and effect.

NOW THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby agrees as follows:

i. Guaranty of Obligations. The Guarantor hereby unconditionally

 guarantees to the Beneficiary the due and punctual payment when due of all amounts now due or hereafter becoming due in respect of the Company's obligations arising under the Note and under the Purchase Agreement (including, without limitation, Section 7.2 thereof) (such obligations being herein called the "Obligations"), and agrees to pay any and all reasonable expenses incurred by the Beneficiary in enforcing any rights under this Guaranty. This Guaranty is a primary and original obligation of the Guarantor and is an absolute, unconditional, continuing and irrevocable guaranty of payment and not of collectibility or performance and is in no way conditioned or contingent upon any attempt to collect from the Company or to realize upon any property constituting security for the Obligations; provided, however, that, in respect of the Company's obligations arising under the Purchase Agreement and the Guarantor's obligations hereunder in respect of such obligations of the Company, the Guarantor shall be obligated hereunder to the same extent, except as otherwise specifically provided herein, as if the Guarantor were the Company under the Purchase Agreement; provided, further, however, that the immediately foregoing limitation on the Guarantor's Obligations hereunder in respect of the Company's obligations under the Purchase Agreement (except as set forth herein) 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 Company results from (a) any insolvency or bankruptcy case or proceeding (including any case under the U.S. Bankruptcy Code of 1978, as amended), or any receivership, liquidation, reorganization or other similar case or proceeding relative to the Company or all or substantially all of its assets, or (b) any liquidation, dissolution, reorganization or winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment of all or substantially all of the assets of the Company for the benefit of creditors or any other marshalling of assets and liabilities of the Company (the events in clauses (a), (b) and (c) collectively referred to as an "Insolvency or Liquidation Proceeding"), and in such event the Guarantor shall be liable in respect of obligations of the Company pursuant to the Purchase Agreement as if no such Insolvency or Liquidation Proceeding had been initiated. If the Company shall fail to pay any of the Obligations when and as the same shall become due and payable, the Guarantor shall forthwith pay such Obligations, in immediately available funds, directly to the Beneficiary at his address specified herein or at such other place as the Beneficiary shall direct. If the Beneficiary shall be entitled to acceleration of payment of the Obligations and such acceleration is stayed, enjoined or otherwise prevented, the Guarantor, upon demand therefor, will pay to the Beneficiary the sums which would otherwise have been due to the Beneficiary in respect of the Obligations had such acceleration occurred. The Guarantor hereby waives diligence, presentment or protest. Each default in payment of any of the Obligations shall give rise to a separate cause of action hereunder and separate suits may be brought hereunder as each cause of action arises.

ii. Character of Obligations Hereunder: Subrogation. (a) The right of

the Beneficiary to enforce the obligations of the Guarantor hereunder by any proceedings, whether by action at law, suit in equity or otherwise, shall not be impaired by any right, claim or defense (against the Company or any other person, including the other Seller, as defined in the Purchase Agreement) of any character whatsoever, including without limitation any right, claim or defense of rescission, recoupment, reduction, limitation, termination, setoff, counterclaim, waiver, frustration, surrender, alteration or compromise. Without limiting the generality of the foregoing, such obligations of the Guarantor shall not be discharged, released or impaired or otherwise affected by: (i) any renewal, extension, amendment or modification of or addition or supplement to or deletion from this Guaranty or the Note; (ii) any inability or failure on the part of the Company to perform or comply with the Purchase Agreement; (iii) any waiver, consent, extension, indulgence or other action or inaction (including, without limitation, any lack of diligence) under or in respect of this Guaranty, the Note, or any obligation or liability of the Company, or any other person, or any exercise or nonexercise of any right, power or remedy under or in respect of any such agreement or any such obligation or liability; (iv) any bankruptcy, insolvency, moratorium, reorganization, arrangement, or the like, relating to the Company; and (v) any limitation or any party's obligation or liability under any such agreement or any such obligation or liability or any termination, cancellation, frustration, invalidity or enforceability, in whole or in part, of any such agreement or any such obligation or liability or any term of any thereof. Notwithstanding any provision hereof to the contrary, the Guarantor

shall be entitled to exercise against its liability in respect of the Obligations hereunder any rights of offset or recoupment which the Company may be entitled to exercise in accordance with the Note (including under the New York State Debtor and Creditor Law) as if the Guarantor were the Company.

(b) This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Beneficiary upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

(c) The Guarantor will not exercise any rights which it may acquire by way of subrogation under this Guaranty, by any payment made hereunder or otherwise, until all of the Obligations shall have been paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Obligations shall not have been indefeasibly paid in full, such amount shall be held in trust for the benefit of the Beneficiary and shall forthwith be paid to the Beneficiary and applied upon the Obligations, whether matured or unmatured. If (i) the Guarantor shall make payment to the Beneficiary of all or any part of the Obligations and (ii) all the Obligations shall be paid in full and the Note shall no longer be in effect, the Beneficiary will, at the Guarantor's request, execute and deliver to the Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

iii. Representations and Warranties of the Guarantor. The Guarantor

represents and warrants to the Beneficiary that:

(a) The Guarantor is a corporation duly organized and validly existing under the laws of Nevada and has full power, authority and legal right to carry on its business as currently conducted, to own its properties and to enter into and perform its obligations under this Guaranty;

(b) The execution, delivery and performance by the Guarantor of this Guaranty have been duly authorized by all necessary corporate action and do not and will not contravene any presently existing law or any governmental rule, regulation or order applicable to the Guarantor or its properties;

(c) The execution, delivery and performance by the Guarantor of this Guaranty do not require the consent or approval or authorization or order of, the giving of notice to, or the registration with, or the taking of any other action in respect of, any governmental authority or agency, foreign or domestic, other than such as have been duly obtained, given or taken; and

(d) This Guaranty has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms.

iv. Miscellaneous.

(a) No failure on the part of a Beneficiary to exercise, no delay in exercising, and no course of dealing with respect to, any right or remedy hereunder will operate as a waiver thereof; nor will any single or partial exercise of any right or remedy hereunder preclude any exercise of any other right or remedy. This Guaranty may not be amended or modified except by written agreement of the Guarantor and the Beneficiary.

(b) All notices in connection with this Guaranty shall be in writing, shall be deemed given and shall become effective when delivered by hand or courier service or received by telex, telecopier, telegram, cable or registered or certified first-class mail, postage prepaid, addressed as follows: if to the Guarantor, at 550 South Hope Street, Suite 1825, Los Angeles, California 90071 if to the Beneficiary, addressed to: 120 North Robertson Blvd., Los Angeles, California 90048 or at such other addresses which either of the foregoing shall from time to time designate in writing.

(c) If the Guarantor fails to pay any amount hereunder in respect of any of the guaranteed Obligations, a Beneficiary may (but shall not be obligated to) pay such amount. In such case, the amount paid, and the reasonable expenses of the Beneficiary incurred in connection therewith, shall be payable by the Guarantor to the Beneficiary upon demand.

(d) The terms of this Guaranty shall be binding upon the Guarantor and its successors and assigns and shall inure to the benefit of, and be enforceable by, the Beneficiary and his respective successors and assigns.

(e) This Guaranty shall be construed in accordance with and governed by the internal laws of the State of New York.

(f) If any term of this Guaranty and any other application thereof shall be invalid or unenforceable, the remainder of this Guaranty and any other application of such terms shall not be affected thereby.

(g) Each of the parties hereto (i) hereby irrevocably submits to the nonexclusive jurisdiction of the Supreme Court of the State of New York, New York County (without prejudice to the right of any party to remove to the United States District Court for the Southern District of New York) and to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Guaranty or the subject matter hereof or any of the transactions contemplated hereby or thereby brought by either of the parties hereto or their successors or assigns, (ii) hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such Federal court, (iii) hereby waives any right it may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Guaranty, and (iv) to the extent permitted by applicable law, hereby irrevocably 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 subject to the jurisdiction of the above-named courts, 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 Guaranty or the subject matter hereof may not be enforced in or by such court. A final judgment obtained in respect of any action, suit or proceeding referred to in this Section 4 shall be conclusive and may be enforced in other jurisdictions by suit or judgment or in any manner as provided by applicable law. Each of the parties hereto hereby consents to service of process by registered mail, Federal Express, DHL or similar courier at the address to which notices to it are to be given, it being agreed that service in such manner shall constitute valid service upon such party or its respective successors or assigns in connection with any such action or proceeding only; provided, however, that nothing in this Section 4 shall affect the right of any of such parties or their respective successors or assigns to serve legal process in any other manner permitted by applicable law or affect the right of any of such parties or its respective successors or assigns to bring any action or proceeding against any other one of such parties or its respective property in the courts of other jurisdictions.

IN WITNESS WHEREOF, the parties hereto have caused this Guaranty to be duly executed as of the date first set forth herein.

GUARANTOR:

CITADEL HOLDING CORPORATION

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski

Title: Chief Financial Officer

BENEFICIARY:

/s/ Michael R. Forman

Michael R. Forman

LEASE AGREEMENT

Dated as of July 28, 2000

BETWEEN

SUTTON HILL CAPITAL, L.L.C.,

as Landlord,

and

CITADEL CINEMAS, INC.,

as Tenant

TABLE OF CONTENTS

	Page

SECTION 1. DEFINITIONS.....	1
SECTION 2. REPRESENTATIONS, WARRANTIES AND CERTAIN COVENANTS.....	18
SECTION 3. LEASE OF THEATRE PROPERTIES.....	27
SECTION 4. RESERVED.....	27
SECTION 5. OBLIGATIONS.....	27
SECTION 6. INITIAL TERM; RENEWAL TERM.....	30
SECTION 7. RENT AND OTHER PAYMENTS.....	30

SECTION 8. RESTRICTED USE; COMPLIANCE WITH LAWS..... 31

SECTION 9. MAINTENANCE, IMPROVEMENT, REPAIR AND DEVELOPMENT OF THEATRE IMPROVEMENTS AND EQUIPMENT..... 39

SECTION 10. INSURANCE..... 45

SECTION 11. INDEMNITIES..... 50

SECTION 12. TENANT'S RIGHTS OF PURCHASE AND RENEWAL..... 55

SECTION 13. UTILITY SERVICES..... 58

SECTION 14. LEASE EXPIRATION..... 58

SECTION 15. LOSS OF OR DAMAGE TO THEATRE IMPROVEMENTS OR EQUIPMENT..... 59

SECTION 16. CONDEMNATION AND DEDICATION OF THEATRE PROPERTY; EASEMENTS..... 61

SECTION 17. ASSIGNMENT AND SUBLETTING..... 64

SECTION 18. EVENTS OF DEFAULT..... 66

SECTION 19. RIGHTS UPON DEFAULT..... 68

SECTION 20. LANDLORD'S LIEN..... 71

SECTION 21. SUBORDINATION AND ATTORNMENT..... 72

SECTION 22. RIGHT TO PERFORM FOR TENANT..... 73

SECTION 23. PERMITTED CONTESTS..... 73

SECTION 24. PLEDGE BY LANDLORD..... 75

SECTION 25. NOTICES AND REQUESTS..... 75

SECTION 26. COVENANT OF QUIET ENJOYMENT..... 76

SECTION 27. LEASEHOLD INTERESTS..... 77

SECTION 28. MISCELLANEOUS..... 78

SECTION 29. CONSENTS..... 82

SECTION 30. NO RECOURSE..... 83

SECTION 31. NO MERGER..... 83
SECTION 32. EQUIPMENT TO BE PERSONAL PROPERTY..... 83
SECTION 33. MERGER, CONSOLIDATION OR SALE OF ASSETS..... 84
SECTION 34. SUCCESSORS AND ASSIGNS..... 84

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

Schedule 2.3(d) - Litigation

Schedule 2.3(m) - Notices of Violations of Law

Schedule 2.3(n) - Writings Regarding Structural Defects

LEASE AGREEMENT

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

W I T N E S S E T H:

WHEREAS, the Landlord owns certain leasehold interests pursuant to the Site Leases (hereinafter defined), which together comprise four (4) parcels of land located in New York City commonly known as (i) the Village East Cinemas located at 181 Second Avenue, New York, New York 10003, (ii) the Sutton Theatre located at 205 East 57th Street, New York, New York 10022, (iii) the Murray Hill Theatre located at 160 East 34th Street, New York, New York 10016, and (iv) Cinemas 1, 2 and 3 located at 1001 Third Avenue, New York, New York 10022, which properties are more fully described on Exhibit A attached hereto and incorporated herein by this reference (individually, a "Leased Site" and collectively, the "Leased Sites");

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

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

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

SECTION 1. DEFINITIONS.

1.1 Defined Terms.

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

"Acquisition Cost" means the excess of (a) forty four million Dollars (\$44,000,000) or such other amount determined in accordance with Section 12 and paragraph (c) of Section 16, over (b) an amount equal to the sum of (i) 50% of the cost actually paid by Tenant, for title insurance only, to insure the interest of Tenant under this Lease in the Leased Sites and Theatre Improvements and (ii) interest on the amount set forth in clause (b)(i) of this definition calculated at the rate of 8.25% per annum for the period from the date of the purchase of such title insurance to the Purchase Option Closing Date, compounded annually; provided that the Acquisition Cost shall be subject to adjustment as provided herein.

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

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

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

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

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

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

"Applicable Rent Amount" means (a) for any calendar month (or part thereof) in the period ending on the day prior to the second anniversary of the Effective Date, \$268,125, and (b) for any calendar month (or part thereof) thereafter, the multiplier (as hereinafter defined) for the lease year in which such month occurs multiplied by the Applicable Rent Amount as in effect during the prior lease year, in each case, subject to such further adjustments as are provided in this Lease; provided that, if the Borrower under the Loan Agreement gives a Notice of Borrowing (as defined in the Loan Agreement) and fails to satisfy all of the conditions to the Loan (as defined in the Loan Agreement) provided for in such Notice of Borrowing, or if such Borrower reduces the Commitment (as defined in the Loan Agreement) or at its option prepays any Loan, then the multiplier for each lease year after the year in which such failure, reduction, or repayment occurs shall be (x) if there is no Loan then outstanding and no unused Commitment, one and (y) whenever following any such failure, reduction or repayment there is any Loan then outstanding or unused Commitment (or both), further reduced by a fraction, the numerator of which is the sum of (A) the principal amount of Loans then outstanding and (B) the amount of the available Commitment and the denominator of which is \$28,000,000. For purposes of the foregoing, (i) a "lease year" means each period beginning on the Effective Date or an anniversary thereof and ending on the day prior to the next anniversary thereof, and (ii) the "multiplier" means 72% of a fraction, the numerator of which is the Consumer Price Index in effect for the month of March preceding the anniversary date in question and the denominator of which is the Consumer Price Index in effect for the month of March in the prior year, provided that (A) except as provided in the following clause (B), the multiplier for any lease year shall not be greater than 1.043 nor less than 1.0215 and (B) the multiplier for the third lease year shall be such as would have been in effect had the multiplier for the second lease year been applied to determine the Applicable Rent Amount for the second lease year.

"Appraisal Procedure" means the following procedure whereby an independent appraiser shall be appointed by the Landlord and the Tenant to determine (i) the amount of wear and tear in excess of that attributable to normal use of the Theatre Improvements and Equipment to which the provisions of paragraph (b) of Section 14 apply, (ii) the Renewal Rental Rate of the Theatre Properties, including all Elements thereof (as then constituted), during the Renewal Term, if such determination is required under paragraph (i) of Section 12 hereof, (iii) the reduction in Basic Rent as provided in paragraph (d) of Section 15 hereof or paragraph (d) of Section 16, (iv) a deficiency in the Tenant's insurance coverage as described in paragraph (c) of Section 15 hereof, or (v) the amount of the deficiency as provided in paragraph (c) of Section 19 hereof. If the amount of such excess wear and tear, the Renewal Rental Rate, a reduction in Basic Rent or either such deficiency is required to be determined pursuant to the above mentioned sections, either Landlord or Tenant may request the appointment of an appraiser to make such determination. If no such appraiser is appointed by the Landlord and the Tenant, acting jointly, within ten (10) days of the written request of either the Landlord or the Tenant that an appraiser be appointed, either the Landlord or the Tenant may request the American Arbitration Association in New York to appoint an independent appraiser

within fifteen (15) days after such request. Such appraiser shall have at least 10 years' experience in the business of appraising or leasing retail and similar space in the Borough of Manhattan, City of New York. Within ten (10) days after the appointment of the appraiser, each of the Landlord and the Tenant shall submit to the appraiser, with a copy delivered to the other, its proposal as to the amount of wear and tear in excess of that attributable to normal use, the Renewal Rental Rate, a reduction or either deficiency, as the case may be, together with any information the submitting party believes appropriate to support its proposal. The appraiser shall be directed to select, as the amount of such excess wear and tear, the Renewal Rental Rate, a reduction or either deficiency, as the case may be, in accordance with the standards set forth in paragraph (b) of Section 14, paragraph (i) of Section 12, paragraph (d) of Section 15 or Section 16 (as applicable), or paragraph (c) of Section 19, respectively, either the amount proposed by Tenant or the amount proposed by Landlord, and report such determination to Landlord and Tenant, as soon as practicable and in any case within fifteen (15) days after the receipt or expiration of the time for such submissions. The appraiser shall not and shall have no authority to modify either proposal or make any determination other than to select one of such proposals. Upon delivery of the appraiser's report, the amount determined by the appraiser as such excess wear and tear, Renewal Rental Rate, a reduction or either deficiency, as the case may be, shall be final. The party whose proposal is not selected shall pay all fees and expenses of the appraiser and the American Arbitration Association, and each party shall pay its own expenses in connection with such proceeding.

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

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

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

insolvency or other similar law, and the continuance of any such case unstayed and in effect for a period of sixty (60) days; or

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

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

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

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

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

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

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

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

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

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

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

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

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

"Business Sale" means the sale by the Parent (whether by sale of one or more Subsidiaries, sale of assets, merger involving one or more Subsidiaries or otherwise) of all or substantially all of its United States (excluding Puerto Rico) movie theatre business, including sale of its interest in the Theatre Properties or the direct or indirect ownership interest in the Tenant.

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

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

"Citadel" means Citadel Holding Corporation, a Nevada corporation (an Affiliate of the Tenant), and its successors.

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

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

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

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

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

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

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

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

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

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

"Effective Date" means the date provided in Section 3 of this Lease.

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

result of the existence of Contaminants at any location or noncompliance with Environmental Requirements, including, without limitation:

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

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

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

"Environmental Matters" means any matter, fact or situation relating to or arising from (a) any violation or alleged violation of an Environmental Requirement, (b) any release or threatened release of any Contaminant on, under or from the Property or Equipment or the presence of any Contaminant which has come to be located on, from or under a Theatre Property or Element thereof

from another location, or (c) any injury to human health or safety or the environment by reason of the matters described in clauses (a) and (b).

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

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

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

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

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

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

"Fee Option Agreement" means the agreement, dated as of the date hereof, between FeeSub and the Landlord, as the same may be amended, modified, supplemented or restated from time to time.

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

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

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

"Funding Date" means the date on which

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

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

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

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

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

"Indebtedness" means for any Person, without duplication (a) all indebtedness or other obligations of such Person for borrowed money and all indebtedness of such Person with respect to any other items (other than income taxes payable, deferred taxes, deferred credits and accounts

payable), which would, in accordance with GAAP, be classified as a liability on the balance sheet of such Person, (b) all obligations of such Person to pay the deferred purchase price of property or services, including any such obligations created under or arising out of any conditional sale or other title retention agreement, (c) all obligations of such Person (contingent or otherwise) under reimbursement or similar agreements with respect to the issuance of letters of credit, (d) all indebtedness or other obligations of such Person under or in respect of any swap, cap, collar or other financial hedging arrangement, (e) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c) or (d) above, the payment or collection of which such Person has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or in respect of which such Person is liable, contingently or otherwise, including, without limitation, liable by way of agreement to purchase products or securities, to provide funds for payment, to maintain working capital or other balance sheet conditions or otherwise to assure a creditor against loss, and (f) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c), (d), or (e) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or becomes liable for the payment of such indebtedness or obligations.

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

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

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

"Institutional Lender" means a savings and loan association, a savings bank, a commercial bank or trust company or an insurance company organized under the laws of the United States or any state thereof or organized under the laws of any other jurisdiction and licensed or registered to do business in the United States or any state thereof or a federal, state or municipal employees' welfare pension or retirement fund or system, provided that, in any such case, such lender is subject to or submits to service of process within the State of New York, has total assets of at least \$1 billion and is acting in its own interest and capacity or as a fiduciary or trustee for any of the following; a real

estate investment trust sponsored by an entity which otherwise qualifies as an institutional lender or one which is publicly traded on a recognized securities exchange, an educational, major religious or charitable institution, a so-called "REMIC" or mortgage trust, or a trustee acting for the benefit of the holders of debt securities issued in transactions registered under the Securities Act of 1933 (as amended), or exempt from such registrations pursuant to Rule 144A thereunder, or an investment banking firm or other similar financial institution; provided, however, that no Institutional Lender shall be an Affiliate of Tenant. For purposes of this Lease, an Institutional Lender may comprise two or more entities qualifying under this definition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"Material Adverse Property Effect" means a material adverse effect on (a) the operation, maintenance, leasing, ownership, use or value of a Theatre Property or material Elements thereof, (b) the business, assets, properties, financial condition or operations of the Tenant, or (c) the rights or interests of the Landlord under this Lease or the landlord's interest under any Site Lease.

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

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

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

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

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

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

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

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

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

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

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

"Permitted Investments" means the following investments: (a) direct or guaranteed obligations of the United States of America or agencies thereof backed by the full faith and credit of the United States of America, (b) certificates of deposit and bankers' acceptances which mature within one year from the date of purchase and which are issued by a bank organized or doing business under the laws of the United States of America or one of the states thereof whose long-term debt obligations are at the time of purchase rated "AA" or higher by S&P or the equivalent by Moody's, (c) repurchase agreements with such banks, fully secured by direct obligations of the United States of America or agencies thereof backed by the full faith and credit of the United States

of America, (d) commercial paper issued by a corporation which at the time of purchase is rated "A-1" or higher by S&P or "P-1" by Moody's, and (e) shares in money market funds whose investments are limited to securities described in clauses (a) to (d).

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

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

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

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

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

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

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

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

"Reading" means Reading Entertainment, Inc., a Nevada corporation, and its successors.

"Reimbursement Rate" means 11.25% per annum.

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

"Remedial Action" means actions required or otherwise undertaken by a Governmental Authority, or which are appropriate as a matter of prudent business practice and commercial reasonableness, to (a) in the case of any Environmental Event, (i) clean up, remove, treat or in any other way address Contaminants in the indoor or outdoor environment; (ii) prevent the Release or threat of Release or minimize the further Release of Contaminants; or (iii) investigate and determine if a remedial response is needed, and to design such a response and post-remedial investigation, monitoring, operation, maintenance and care and (b) in the case of any other Legal Requirement, investigate and cure (or Properly Contest and, if unsuccessful, cure) the applicable condition, or comply therewith (including following a Proper Contest).

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

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

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

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

"Site Leases" means each of:

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

(b) the ground lease dated February 9, 1961 between Andrew C. Mayer, et al., as landlord, and Turtle Bay Theatre Corporation, as tenant, covering premises at 1001, 1003, 1005 and 1007 Third Avenue, New York, New York 10022, containing Cinemas 1, 2 and 3, the tenant's interest therein having been assigned to (i) Sutcin Holding Corp. pursuant to that

Assignment & Assumption of Lease dated December 31, 1984 between Cinema 5 Ltd., as successor in liquidation to Turtle Bay Theatre Corporation, and Sutcin Holding Corp., and (ii) Sutton Hill Associates pursuant to that Agreement of Purchase and Sale and related Assignment of Lease, each dated July 3, 1986 between Sutcin Holding Corp. and Sutton Hill Associates; and

(c) that certain Ground Lease dated as of August 16, 1985, between Sutcin Holding Corp., as landlord, and Sutton Hill Associates, as tenant, covering the premises at (i) 205 East 57th Street, New York, New York 10022, containing the Sutton Theatre, and (ii) 160 East 34th Street, New York, New York 10016, containing the Murray Hill Theatre, as amended by the First Addendum to Ground Lease, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, Second Addendum to Ground Lease, dated as of January 1, 1995, between Sutcin Holding Corp. and Sutton Hill Associates, Third Addendum to Ground Lease, dated as of July 1, 1996, between Nationwide (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, and Fourth Addendum to Ground Lease, dated as of the date hereof, between Nationwide and Sutton Hill Associates;

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

"Site Lease Assignment" means the assignment of the Site Leases, dated the date hereof, between Sutton Hill Associates and Landlord.

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

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

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

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

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

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

"Sutton and Murray Hill Option" means the right of Sutton Hill Associates to purchase the fee interests underlying the Sutton Theatre and the Murray Hill Theatre, leased to the Landlord pursuant to one of the Site Leases, on the terms and subject to the conditions set forth in the Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, made and entered into as of August 16, 1985 by and between Sutcin Holding Corp. and Sutton Hill Associates, as amended by the First Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, the Second Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated as July 1, 1996, between Nationwide Theaters Corp. (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates and the Third Addendum to Option to Purchase and Agreement of Purchase and Sale and Escrow Instructions, dated as the date hereof, between Nationwide and Sutton Hill Associates, copies of all of which are attached as Exhibit E hereto, and which has been assigned to the Landlord pursuant to the terms of the Assignment of Option Agreement.

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

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

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

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

"Tenant Event" shall mean an event arising from or attributable to an action or inaction of, or a condition or event relating to, Tenant or any of its Affiliates (or the agents, officers, directors or

employees of the Tenant or any such Affiliate), or initiated by Tenant or any of its Affiliates (or any such Person), unless such action, inaction, or event was or resulted from an action by Tenant or any of its Affiliates to enforce any rights or remedies under the Lease or any other Contract or Applicable Law so long as such action so to enforce was initiated in good faith.

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

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

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

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

"Unit", when referring to the personal property leased under this Lease, means a particular item of Equipment, as the context requires.

1.2 Other Definitional Provisions.

(a All terms defined in this Lease shall have their defined meanings when used in any certificate or other document made or delivered pursuant hereto.

(b The words "hereof", "herein" and "hereunder" and words of similar import when used in this Lease shall refer to this agreement as a whole and not to any particular provision of this Lease, and section, subsection, paragraph, schedule and exhibit references are to this Lease unless otherwise specified. The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. REPRESENTATIONS, WARRANTIES AND CERTAIN COVENANTS.

2.1 Representations and Warranties of the Tenant. The Tenant represents

and warrants to the Landlord that, as of the date hereof:

(a Corporate Matters. The Tenant (i) has been duly incorporated and

is validly existing as a corporation in good standing under the laws of the State of Nevada, (ii) has full power, authority and legal right to own and operate its properties and to conduct its business as presently conducted and to execute, deliver and perform its obligations under this Lease and the Other Lease Documents, and (iii) is or will be timely duly qualified to do business as a foreign corporation in good standing in the State of New York.

(b) Binding Agreement. Each of this Lease and each Other Lease

Document has been duly authorized, executed and delivered by the Tenant and, assuming the due authorization, execution and delivery thereof by the Landlord, constitutes a legal, valid and binding obligation of the Tenant, enforceable according to its terms, except as the enforceability of this Lease and each such Other Lease Document may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or laws affecting creditors' rights generally and by general principles of equity.

(c) Compliance with Other Instruments. The execution, delivery and

performance by the Tenant of this Lease and the Other Lease Documents will not result in any violation of any term of the certificate of incorporation or the by-laws of the Tenant, do not require stockholder approval or the approval or consent of any trustee or holders of Indebtedness of the Tenant except such as have been obtained prior to the date hereof and will not conflict with or result in a breach of any terms or provisions of, or constitute a default under, any Lien, or result in the creation or imposition of any Lien (other than a Permitted Lien), upon any property or assets of the Tenant under any indenture, mortgage or other agreement or instrument to which the Tenant is a party or by which it or any of its property is bound, or any existing applicable law, rule, regulation, license, judgment, order or decree of any government, governmental body or court having jurisdiction over the Tenant or any of its activities or properties.

(d) Litigation. There is no action, suit, proceeding or

investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal now pending or, to Tenant's knowledge, threatened in writing against or affecting the Tenant or any Affiliate which questions the enforceability of this Lease or the Other Lease Documents.

(e) Financial Statements. The Tenant has furnished to the Landlord

copies of Citadel's Annual Report on Form 10-K for the year ended December 31, 1999 and Quarterly Report on Form 10-Q for the period ended March 31, 2000. The financial statements contained in such documents fairly present the financial position, results of operations and consolidated statements of cash flows of Citadel as of the dates and for the periods indicated therein in all material respects and have been prepared in accordance with GAAP, and there has been no material adverse change in

Citadel's business or financial results since the end of the period covered by the latest financial statements included in such reports, except as may be disclosed in such reports.

(f) Brokerage. There are no claims for brokerage commissions or

finder's fees for persons engaged by the Tenant or any Affiliate in connection with this Lease. Neither the Tenant nor any Affiliate has dealt with any agent or broker in connection with this Lease or the Theatre Properties and the Lease was not brought about or procured through the use, negotiation or instrumentality of any agent or broker acting on behalf of Tenant or any Affiliate.

(g) Condition of Theatre Improvements and Equipment. Except as

expressly set forth herein, neither the Landlord nor any Affiliate, nor anyone acting on behalf of any such party, has made any representation or warranty of any kind whatsoever, express or implied, as to the safety, title, condition, quality, quantity, fitness for use, merchantability, conformity to specification, or any other characteristic, of any of the Leased Sites, the Theatre Improvements or the Equipment, and the Tenant has entered into this Lease on the basis of its own judgment and accepts the Theatre Properties, including each Element thereof, "as is" and in the condition existing on the Effective Date.

(h) Governmental Consents. There are no consents, permits, licenses,

orders, authorizations, approvals, waivers, extensions or variances of, or notices to or registrations or filings with (each a "Governmental Action") any Governmental Authority which are or will be required to be obtained by the Tenant or any Affiliate in connection with the valid execution, delivery and performance of this Lease or the Other Lease Documents except such Governmental Actions (A) as have been duly obtained, given or accomplished, with true copies thereof delivered to the Landlord, or (B) as may be required by applicable law not now in effect.

(i) Status of Tenant. All of the Tenant's common stock is owned

beneficially and of record by Citadel or a direct or indirect wholly-owned subsidiary of Citadel.

2.2 Certain Covenants of Tenant. Tenant covenants to and with Landlord

during the Lease Term and until the indefeasible payment of all amounts owing hereunder:

(a Corporate Existence. The Tenant or its assigns will at all times

be (i) a validly existing corporation or other business entity in good standing under the laws of its jurisdiction of organization and (ii) if required, duly qualified to do business in good standing in the State of New York.

(b Delivery of Information. The Tenant shall deliver to the

Landlord (i) promptly upon their becoming available, and in any event not more than 120 days after the end of each fiscal year of Tenant, copies of Tenant's respective annual financial statement and promptly upon their becoming available, and in any event not more than 60 days after the end of each fiscal quarter of Tenant (other than the last fiscal quarter of each year), copies of Tenant's quarterly unaudited financial statements, prepared in accordance with GAAP, and (ii) promptly upon request, such other information with respect to the Tenant's properties, assets, or litigation as the Landlord shall reasonably request; provided that financial statements of Parent may be supplied in lieu of the financial statements of Tenant.

(c Capital Expenditures. Tenant will not make any Capital

Expenditures with respect to any Theatre Improvements or Equipment other than Capital Expenditures that will not have a Material Adverse Property Effect.

(d Liens. The Tenant will not create, incur, assume or permit to

exist any Lien on any Theatre Property or Element thereof, except Permitted Liens.

(e Environmental Event.

(i The Tenant shall promptly, but in any case within five (5) Business Days of the Tenant becoming aware of such event, notify the Landlord if, after the Effective Date, (A) any environmental event has occurred or any environmental condition is discovered in, on, beneath, from or involving any Parcel, Theatre Improvements or Equipment (including, but not limited to, the presence (in quantities in excess of legally permissible amounts), emission or release of Contaminants or the violations of any applicable Environmental Requirements) that could reasonably be expected to result in penalties or other liabilities (including costs to alleviate or remediate) in excess of \$100,000, or (B) the Tenant has received notification that it, any Parcel, Theatre Improvements or Equipment is the subject of a proceeding that could reasonably be expected to result in any ordered Remedial Action or other liability related to an environmental event or condition, the cost of which liability is reasonably expected to exceed \$100,000 (each of the events or occurrences described in clause (A) or (B), regardless of the amount of penalty, liability or cost to remediate, an "Environmental Event").

(ii Following the receipt of a notice pursuant to subparagraph (i) above, unless such Environmental Event is a Landlord Environmental Obligation, Landlord in its sole discretion may require the Tenant to conduct, or cause to be conducted, an environmental audit of the affected Parcel, Theatre Improvements or Equipment, the scope of which audit shall be limited to confirming the magnitude and anticipated cost of the liability resulting from the Environmental Event, and to provide a copy of an environmental consultant's report on its audit to the Landlord.

(iii In any case, if an Environmental Event arises during the Lease Term or (regardless of when it arose) is otherwise not exclusively a Landlord Environmental Obligation, the Tenant shall immediately initiate, or cause to be initiated at no cost to the Landlord, such actions as may be necessary to comply in all material respects with all

applicable Environmental Requirements and to alleviate any significant risk to human health or the environment if the same arises from a condition on or in respect of the affected Parcel, Theatre Improvements or Equipment, whether existing prior to, on or after the date of this Lease. Once the Tenant commences such actions, the Tenant shall thereafter diligently and expeditiously proceed to comply materially and in a timely manner with all Environmental Requirements and to eliminate any significant risk to human health or the environment and shall, at the request of the Landlord, during the Lease Term give periodic progress reports on Tenant's compliance efforts and actions.

(iv If an Environmental Event is a Landlord Environmental Obligation, the Tenant shall have no responsibility to cure or remediate such Environmental Event. If an Environmental Event is a Landlord Environmental Obligation, Tenant shall notify Landlord that such Environmental Event has occurred or exists and Tenant, in its discretion, but in any case at the sole expense of the Landlord, may initiate or require the Landlord to initiate and otherwise take the actions described in paragraph (iii) of this Section 2.2(e), in the same manner as would have been applicable to the Tenant had such Environmental Event not been a Landlord Environmental Obligation; provided, however, that the Tenant shall not initiate any action described in this sentence (except in cases of imminent danger to persons or property) unless the Tenant has notified the Landlord that an Environmental Event has occurred which is a Landlord Environmental Obligation and the Landlord has failed to advise the Tenant within thirty days following receipt of such notice of the Landlord's planned response thereto, which may include Properly Contesting such claim (and has failed after reasonable notice to proceed with reasonable diligence in implementing such response), or has advised the Tenant that Landlord does not intend to respond thereto. Whether or not Landlord otherwise responds to the Tenant's notice or the Event in question, Landlord reserves the right and option to contest that such Event is in fact a Landlord's Environmental Obligation hereunder.

(f Site Leases. The Tenant agrees to pay or cause to be paid to

each Site Landlord, on or before the first Business Day of each calendar month throughout the Lease Term, all fixed or base rent to be due under the respective Site Leases for such calendar month and to pay as and when due and payable pursuant thereto all additional rent and other charges payable pursuant to the respective Site Leases (excluding only amounts (i) payable to the extent resulting from a Landlord Act as lessee thereunder or the breach by Landlord of any obligation thereunder which was not the result of a Tenant Event, or (ii) which relates to a period prior to commencement of the Lease

Term and which has not been assumed by or become the obligation of Tenant pursuant hereto). If Tenant attempts to make payment directly to a Site Landlord and such payment is rejected because Tenant is not such Site Landlord's tenant, Tenant shall provide funds to Landlord to enable it to pay, and Landlord agrees that, upon receipt of such funds (and provided funds owing to it are also paid), it shall pay, sums due to the applicable Site Landlord.

(g) Payment of Taxes. The Tenant agrees to pay or cause to be paid,

on or within thirty (30) Business Days after the Effective Date, all New York City and New York State real estate transfer taxes, imposed by reason of the execution and delivery of this Lease, the creation or granting of the estate demised hereby or the recording hereof or of a memorandum hereof, and to provide to Landlord, promptly following Landlord's written request therefor, reasonable evidence of the payment of such taxes.

2.3 Landlord Representations and Warranties. The Landlord represents and

warrants to the Tenant that, as of the date hereof:

(a) Corporate Matters. The Landlord (i) has been duly organized and

is validly existing as a limited liability company in good standing under the laws of the State of New York, and (ii) has full power, authority and legal right to own and operate its properties and to conduct its business as presently conducted and to execute, deliver and perform its obligations under this Lease and those of the Other Lease Documents to which it is a party.

(b) Binding Agreement. Each of this Lease and those of the Other

Lease Documents to which it is a party has been duly authorized, executed and delivered by the Landlord and, assuming the due authorization, execution and delivery thereof by the Tenant, constitutes a legal, valid and binding obligation of the Landlord, enforceable according to its terms, except as the enforceability of this Lease and each such Other Lease Document may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and by general principles of equity.

(c) Compliance with Other Instruments. The execution, delivery and

performance by the Landlord of this Lease and those of the Other Lease Documents to which it is a party will not result in any violation of any term of the certificate of formation or operating agreement of the Landlord, do not require approval of the members of Landlord or the approval or consent of any trustee or holders of Indebtedness of the Landlord except such as have been obtained prior to the date hereof and will not conflict with or result in a breach of any terms or provisions of, or constitute a default under, or result in the creation or imposition of, any Lien (other than a Landlord Permitted Lien) upon any property or assets of Landlord under any indenture, mortgage or other agreement or instrument to which the Landlord is a party or by which it or any of its property is bound (including, without limitation, the Site Leases), or, to the Landlord's Actual Knowledge, any existing applicable law, rule, regulation, license, judgment, order or decree of any government, governmental body or court having jurisdiction over the Landlord or any of its activities or properties. Landlord has delivered to Tenant copies of any consents obtained from any Site Landlord or other Person in connection with the execution and delivery by Landlord or any of its Affiliates, as applicable, of this Lease and the Other Lease Documents.

(d) Litigation. Except as listed on Schedule 2.3(d) hereto, to the

Actual Knowledge of the Landlord, neither the Landlord nor any Affiliate of the Landlord has received written notice of (i) any action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal now pending or, to the Landlord's Actual Knowledge, threatened in writing against or affecting the Landlord or any Affiliate or any rights of the Landlord which question the enforceability of this Lease or the Other Lease Documents or which, if adversely determined, could reasonably be expected to have a Material Adverse Landlord Effect or (ii) any action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal pending or, to the Landlord's Actual Knowledge, threatened in writing against the Landlord or its Affiliates by Nationwide or any of its Affiliates or, as of the date of this Lease, any other Person that, if adversely determined against the Landlord or any of its Affiliates, could be reasonably expected to question the validity of this Lease or any of the Other Lease Documents to which Landlord or any of its Affiliates, as the case may be, is (or may become) a party.

(e) Brokerage. There are no claims for brokerage commissions or

finder's fees for persons engaged by the Landlord or any Affiliate in connection with this Lease. Neither the

Landlord nor any Affiliate has dealt with any agent or broker in connection with this Lease and this Lease was not brought about or procured through the use, negotiation or instrumentality of any agent or broker acting on behalf of the Landlord or any Affiliate.

(f Status of Landlord. The only member of the Landlord is Sutton

Hill Associates, its successors and assigns.

(g Site Leases. The Site Leases consist of the documents identified

in the definition of "Site Leases." Landlord has made available to Citadel and Tenant true and complete copies of the Site Leases. The Site Leases have not been amended or modified except as set forth in the documents identified in the definition of "Site Leases." There are no options to purchase or rights of first refusal or offer or similar rights relating to any of the Theatre Properties other than the Sutton and Murray Hill Option. Landlord is the holder of the tenant's or lessee's interest under each Site Lease, which has been validly transferred to Tenant pursuant to the Site Lease Assignment, and is in possession of the property demised under each Site Lease and, to the Actual Knowledge of Landlord, no other Person has any interest as tenant or lessee in or to said Site Lease or any rights to possession or occupancy of any portion of the property demised under any Site Lease except as described on Exhibit C hereto. There are no security deposits under any of the Site Leases. Landlord's interest in each Site Lease is not subject to any Lien except as set forth in Exhibit C. Each of the Site Leases is in full force and effect. Landlord (or a predecessor), as tenant under the Site Leases, has substantially performed all of its material covenants and material obligations thereunder. Neither Landlord nor any Affiliate has received or delivered any written notice under any of the Site Leases of any default or breach, and Landlord has no Actual Knowledge of any material breach or default of any of the Site Leases, which in either case remains uncured.

(h Sutton and Murray Hill Option. The Sutton and Murray Hill Option

is evidenced by the documents identified in the definition of "Sutton and Murray Hill Option." Landlord has made available to Citadel and Tenant true and complete copies of such documents. The Sutton and Murray Hill Option has not been amended or modified except as set forth in such documents. Landlord is the holder of the right to exercise the Sutton and Murray Hill Option, which has been validly transferred to Landlord pursuant to the Assignment of Option Agreement. Landlord's interest in the Sutton and Murray Hill Option is not subject to any Lien except as set forth

in Exhibit C. The Sutton and Murray Hill Option is in full force and effect in accordance with its terms.

(i) Equipment. Landlord has good title to all of the Equipment

except for equipment described on Exhibit C as leased by Landlord, subject to no Lien other than as set forth on Exhibit C. As to any Equipment leased by Landlord, Landlord has made available to Tenant a true and complete copy of each document listed on Exhibit C hereto as comprising the applicable lease, and such list is complete. Landlord (or a predecessor) has substantially performed all of its material covenants and material obligations under the documents set forth on Exhibit C. Neither Landlord nor any Affiliate has received or delivered any written notice under any of such documents of any default or breach, and Landlord has no Actual Knowledge of any material breach or default of any thereof, which in either case remains uncured.

(j) Nature of the Landlord's Business. The Landlord has not engaged

in any business other than as contemplated by this Lease.

(k) Other Contracts. To the Actual Knowledge of the Landlord, except

for the Site Leases, leases of Equipment and other Contracts disclosed on Exhibit C hereto, the Sutton and Murray Hill Option, agreements with the Tenant's Affiliates, and other Contracts none of which involves payments in excess of \$25,000 now committed to be made thereunder or which are cancelable without penalty on thirty (30) days notice, there are no Contracts, oral or written, express or implied, to which Landlord or any Affiliate is a party which (i) relate to the Theatre Properties or (ii) are necessary for the operation of the Theatre Properties in substantially the manner as they have been operated by Landlord and its Affiliates.

(l) Taxes. The Landlord has filed, or caused to be filed, all

required tax returns with respect to Taxes, or has filed for extensions of time for the filing thereof, and has paid all applicable Taxes other than Taxes not yet due or which may be paid hereafter without penalty, except for (a) filings or payments as to which the failure to file would not have a Material Adverse

Landlord Effect, (b) Taxes which are being Properly Contested by the Landlord, and (c) Taxes which are required to be paid or discharged by the Tenant or any of its Affiliates under the terms of this Lease or any of the Other Lease Documents. On or before the date when finally determined to be due, Landlord has filed or caused to be filed all tax returns which are required to be filed by it, and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its assets and properties and has paid all other taxes, fees or other charges imposed on it by any Governmental Authority.

(m Compliance with Laws. To the Actual Knowledge of the Landlord,

neither the Landlord nor any Affiliate of the Landlord has, within the two-year period ending on the date hereof, received written notification that it or any Theatre Property (or Material Element of any thereof) is not in material compliance with the requirements of all Applicable Laws or alleging a violation of Applicable Law, nor during such two-year period have there been any proceedings (including meetings between the persons listed in the definition of Actual Knowledge and representatives of government agencies) or material correspondence concerning any such notification received prior to such two-year period, except those (i) the non-compliance with which would not, either singly or in the aggregate, reasonably be expected to result in a Material Adverse Landlord Effect or (ii) which have been substantially cured or (iii) which have been listed on Schedule 2.3(m) hereof, true and complete copies of which notifications or correspondence have been delivered to the Tenant or descriptions of which meetings and, if not delivered as aforesaid, notifications and correspondence are set forth on said Schedule 2.3(m).

(n Theatre Improvements. To the Actual Knowledge of the Landlord,

neither the Landlord nor any Affiliate of the Landlord has, during the two-year period ending on the date hereof, received any written report, written notice (including from any Governmental Authority) or other written materials disclosing or alleging material structural defects in any of the buildings or other material fixtures and improvements comprising part of the Theatre Improvements, except as disclosed on Schedule 2.3(n) hereof; and a true and complete copy of all such reports, notices and other materials so disclosed either have been delivered to the Tenant or made available for its review.

2.4 Certain Covenants of Landlord. The Landlord covenants to the Tenant

during the Lease Term (except that paragraph (b) shall only apply during the Initial Term):

(a) Corporate Existence. Landlord will at all times be (i) a validly

existing corporation or other business entity in good standing under the laws of
its jurisdiction of organization and (ii) if required, duly qualified to do
business in good standing in the State of New York.

(b) Liens. The Landlord will not create, incur, assume or permit to

exist any Lien on any of the Theatre Property, Theatre Improvements or Unit of
Equipment, except Landlord Permitted Liens.

(c) Site Leases. The Landlord will promptly deliver to Tenant any

notices Landlord receives under any Site Lease or any other communication from
or on behalf of any Site Landlord. Landlord will deliver to any Site Landlord
any notice reasonably requested by Tenant, provided such notice does not
adversely affect Landlord's rights under the respective Site Lease. To the
extent any obligation of Landlord under any Site Lease, by reason of the nature
of such obligation, cannot be delegated to Tenant, Landlord (at the expense of
Tenant) shall comply with such obligation. Landlord shall not take any action
which causes a default or breach under any of the Site Leases, but neither the
failure by Landlord to elect to perform any obligation of Tenant hereunder nor
the enforcement or lack of enforcement by Landlord of its rights and remedies
pursuant to this Lease shall constitute a violation of this covenant or entitle
Tenant to any rights or claims, regardless of the consequence. Landlord shall
not enter into any modification, supplement, or other instrument of, to or with
respect to any Site Lease (except as may be specifically required by the terms
of a Site Lease (although Landlord will endeavor to provide Tenant notice of any
such required modification thereof or supplement thereto) and except that,
during the Renewal Term, Landlord may enter into any such instrument if the
terms thereof do not materially affect the rights or obligations of the parties
to the respective Site Lease during the Renewal Term). During the Term,
Landlord shall exercise any renewal options under a Site Lease on a timely basis
to the extent relating to a term thereunder which includes a part of the Term
hereof.

(d) Notices. If the Landlord shall receive any written notice from a

Governmental Authority or other Person (other than the Tenant) which relates to
the leasing, operation of or at, or use of any Theatre Property or Element
thereof during the Lease Term, Landlord shall promptly deliver a copy of such
notice to Tenant.

(e Payment of Taxes and Other Obligations. The Landlord agrees to

pay or cause to be paid, on or before the date which is the date when payment thereof is finally due, all sales taxes, transfer taxes, transfer gains taxes and all other similar taxes arising from the execution and delivery of this Lease and the Other Lease Documents, except for the amounts to be paid by Tenant as provided in subparagraph (g) of Section 2.2 hereof. The Landlord shall pay all of its general administrative expenses, including expenses in administering this Lease, except where the Tenant is specifically obligated to reimburse such expenses by this Lease.

SECTION 3. LEASE OF THEATRE PROPERTIES.

Subject to the terms and conditions hereof, from and after the date upon which this Lease is executed by the Landlord and the Tenant ("Effective Date") and during the Lease Term, the Landlord does hereby lease the Theatre Properties to the Tenant and the rights and obligations of the Landlord and the Tenant shall be governed by this Lease.

SECTION 4. RESERVED.

SECTION 5. OBLIGATIONS.

(a) Except as provided in paragraph (b) of this Section 5 or in Section 7 of this Lease:

(i) The obligations of the Tenant to pay all amounts payable pursuant to this Lease (including specifically and without limitation amounts payable pursuant to Sections 7 and 12 hereof) shall be absolute and unconditional under any and all circumstances of any character (including, without limitation, the circumstances set forth in clauses A through H below), and such amounts shall be paid without, and Tenant hereby waives, notice, demand, defense, setoff, deduction or counterclaim and without abatement, suspension, deferment, diminution or reduction of any kind whatsoever, except as herein expressly otherwise provided. The obligation of the Tenant to lease and pay Basic Rent and Additional Rent and any other amounts due hereunder for the Theatre Properties pursuant to this Lease is without any warranty or representation, express or implied, as to any matter whatsoever on the part of the Landlord or any Affiliate, or anyone acting on behalf of any of them.

(ii) EXCEPT AS SPECIFICALLY PROVIDED HEREIN OR IN ANY OTHER LEASE DOCUMENT, NEITHER THE LANDLORD NOR ANY AFFILIATE, NOR ANYONE ACTING ON BEHALF OF ANY OF THEM, MAKES ANY REPRESENTATION OR WARRANTY OF ANY KIND WHATSOEVER, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, AS TO THE SAFETY, TITLE, CONDITION, QUALITY, QUANTITY, FITNESS FOR USE, MERCHANTABILITY, CONFORMITY TO SPECIFICATION, OR ANY OTHER CHARACTERISTIC, OF ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR AS TO WHETHER ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR THE OWNERSHIP, USE, OCCUPANCY OR POSSESSION THEREOF COMPLIES WITH ANY LAWS, RULES, REGULATIONS OR REQUIREMENTS OF ANY KIND OR COMPLIES WITH ANY SITE LEASE OR OTHER AGREEMENT, LEASE DOCUMENT OR INSTRUMENT APPLICABLE TO ANY THEREOF.

(iii) EXCEPT AS SPECIFICALLY PROVIDED HEREIN OR IN ANY OTHER LEASE DOCUMENT, AS BETWEEN THE TENANT AND THE LANDLORD, ANY ASSIGNEE OR ANY INDEMNIFIED PERSON, THE TENANT ASSUMES ALL RISKS, INCLUDING, WITHOUT LIMITATION, ANY RELATING TO:

(A) THE SAFETY, TITLE, CONDITION, QUALITY, FITNESS FOR USE, MERCHANTABILITY, CONFORMITY TO SPECIFICATION, OR ANY OTHER QUALITY OR CHARACTERISTIC OF ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, LATENT OR NOT;

(B) EXCEPT AS OTHERWISE SET FORTH IN THIS LEASE, ANY SET-OFF, COUNTERCLAIM, RECOUPMENT, ABATEMENT, DEFENSE OR OTHER RIGHT WHICH THE TENANT MAY HAVE AGAINST THE LANDLORD OR ANY INDEMNIFIED PERSON FOR ANY REASON WHATSOEVER ARISING OUT OF THIS OR ANY OTHER TRANSACTION OR MATTER;

(C) ANY DEFECT IN TITLE OR OWNERSHIP OF ANY THEATRE PROPERTY OR ELEMENT THEREOF OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR ANY TITLE ENCUMBRANCE NOW OR HEREAFTER EXISTING WITH RESPECT TO ANY OF THE FOREGOING;

(D) ANY FAILURE OR DELAY IN DELIVERY OF ANY UTILITY SERVICE OR ANY LOSS, THEFT OR DESTRUCTION OF, OR DAMAGE TO, IN WHOLE OR IN PART, ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, OR CESSATION OF THE USE OR POSSESSION OF ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, BY THE TENANT FOR ANY REASON WHATSOEVER AND OF WHATEVER DURATION, OR ANY CONDEMNATION, CONFISCATION, REQUISITION, SEIZURE, PURCHASE, TAKING OR FORFEITURE, IN WHOLE OR IN PART, OF ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT;

(E) ANY INABILITY OR ILLEGALITY WITH RESPECT TO THE USE, OWNERSHIP, OCCUPANCY OR POSSESSION OF ANY THEATRE PROPERTY OR ELEMENT THEREOF, OR OF ANY PARCEL, THEATRE IMPROVEMENTS OR EQUIPMENT, BY THE TENANT;

(F) ANY INSOLVENCY, BANKRUPTCY, REORGANIZATION OR SIMILAR PROCEEDING BY OR AGAINST THE TENANT OR THE LANDLORD;

(G) ANY FAILURE TO OBTAIN, OR EXPIRATION, SUSPENSION OR OTHER TERMINATION OF, OR INTERRUPTION TO, ANY REQUIRED LICENSES, PERMITS, CONSENTS, AUTHORIZATIONS, APPROVALS OR OTHER LEGAL REQUIREMENTS; OR

(H) ANY OTHER CIRCUMSTANCE OR HAPPENING WHATSOEVER, WHETHER OR NOT SIMILAR TO ANY OF THE FOREGOING,

IN EACH CASE UNLESS, AND THEN ONLY TO THE EXTENT, CAUSED BY A LANDLORD ACT (EXCLUDING, HOWEVER, ANY SUCH ACT OF AN AGENT, OFFICER, DIRECTOR, EMPLOYEE OR CONTRACTOR OF LANDLORD OR ANY OF ITS AFFILIATES IF SUCH PERSON IS ALSO AN AGENT, OFFICER, DIRECTOR, EMPLOYEE OR CONTRACTOR OF TENANT OR ANY OF ITS AFFILIATES, PROVIDED, HOWEVER, THAT JAMES J. COTTER SHALL NOT BE CONSIDERED AN AGENT, OFFICER, DIRECTOR OR EMPLOYEE OF TENANT WHEN ACTING IN HIS CAPACITY AS OPERATING MANAGER OF, OR PARTNER IN THE MEMBER OF, LANDLORD).

THE TENANT HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHTS WHICH IT MAY NOW HAVE OR WHICH AT ANY TIME HEREAFTER MAY BE CONFERRED UPON IT, BY STATUTE OR OTHERWISE, TO TERMINATE, CANCEL, QUIT, RESCIND OR SURRENDER THIS LEASE EXCEPT IN ACCORDANCE WITH THE EXPRESS TERMS HEREOF.

(b) The Tenant may offset, against its obligations to pay Basic Rent or the Acquisition Cost if Tenant shall exercise the Purchase Option, any amounts actually paid by Tenant which represent sums then due and owing by Landlord under a Financing Agreement or (to the extent payable solely by Landlord and not the obligation of Tenant pursuant to the terms hereof) any Site Lease, regardless of any assignment of this Lease or any such other instrument by Landlord; provided that, with respect to payments due under the Nationwide Agreement, the Tenant will not make any such payments to Nationwide unless the Tenant has received written notice from Nationwide that such payment has not been made; provided, further, that (i) the Tenant may request in writing that Nationwide confirm that payment has been made by the Landlord to Nationwide, the absence of a response within ten (10) Business Days following such request being deemed written notice that such payment was not made, and (ii) after the second such failure by the Landlord to make payment to Nationwide during the Initial Term, the Tenant shall not be obligated to await receipt of notice (or deemed notice) that payment had not been made, or expiration of the applicable grace or cure period, before it is authorized at its election to pay Nationwide as aforesaid. Tenant may exercise this right by notice to Landlord at the time any such payment by Tenant is due and from time to time; provided, however, that Tenant shall have provided to Landlord not less than five (5) Business Days' prior written notice of Tenant's intention to exercise its rights pursuant to this paragraph (b), delineating in such notice the amount(s), origin of, and obligations against which such claim or right is asserted and shall promptly after exercising such right provide to the Landlord reasonable evidence of the amount paid and the recipient thereof.

(c) The Landlord and the Tenant hereby declare that it is their mutual intent that the relationship between the Landlord and the Tenant under this Lease shall be that of landlord and tenant only. Title to and ownership of the Theatre Properties, including Landlord's interest in each Element of any thereof, shall at all times remain in the Landlord and at no time become vested in the Tenant except in accordance with the express provisions of this Lease. The Tenant does not hereby

acquire any right, equity, title or interest in or to any Theatre Property or Element thereof except pursuant to the express terms hereof. Each of the Landlord and the Tenant agrees that it will not file any Federal, state or local income tax returns during the term of this Lease that are inconsistent with the intention of the Landlord and the Tenant expressed in this paragraph (c) of this Section 5.

SECTION 6. INITIAL TERM; RENEWAL TERM.

(a) The "Initial Term" shall commence on the Effective Date and shall continue until May 31, 2010, unless terminated earlier pursuant to the express provisions of this Lease.

(b) In the event that this Lease is renewed pursuant to the terms of Section 12 hereof, the "Renewal Term" shall commence on the day following the last day of the Initial Term and shall continue for one hundred twenty (120) calendar months, unless terminated earlier pursuant to the express provisions of this Lease.

SECTION 7. RENT AND OTHER PAYMENTS.

(a) The Tenant hereby agrees to pay the Landlord on each Basic Rent Payment Date, in immediately available funds, as provided in paragraph (d) of this Section 7, Basic Rent for the calendar month (or part thereof) in which such Basic Rent Payment Date falls. If the Effective Date of the Initial Term or the first day of the Renewal Term occurs on a day other than the first day of a calendar month, or if the expiration date of the Lease Term occurs on a day other than the last day of the calendar month, then the Basic Rent for the fractional month will be prorated as provided in the definition thereof.

(b) The Tenant hereby agrees to pay as additional rent ("Additional Rent"), at such time or times as is required pursuant to the terms of this Lease, all amounts (other than Basic Rent) payable hereunder, including, without limitation, all amounts payable by Tenant to any Indemnified Person pursuant to Section 11 hereof or to any Site Landlord.

(c) If Tenant fails to pay any amount due to a Site Landlord as required of Tenant under paragraph (f) of Section 2.2 hereof or fails to pay an installment of Basic Rent within five (5) days following the applicable Basic Rent Payment Date, then without prejudice to the full exercise by the Landlord of its rights under Sections 18, 19 and 22 hereof, the Tenant at Landlord's option shall pay to the Landlord, on demand, to the extent legally enforceable, an amount computed by multiplying (A) all sums not paid by the Tenant to the Landlord as provided in this Lease, or to such Site Landlord, on or before such payments are due (including Basic Rent), by (B) three (3%) percent. This administrative charge is intended to compensate the Landlord for its additional administrative costs only which result from the Tenant's failure to pay such amounts on or before the respective dates such payments are due and for Landlord's efforts in billing Tenant and arranging to credit sums collected from Tenant to the party entitled thereto (including the landlord under Site Leases), and has been agreed upon by the Landlord and the Tenant, after negotiation, as a reasonable estimate of the additional administrative costs that will be incurred by the Landlord as a result of the Tenant's

failure. The actual cost in each instance is extremely difficult, if not impossible, to determine. This late payment charge will constitute liquidated damages with respect to such administrative costs and will be paid to the Landlord together with such unpaid amounts. The payment of this late payment charge will not constitute a waiver by the Landlord of any default by the Tenant under this Lease.

(d) Basic Rent and Additional Rent and any other amount payable by the Tenant to (i) the Landlord shall be paid such that immediately available funds in the full amount due are available on the date due, to the account of the Landlord designated as the Payment Account or (ii) if to any other Person, then as the instrument providing for such payment may direct.

(e) Notwithstanding the foregoing, to the extent any amount is payable by Tenant to Landlord on any date and, on such date, any amount is payable or past due by Landlord under a Financing Agreement, the Tenant may, subject to compliance with the provisions of Section 5(b) hereof, pay the amount so due to the lender under such Financing Agreement, and any such payment shall be deemed made on behalf of Landlord and effective as a payment of Basic Rent hereunder to the same extent as if such payment had been made to Landlord. Tenant shall pay any balance to Landlord as otherwise provided herein.

SECTION 8. RESTRICTED USE; COMPLIANCE WITH LAWS.

(a) So long as no Event of Default shall have occurred and be continuing, the Tenant may use the Theatre Properties during the Initial Term or Renewal Term, if any, for the operation of motion picture theaters and related uses consistent with the manner of use by Landlord and its Affiliates prior to the date hereof (or, in the case of the Village East Theatre Property, live theatre productions) or such other use as is permitted in accordance with Section 9 hereof. Notwithstanding any other provision of this Lease to the contrary, the Tenant will not do or permit any act or thing which would or likely could, in any material respect, violate the Site Lease applicable to the affected Theatre Property or impair, other than normal wear and tear arising out of the proper and normal use thereof, the value or usefulness of the Theatre Properties or any of them or any material Element of any of them.

(b) The Tenant shall promptly and duly execute, deliver, file and record, at the Tenant's expense, all such documents, statements, filings and registrations, and take such further action, as the Landlord or any Pledgee shall from time to time reasonably request (including installation of such signs or other markings as shall be required by any applicable Legal Requirement) in each case in order to establish, perfect and maintain the Landlord's title to and interest in the Theatre Properties and in each Element thereof, and any Pledgee's interest in this Lease or any Theatre Property or Element thereof as against the Tenant or any third party in any applicable jurisdiction. Equipment, machinery, apparatus, fixtures, structures and installations and other items of personal property may be substituted for portions of the Theatre Improvements and Equipment if (subject to the terms of paragraph (i) of Section 9 hereof) such substitution is consistent with prudent business practices and could not reasonably be expected to adversely affect the Tenant's ability to perform its obligations under this Lease nor result in a Material Adverse Property

Effect. As equipment, machinery, apparatus, fixtures, structures and installations are added to, or substituted for, any Element of a Theatre Property, title to such substitute equipment, machinery, apparatus, fixtures, structures and installations shall automatically be transferred to and vested in the Landlord and such equipment, machinery, apparatus, fixtures, structures and installations shall become a part of the Theatre Property and shall be subject to this Lease and title to the existing equipment, machinery, apparatus, fixtures, structures and installations which are being substituted for shall be released by the Landlord to the Tenant.

The Tenant may, after notice to the Landlord and at the Tenant's own cost and expense, change the place of principal location of any Equipment; provided, that prior notice shall not be required in the case of Equipment used for transportation, but in such event the Tenant shall notify the Landlord of the change of the principal location of such transportation Equipment not later than thirty (30) days after such change is made; and provided, further, that no such notice is required for the change of location of Equipment from one Theatre Property to another. Notwithstanding the foregoing, no change of location shall be undertaken if the Landlord reasonably believes that its ownership of such Equipment or any Landlord Permitted Lien then in existence would be adversely affected or that any Legal Requirements would be violated (other than any Legal Requirements, the non-compliance with which, individually or in the aggregate, (A) will not place the Landlord in any danger of civil liability for which the Landlord is not adequately bonded against or indemnified (the Tenant's obligations under Section 11 of this Lease shall be deemed to be adequate indemnification if no Event of Default exists and if such civil liability is reasonably likely to be less than \$50,000 per Theatre Property or Unit of Equipment or \$100,000 in the aggregate prior to the Funding Date, or \$500,000 per Theatre Property or Unit of Equipment and \$1,000,000 in the aggregate from and after the Funding Date) or subject the Landlord or any Site Landlord to any criminal liability as a result of a failure to comply therewith and (B) will not result in a material diminution in the fair market value of any Theatre Improvements or Unit of Equipment). Tenant will return to its original location any Equipment moved from a Theatre Property if the Site Landlord of the Theatre Property from which the Equipment was removed asserts in writing that such removal constitutes a default under its Site Lease. At the request of the Landlord made in conjunction with the creation or extension of a Landlord Permitted Lien in favor of a lender under any Financing Agreement, the Tenant shall advise the Landlord in writing where all Equipment leased hereunder as of the date of request is principally located; provided that, absent an Event of Default hereunder, Landlord shall not make such request more frequently than once in any 24 consecutive months of the Term.

(c) The Tenant shall use every precaution consistent with prudent business practices to prevent loss or damage to each Theatre Property, the Theatre Improvements and each material Unit of Equipment and to prevent injury to third persons or property of third persons. The Tenant shall cooperate fully with the Landlord and any Additional Insured and all insurance companies providing insurance pursuant to Section 10 hereof in the investigation and defense of any claims or suits arising from the ownership, operation, occupancy or use of any Theatre Improvements or Unit of Equipment, or ownership, use or occupancy of any Parcel of Property; provided, that nothing contained in this paragraph (c) shall be construed as imposing on the Landlord

any duty to investigate or defend against any such claim or suit. The Tenant shall comply and shall cause all Persons using or operating any Unit of Equipment or Theatre Improvements or using or occupying any Parcel of Property or Theatre Improvements to comply with all Insurance Requirements and Legal Requirements applicable to such Parcel of Property, Theatre Improvements and Unit of Equipment and to the acquiring, titling, registering, leasing, insuring, using, occupying, operating and disposing of any Parcel of Property, Theatre Improvements or Unit of Equipment, and the licensing of operators thereof, except that Tenant may, if it Properly Contests compliance with a Legal Requirement, defer compliance therewith so long as such noncompliance, individually or in the aggregate, (A) will not place the Landlord in any danger of civil liability for which the Landlord is not adequately bonded against or indemnified (the Tenant's obligations under Section 11 of this Lease shall be deemed to be adequate indemnification if no Event of Default exists and if such civil liability is reasonably likely to be less than \$50,000 per Parcel of Property, Theatre Improvements or Unit of Equipment and \$100,000 in the aggregate prior to the Funding Date or \$500,000 per Parcel of Property, Theatre Improvements or Unit of Equipment and \$1,000,000 in the aggregate from and after the Funding Date) or subject the Landlord or any Site Landlord to any criminal liability as a result of a failure to comply therewith, and (B) will not result in a material diminution in the fair market value of any Parcel of Property, Theatre Improvements or Unit of Equipment. Notwithstanding the foregoing exception in the final clauses of the preceding sentence, the Tenant will be obligated to comply with any Legal Requirement compliance with which is otherwise the obligation of the Tenant hereunder if a Site Landlord asserts in writing that such non-compliance constitutes a default under its Site Lease.

(d)(i) The Tenant shall promptly, but in any case within five (5) Business Days of the Tenant becoming aware of such event, notify the Landlord if, after the Effective Date, (A) any event has occurred or any condition (other than an Environmental Event) is discovered in, on, beneath or involving any Theatre Improvements or Equipment that could reasonably be expected to result in penalties or other liabilities (including costs to alleviate or remediate) in excess of \$100,000, or (B) the Tenant has received notification that it, a Theatre Property or any Element thereof is the subject of a proceeding (other than an Environmental Event) that could reasonably be expected to result in any ordered Remedial Action or other liability related to such Legal Requirement, the cost of which liability is reasonably expected to exceed \$100,000 (each of the events or occurrences described in clause (A) or (B), regardless of the amount of penalty, liability or cost to remediate, a "Legal Requirement Event").

(ii) Following the receipt of a notice pursuant to subparagraph (i) above, unless such Legal Requirement Event is a Landlord Legal Requirement Obligation, Landlord in its sole discretion may require the Tenant to conduct, or cause to be conducted, an investigation of the affected Theatre Improvements or Equipment, the scope of which investigation shall be limited to confirming the magnitude and anticipated cost of the liability resulting from the Legal Requirement Event, and to provide a copy of such investigation to the Landlord.

(iii) In any case, if a Legal Requirement Event arises during the Lease Term or (regardless of when it arose) is otherwise not exclusively a Landlord Legal Requirement Obligation, the Tenant shall immediately initiate, or cause to be initiated at no cost to the Landlord, such actions as may be necessary to comply in all material respects with all applicable Legal Requirements and to alleviate any significant risk to human health or property if the same arises from a condition on or in respect of the Theatre Improvements or Equipment or any part thereof, whether existing prior to, on or after the date of this Lease. Once the Tenant commences such actions, the Tenant shall thereafter diligently and expeditiously proceed to comply materially and in a timely manner with all Legal Requirements and to eliminate any significant risk to human health or property and shall, at the request of the Landlord, during the Lease Term give periodic progress reports on Tenant's compliance efforts and actions.

(iv) If a Legal Requirement Event is a Landlord Legal Requirement Obligation, the Tenant shall have no responsibility to cure such Legal Requirement Event. If a Legal Requirement Event is a Landlord Legal Requirement Obligation, Tenant shall notify Landlord that such Legal Requirement Event has occurred or exists and Tenant, in its discretion, but in any case at the sole expense of the Landlord, may initiate or require the Landlord to initiate and otherwise take the actions described in subparagraph (iii) of this Section 8(d), in the same manner as would have been applicable to the Tenant had such Legal Requirement Event not been a Landlord Legal Requirement Obligation; provided, however, that the Tenant shall not initiate any action described in this sentence (except in cases of imminent danger to persons or property) unless the Tenant has notified the Landlord that a Legal Requirement Event has occurred which is a Landlord Legal Requirement Obligation and the Landlord has failed to advise the Tenant within thirty days following receipt of such notice of the Landlord's planned response thereto, which may include Properly Contesting such claim (or has failed after reasonable notice to proceed with reasonable diligence in implementing such response), or has advised the Tenant that Landlord does not intend to respond thereto. Whether or not Landlord otherwise responds to the Tenant's notice or the Event in question, Landlord reserves the right and option to contest that such Event is in fact a Landlord's Legal Requirement Obligation hereunder.

(v) The provisions of this paragraph (d) shall not apply with respect to Environmental Events covered by paragraph (e) of Section 2.2 hereof.

(e) The Landlord or any authorized representative (including representatives of or on behalf of any Pledgee) may during reasonable business hours, upon reasonable notice and subject to such safety precautions as the Tenant may reasonably impose, from time to time inspect any Theatre Improvements or material Units of Equipment therein and deeds, registration certificates, certificates of title and related documents covering the Theatre Properties and Elements thereof wherever the same may be located, but the Landlord shall have no duty to make any such inspection. The Landlord may recover from the Tenant as Additional Rent the reasonable costs and expenses

associated with any such inspection which are incurred following the occurrence and during the continuation of any Event of Default.

(f) The Tenant shall not, without the prior written consent of the Landlord, permit, or suffer to exist, any Lien on any Theatre Property or any Element thereof, including mechanics' liens, other than Permitted Liens or those Liens placed thereon by, or arising from, the Landlord's own actions or which are subject to a Permitted Contest. Nothing contained in this Lease shall be construed as constituting the consent or request of the Landlord, express or implied, to or for the performance by any contractor, laborer, materialman or vendor of any labor or services or for the furnishing of any materials for any construction, alteration, addition, repair or demolition of or to such Parcel or Theatre Improvements or any part thereof. Notice is hereby given that the Landlord will not be liable for any labor, services or materials furnished or to be furnished to the Tenant, or to anyone holding any such Theatre Property or any Element thereof through or under the Tenant, and that no mechanics' or other liens for any such labor, services or materials shall attach to or affect the interest of the Landlord in and to any such Theatre Property.

(g) If any Lien of any kind or charge of any kind or any judgment, decree or order of any court or other Governmental Authority (including, without limitation, any state or local tax lien affecting any Theatre Property or Element thereof), whether or not valid, shall be entered which shall constitute a Lien on the affected Theatre Property or Element which is not a Permitted Lien or the subject of a Permitted Contest, the Tenant shall, upon obtaining knowledge thereof or upon receipt of notice to that effect from the Landlord, promptly take such action as may be necessary to cause the removal of such Lien.

(h) The Tenant shall comply with all Legal Requirements pursuant to which it is necessary that a Unit of Equipment or any component thereof be labeled to provide notice of the Landlord's or any Pledgee's interest in such Unit of Equipment.

(i) Notwithstanding anything to the contrary herein or in any Other Lease Document, Tenant and every successor and assignee of Tenant is hereby given the right in addition to any other rights herein granted, without Landlord's prior written consent, to mortgage its interest in this Lease as to all, but not less than all, of the Theatre Properties, under one or more leasehold mortgages for the benefit of an Institutional Lender and/or under one or more purchase money leasehold mortgages in connection with any Permitted Sale of such interest, and assign this Lease, as collateral security for such leasehold mortgages, upon the condition that all rights acquired under such leasehold mortgages shall be subject and subordinate to all of the provisions of this Lease, and to all rights and interests of Landlord herein and in and to the Theatre Properties. If Tenant and/or Tenant's successors and assignees shall mortgage this leasehold, and if the holder of any of such leasehold mortgages shall send to Landlord a true copy of such holder's mortgage, together with written notice specifying the name and address of the mortgagee and the pertinent recording data with respect to such mortgage, Landlord agrees that so long as such leasehold mortgage shall remain unsatisfied of record or until written notice of satisfaction is given by the holder to Landlord, the

following provisions shall apply (in respect of such mortgage and of any other mortgages which also comply with the above):

(i) There shall be no cancellation or surrender of the Lease or modification hereof by joint action of Landlord and Tenant without the prior consent in writing of the leasehold mortgagee.

(ii) Landlord shall, upon serving Tenant with any notice of a default, send a copy of such notice to the holder of such leasehold mortgage, and no such notice shall be effective or duly given for purposes of this Lease unless and until a copy thereof is sent to such holder, setting forth the information required by the last sentence of this paragraph, and then such notice shall be effective from the date sent. The leasehold mortgagee shall thereupon have the same period, after such notice was sent, to remedy or cause to be remedied the defaults complained of as Tenant has hereunder for such default, and Landlord shall accept such performance by or at the instigation of such leasehold mortgagee as if the same had been done by Tenant. Each notice of default given by Landlord will state the amounts of Basic Rent and Additional Rent and other payments herein provided for then in default.

(iii) Anything herein contained to the contrary notwithstanding, if any default shall occur which, pursuant to any provision of this Lease, entitles Landlord to terminate this Lease, and if, before the expiration of the thirtieth (30th) day following the date Landlord's notice terminating this Lease shall have been properly sent or delivered to such leasehold mortgagee in the manner provided for notices herein, such leasehold mortgagee or its nominee or designee shall have paid to Landlord (for payment by Landlord to other parties then owed such sum if not owing to Landlord) all Basic Rent and Additional Rent and other payments herein provided for and then in default (except any payment due in respect of accelerated rent or liquidated damages), and shall have notified Landlord that such leasehold mortgagee agrees to comply or to commence the work of complying with all of the other requirements of this Lease, if any are then in default, and shall prosecute the same to completion with reasonable diligence, and shall continue to pay all Basic Rent and Additional Rent due and payable hereunder and otherwise to comply (or cause to be complied with) all other obligations of Tenant hereunder which are reasonably susceptible of being complied with by a leasehold mortgagee prior to its acquisition or sale of Tenant's interest hereunder, then in such event Landlord shall not be entitled to terminate this Lease and any notice of termination theretofore given shall be void and of no effect.

(iv) If Landlord shall elect to terminate this Lease by reason of any default of Tenant, the leasehold mortgagee or its nominee or designee shall not only have the right to nullify any notice of termination by agreeing to cure such default as aforesaid, but shall also have the separate right to postpone and extend the specified date for the termination of this Lease as fixed by Landlord in its notice of termination for a period of not more than 60 days, provided that such leasehold mortgagee shall together with such notice cure all existing

monetary defaults (except any payment due in respect of accelerated rent or liquidated damages) and prosecute with reasonable diligence the curing of any other defaults which are reasonably susceptible of being cured by the leasehold mortgagee prior to its acquisition or sale of Tenant's interest herein and meanwhile pay or cause to be paid the Basic Rent and any Additional Rent as and when the same become due and otherwise comply (or cause to be complied with) all other obligations of Tenant hereunder which are reasonably susceptible of being complied with by a leasehold mortgagee prior to its acquisition or sale of Tenant's interest hereunder; provided, further, that the leasehold mortgagee or its nominee or designee shall forthwith take steps to acquire or sell Tenant's interest in this Lease by foreclosure of the leasehold mortgage or otherwise and shall prosecute the same to completion with reasonable diligence. If at the end of said 60-day period the leasehold mortgagee or its nominee or designee shall be actively engaged in steps to acquire or sell Tenant's interest herein and shall have provided to Landlord notice of such mortgagee's actions, and paid all Basic Rent and Additional Rent as aforesaid, together with such notice, the specified date for termination of this Lease shall be further extended for such period as shall be reasonably necessary to complete such steps with reasonable diligence, and in the case of the cure of non-monetary defaults, such additional time subsequent to the completion of such steps to acquire or sell Tenant's interest herein as shall be reasonably necessary to accomplish same with reasonable diligence provided that the mortgagee shall otherwise comply with all other provisions of this Lease. If Tenant's interest is acquired or sold as aforesaid by foreclosure of the leasehold mortgage or otherwise during said 60-day period as same may be extended as aforesaid, the intended termination of this Lease by Landlord under the aforesaid notice will be automatically nullified and this Lease will continue as if said notice of termination had never been given. Notwithstanding any provision hereof, there shall be no extension of the Lease Term.

(v) In the event of termination of this Lease on account of any default by Tenant or on account of any other matter or occurrence whatsoever, Landlord will promptly notify the leasehold mortgagee of such termination and the amount of the sums then due to Landlord under this Lease (except any payment due in respect of accelerated rent or liquidated damages), and Landlord will enter into a new lease of the Theatre Properties with the leasehold mortgagee or its nominee or designee for the remainder of the Lease Term, effective as of the date of such termination, at the Basic Rent and Additional Rent and upon the terms, provisions, covenants and agreements as herein contained and subject only to the rights, if any, of any parties then in possession of any Element of the Theatre Properties, provided:

(A) Said leasehold mortgagee or its nominee or designee shall make written request upon Landlord for such new lease within 30 days after the leasehold mortgagee receives the notice from Landlord of such termination and such written request is accompanied by said leasehold mortgagee's payment of all sums

then due to Landlord under this Lease (except any payment due in respect of accelerated rent or liquidated damages).

(B) Said leasehold mortgagee or its nominee or designee shall agree in writing to perform and observe all covenants herein contained on Tenant's part to be performed as applied to such leasehold mortgagee or its nominee or designee and shall further remedy any other conditions which Tenant under the terminated lease was obligated to perform.

(C) The leasehold mortgagee or its nominee or designee as tenant under such new lease shall have the same right, title and interest in and to the Theatre Properties as Tenant had under the terminated lease.

If more than one leasehold mortgagee makes written request upon Landlord in accordance with the provisions hereof for a new lease, the new lease shall be delivered pursuant to the request of the leasehold mortgagee whose leasehold mortgage is prior in lien among those who made the request, and the written request of any leasehold mortgagee whose leasehold mortgage is subordinate in lien shall be void and of no force or effect.

(vi) The leasehold mortgagee shall be given written notice of any arbitration or other proceedings by or between the parties hereto, and shall have the right to intervene therein and be made a party to any arbitration or other proceedings, and the parties hereto do hereby consent to such intervention. In any event, the leasehold mortgagee shall receive notice of, and a copy of, any award or decision made in said arbitration or other proceedings, whether the leasehold mortgagee intervened or became a party or elected not to do either.

(vii) Nothing in this paragraph (i) shall relieve, affect, limit or impair in any way Tenant's obligations pursuant to Section 11 hereof.

(viii) Any provision of this paragraph (i) of Section 8 to the contrary notwithstanding, Landlord provides no assurance that, during the pendency of any proceedings or other actions in respect of a default by Tenant under this Lease or in respect of a default by Tenant under any such leasehold mortgage, Landlord will perform, and Tenant acknowledges that Landlord has no obligation to perform, any of the obligations under the Site Leases which, pursuant to the terms of this Lease, are to be performed by Tenant, except that Landlord will apply monies received from or on behalf of Tenant or a leasehold mortgagee to pay sums due to a Site Landlord for the intended purpose (provided that sums due Landlord hereunder are also paid as and when due as aforesaid).

SECTION 9. MAINTENANCE, IMPROVEMENT, REPAIR AND DEVELOPMENT OF THEATRE IMPROVEMENTS AND EQUIPMENT.

(a) Upon the request of the Tenant, the Landlord will, so long as no Event of Default shall have occurred and be continuing, make available to the Tenant any and all rights the Landlord may have under any vendor's or manufacturer's warranties or undertakings with respect to any Theatre Improvements or Equipment. The Tenant shall not violate the terms of and shall preserve and keep in effect any such warranty and undertaking.

(b) The Tenant shall pay all costs, expenses, fees and charges (including, without limitation, charges of any community or condominium regime to which any Parcel of Property is subject) incurred in connection with the ownership, use, operation or occupancy of any Parcel of Property or Theatre Improvements during the Lease Term or the ownership, use or operation during the Lease Term of any Unit of Equipment or Theatre Improvements. The Tenant shall at all times during the Lease Term operate and maintain the Theatre Improvements and the Equipment in accordance with prudent industry standards for similarly situated theatre operations (including, in the case of the Village East Theatre Property, live theatre) in Manhattan. Except as otherwise provided in Section 15 or 16 hereof, the Tenant shall at all times during the Lease Term, at its own expense, and subject to reasonable wear and tear, maintain the Theatre Improvements and the Equipment in good and safe operating order, repair, condition and appearance. The foregoing undertaking to maintain the Theatre Improvements and Equipment in good repair shall apply regardless of the cause necessitating repair and regardless of whether the Tenant has possession thereof, and as between the Landlord and the Tenant all risks of damage to the Theatre Properties during the Lease Term are assumed by the Tenant. With respect to any Theatre Improvements and Equipment, the undertaking to maintain in good and safe repair shall include, without limitation, all interior and exterior repairs and replacements, whether structural or nonstructural, foreseen or unforeseen, ordinary or extraordinary and all common area maintenance including, without limitation, removal of dirt, snow, ice, rubbish and other obstructions and maintenance of sidewalks and landscaping. Notwithstanding the foregoing, the obligation to repair shall not include any obligation to take any action which a Site Landlord is required to take pursuant to the applicable Site Lease. The Tenant hereby agrees to defend, indemnify and hold harmless the Landlord and any Pledgee, each Site Landlord and its mortgagee(s) from and against all costs, expenses, claims, losses, damages, fines or penalties, including reasonable counsel fees, arising out of or due to the Tenant's failure to fulfill its obligations under this paragraph (b).

(c) With respect to any Parcel of Property, Theatre Improvements or Unit of Equipment, during the Lease Term the Tenant shall pay (except to the extent a Site Landlord is required to pay the same pursuant to the respective Site Lease, and except as provided in paragraph (e) of Section 2.4 hereof) the following (collectively, "Taxes"): (i) all taxes, assessments, levies, fees, water and sewer rents and charges, and all other governmental charges, general and special, ordinary and extraordinary, foreseen and unforeseen, which are, at any time, imposed or levied upon or assessed against (A) any such Element or the Parcel or Theatre Improvements or Equipment of which such Element is a part, (B) any Basic Rent, any Additional Rent or any other sum payable hereunder or (C) this Lease, the leasehold estate hereby created, or which arises in respect of the ownership, operation, occupancy, possession or use of any such Element, Parcel, Theatre

Improvements or Equipment, including without limitation Equipment leases and contracts; (ii) all gross receipts or similar taxes (i.e., taxes based upon gross income which fail to take into account all customary deductions (e.g., ordinary operating expenses, depreciation and interest) relating to any such Element) imposed or levied upon, assessed against or measured by any Basic Rent, or any Additional Rent or other sum payable hereunder; (iii) all sales, value added, use and similar taxes at any time levied, assessed or payable on account of the acquisition, leasing or use of any such Element, Parcel or Theatre Improvements of which any such Element forms a part; and (iv) all charges of utilities and communications services serving any such Element, Parcel or Theatre Improvements of which any such Element forms a part. The Tenant shall not be required to pay any franchise, estate, inheritance, transfer, income or similar tax of the Landlord (other than any tax referred to in clause (ii) above) unless such tax is imposed, levied or assessed in substitution for any other tax, assessment, charge or levy which the Tenant is required to pay pursuant to this paragraph (c); provided, however, that, if, at any time during the term of this Lease, the method of taxation shall be altered such that, in lieu of or as a substitute for any item included above as Taxes to be paid by Tenant (including in lieu of increases in any such Taxes), there shall be levied, assessed or imposed on the Landlord a capital levy or other tax directly on the rents received from any such Element, Parcel or Theatre Improvements of which any such Element forms a part, or upon the value of any such Element or any present or any future improvement or improvements on any such Element or the Parcel or Theatre Improvements of which such Element is a part, then all such substitute taxes, assessments, levies or charges, or the part thereof so measured or based, shall be included in Taxes to be paid by the Tenant, but only to the extent that such taxes would be payable if the property affected were the only property of the Landlord or (to the extent so required pursuant to the applicable Site Lease) the applicable Site Landlord, as the case may be, and the Tenant shall pay and discharge the same as herein provided. The Tenant will furnish to the Landlord, promptly after demand therefor, proof of payment of all items referred to above which are payable by the Tenant. If any such assessments may legally be paid in installments, the Tenant may pay such assessment in installments; in such event, the Tenant shall be liable only for installments which become due and payable during the Lease Term. Taxes for the first and last year of the Lease Term shall be prorated between Landlord and Tenant. Tenant shall have the right to Properly Contest all Taxes by appropriate legal proceedings, or in such other manner as may be reasonably suitable (and, if legal proceedings are instituted, Tenant shall conduct such proceedings promptly, with counsel of its choice, at Tenant's sole cost and expense, in its name, or, if necessary, in the name of Landlord, and Landlord shall execute all documents necessary to accomplish the foregoing). If at any time there shall be any rebates or refunds of Taxes paid by Tenant pursuant to the provisions of this Lease, such rebates or refunds shall belong to Tenant, subject to proration with respect to rebates or refunds relating to the year in which the Lease Term commences or ends. Any refunds received by Landlord relating to any tax year which encompasses any portion of the Lease Term shall be deemed trust funds and shall be promptly paid over to Tenant, subject to proration with respect to rebates or refunds relating to the year in which the Lease Term commences or ends. The provisions of this Section shall survive the expiration of the term of this Lease.

(d) The Tenant may make alterations to any Equipment without the prior consent of the Landlord, provided that such alterations do not impair the value or utility of such Equipment. Any improvements or additions to any Equipment shall, as and when made or performed, become and remain the property of the Landlord.

(e) So long as no Event of Default shall have occurred and be continuing, the Tenant may, at its expense, make additions to and alterations to any Parcel of Property or Theatre Improvements; provided, that upon completion of such additions or alterations (i) neither the fair market value of the affected Theatre Improvements or Parcel shall be lessened thereby nor the condition of such affected Theatre Improvements or Parcel impaired below the value, utility or condition thereof immediately prior to such action (assuming such affected Theatre Improvements or Parcel was then of a condition and repair required to be maintained pursuant to paragraph (b) of this Section 9), (ii) such additions or alterations shall not result in a change of use of such affected Theatre Improvements or Parcel (except as permitted by paragraph (i) of this Section 9), (iii) such work shall be completed in good and workmanlike manner and in compliance with all applicable Legal Requirements and Insurance Requirements and (iv) no exterior walls of any building or other improvement constituting a part of the affected Theatre Improvements shall be demolished unless the Tenant has made adequate provision according to nationally recognized sound and prudent engineering and architectural standards to preserve and maintain the structural integrity of the affected Theatre Improvements and for the restoration of such Theatre Improvements to a structurally sound architectural whole. Any and all such additions and alterations shall be and remain part of the affected Theatre Improvements and shall be subject to this Lease. Notwithstanding anything contained herein to the contrary, the Tenant shall not perform any addition or alteration to any Theatre Improvements, including Equipment therein, which would have an estimated cost in excess of \$250,000 in the aggregate for any Theatre Property prior to the Funding Date or \$500,000 in the aggregate for any Theatre Property from and after the Funding Date, without the Landlord's prior written consent, not to be unreasonably withheld or delayed in any event, except that no such consent shall be required for (x) any additions or alterations to upgrade seating or sound, projection, computer, or concessions equipment or any other alterations or (y) for any addition or alteration undertaken after the Funding Date in accordance with the procedures set forth in Section 9(f) below as if the Theatre Property in question were the "Affected Premises" described therein.

(f) In the event the Tenant decides in its sole discretion to develop any of the Parcels of Property (such Parcels of Property chosen for development to be hereinafter referred to as the "Affected Premises"), whether for purposes provided in or other than that contemplated in Paragraph (a) of Section 8, the Tenant shall comply with all of the following conditions set forth in this paragraph (f) of this Section 9 (as well as applicable requirements of the affected Site Lease) before the Tenant begins construction of the improvements on the Affected Premises (the "Constructed Improvements"), and before any building materials are delivered to the Affected Premises by the Tenant or under the Tenant's authority:

(i) Plans and Specifications. (x) Insofar as it is the

intention of the Landlord and the Tenant that all improvements within the Affected Premises be constructed, installed, erected, operated and maintained so that the Constructed Improvements shall be aesthetically and architecturally harmonious, all Constructed Improvements within the Affected Premises, including initial construction and any major alterations, additions, exterior remodeling or reconstruction of any Constructed Improvements following the initial construction thereof, shall be performed only in accordance with approved plans for such work as provided herein.

(y) Prior to the commencement of the construction and/or installation of any Constructed Improvements whatsoever on the Affected Premises or any part thereof by the Tenant, the Tenant shall deliver to the Landlord detailed plans through and including construction drawings (the "Plans") of scaled elevations, exterior design concepts, material selection and color for the exterior surfaces of the proposed Constructed Improvements (which Plans shall include a grading plan and/or a utility plan, to the extent applicable). The Landlord shall in writing either approve or disapprove the Plans within twenty (20) days of the receipt thereof, such approval not to be unreasonably withheld. If the Landlord fails to approve or disapprove the Plans in accordance with the terms of this Lease within such twenty (20) day period, the Plans shall be deemed approved. Upon submission of any disapproval, the Landlord shall inform the Tenant in writing in reasonable detail (the "Plan Disapproval Notice") of the reasons for disapproval and the required changes to the Plans.

If there is a dispute between the Landlord and the Tenant regarding acceptable, revised Plans, and such dispute cannot be settled by the Landlord and the Tenant through good faith negotiation, the parties agree to submit such dispute to mediation in New York under the Commercial Mediation Rules, or, alternatively, to submit such dispute to such mediator or mediation counsel as to which the parties may otherwise agree and with each party to share equally the costs of said mediation, before resort to arbitration, litigation or other dispute resolution procedure.

(ii) Construction Contracts. With respect to any Constructed

Improvements which the Tenant may elect to construct, the Tenant shall submit to the Landlord, for its prior approval, not to be unreasonably withheld or delayed, the name of and information regarding the proposed contractor for such work and a copy of the final construction contracts relating thereto, which submission shall occur prior to the commencement of any significant construction work pursuant to any such construction contracts.

(iii) Builder's Risk and Other Insurance. Prior to commencing

construction of any of the Constructed Improvements, the Tenant shall have obtained (and delivered insurance certificates therefor to the Landlord) all insurance coverage required under Section 10 of this Lease, including course of construction insurance coverage for all risk of loss, which shall be maintained at one hundred percent (100%) of the completed value

based on the insurable portion of the work including materials at the project site, stored off the project site, or in transit. The Tenant shall include the interests of the Landlord, the applicable Site Landlord, their respective mortgagees, and subcontractors in the work and shall insure against the perils of physical loss or damage. Nothing in this subparagraph (iii), however, shall be construed to relieve the Tenant of full responsibility for loss of or damage to materials not yet incorporated in the work or the Tenant's or its contractors' tools and equipment used to perform the work, whether on the project site or elsewhere, or to relieve the Tenant of any other responsibility under this Lease. Without limiting any other obligations of Tenant set forth in Section 11 hereof, if the Landlord is damaged by the failure of the Tenant to purchase or maintain such insurance, the Tenant shall bear all losses attributable thereto and indemnify the Landlord therefrom.

(iv) Construction of Constructed Improvements. All Constructed

Improvements shall be constructed in a good and workmanlike manner using materials of good quality and in substantial compliance with the Plans, and shall materially comply with all applicable Legal Requirements.

(v) Completion of Constructed Improvements and Other Work;

Quality and Compliance with Legal Requirements. The Tenant covenants and agrees that the Constructed Improvements to be constructed on the Affected Premises, and all other construction thereon, when undertaken, while in progress and as completed: (i) will comply with all Legal Requirements, including, without limitation, all laws and ordinances necessary to permit the development and completion of the Constructed Improvements; (ii) will be entirely on the Affected Premises and will not encroach upon the land of others (unless pursuant to rights, in writing or by prescription, to so encroach); (iii) will be wholly within any enforceable building restriction lines, however established, and will not violate any enforceable use restriction or any applicable easement, license, covenant, condition or restriction of record; and (iv) will comply in all material respects with the Plans approved for such Constructed Improvements and all provisions of this Lease. All work performed on the Affected Premises pursuant to this Lease, or authorized by this Lease, shall be done in a good and workmanlike manner.

(vi) Construction Cost. The Tenant shall bear all of the costs

of developing the Affected Premises and constructing the Constructed Improvements.

(vii) Mechanic's, Materialman's, Contractor's, or

Subcontractor's Liens. The Tenant shall provide the Landlord with not less than twenty (20) days' prior written notice of the commencement of any major alterations on the Affected Premises and the Landlord shall have the right to enter upon the Affected Premises to post customary notices of non-responsibility with respect thereto. Subject to the Tenant's right to Properly Contest as hereinafter provided, at all times during the Lease Term, the Tenant shall keep the Affected Premises, including all Theatre Improvements and Equipment now or hereafter comprising or located on the Affected Premises, free and clear of all Liens, other than

Permitted Liens or those Liens placed thereon by, or arising from, the Landlord's own actions.

(viii) Ownership of Constructed Improvements. Notwithstanding

anything that is or appears to be to the contrary herein, any and all Constructed Improvements erected on the Affected Premises as permitted by this Lease, as well as any and all alterations or additions thereto or any other Improvements or fixtures on the Affected Premises, shall be owned by the Tenant until the expiration of the Lease Term or sooner termination of this Lease. Upon the expiration or sooner termination of this Lease, all Constructed Improvements and all alterations, additions or improvements thereto that are made to or placed on the Affected Premises by the Tenant or any other person (other than trade fixtures and items of personal property) shall be considered part of the real property of the Affected Premises and shall remain on the Affected Premises and become at no cost to the Landlord the property of the Landlord (or the Site Landlord, as applicable). Except as otherwise expressly provided in this Lease, any non-disturbance agreement approved by the Landlord, any easement approved by the Landlord, or any written instrument executed by the Landlord which expressly states that the Landlord is waiving its rights to receive such Constructed Improvements free and clear of all other claims, said Constructed Improvements shall become the property of the Landlord (or the Site Landlord, as applicable) free and clear of any and all rights to possession and all claims to or against them by the Tenant or any third person or entity, but nothing herein shall obligate Landlord to execute and deliver any such agreement, easement or instrument.

(ix) Right of Access. The Landlord and its authorized

representatives shall have the right during normal construction hours, upon not less than twenty-four (24) hours' oral or written notice to the Tenant (except that in the case of an emergency, the existence of which shall be determined by the Landlord in its reasonable discretion, no advance notice shall be required) to enter upon the Affected Premises without charges or fees for the purpose of inspecting the work being performed in constructing the Constructed Improvements in a manner so as to cause minimal interference with the work being performed; provided, however, that upon the Tenant's request, the Landlord and such authorized representatives shall present and identify themselves at the Tenant's construction office, be accompanied by a representative of the Tenant while on the Affected Premises and obey the Tenant's or the contractor's safety rules and regulations.

(x) Governmental Consents. If requested by the Landlord in

writing, the Tenant covenants and agrees to deliver to the Landlord from time to time promptly upon request conformed copies (and certified copies of all recorded instruments) of any consents, permits, licenses, orders, authorizations, approvals, waivers, extensions or variances of, or notices to or registrations or filings with any Governmental Authority which are or will be required in connection with the construction, alteration or reconstruction or use for their intended purposes following completion of the Constructed Improvements in accordance

with the terms of this paragraph (f) of this Section 9. In no event shall the Tenant commence the construction, alteration or reconstruction of the Constructed Improvements until such time as the Tenant shall have obtained all such necessary consents, permits, licenses, orders, authorizations, approvals, waivers, extensions or variances of, or notices or registrations or filings for the entirety of the contemplated work (excluding those which are obtainable during commencement of such work or on its completion, provided that, as to these, Tenant will obtain or make them as and when required during such work or upon completion, as the case may be).

(xi) Cooperation. Subject to the provisions of this paragraph

(f) of this Section 9, Landlord shall reasonably cooperate with Tenant, at the sole cost and expense of Tenant, in the development of any Affected Premises.

(g) The Tenant has obtained or will obtain prior to the time required and shall maintain in full force and effect all operating licenses, if any, relating to each Theatre Property and Element thereof which are required for the operation thereof for the purposes permitted in this Lease.

SECTION 10. INSURANCE.

(a) Public Liability Insurance. The Tenant will carry at its own

cost and expense public liability insurance relating to the Theatre Properties on an occurrence basis (i) in amounts which are not less than the public liability insurance applicable to similar properties owned, leased or held by the corporations engaged in the same or a similar business, similarly situated in Manhattan; provided, that in no event shall the minimum single limit of such insurance be less than \$10,000,000 per occurrence, (ii) of the types usually carried by Persons engaged in the same or a similar business, similarly situated in Manhattan, and owning or operating similar properties and which cover risks of the kind customarily insured against by such Persons, and (iii) which are maintained in effect with insurers of recognized responsibility rated "Very Good" or better by Best's Key Rating Guide. The insurance required by this paragraph (a) may be subject to such deductibles and the Tenant may self-insure with respect to the required coverage only to the extent approved in writing by the Landlord; provided, that no such approval shall be required for up to \$100,000 of deductible or self-insurance so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

(b) Insurance Against Loss or Damage to Equipment. The Tenant will

maintain in effect with insurers of recognized responsibility rated "Very Good" or better by Best's Key Rating Guide, at its own expense, all-risk physical damage insurance with respect to all Equipment, which is of the type usually carried by Persons engaged in the same or similar business, similarly situated with Parent, and owning or operating similar equipment and which cover risk of the kind customarily insured against by such Persons, and in the amount of the insurable value thereof. The insurance required by this paragraph (b) may be subject to such deductibles and the Tenant may self-insure with respect to the required coverage only to the extent approved by the Landlord; provided, that no such approval shall be required for up to \$100,000 of deductibles or self-insurance so long as Tenant

or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

(c) Business Interruption Insurance. The Tenant will maintain, at

its expense, business interruption insurance covering 90% of continuing normal operating expenses excluding ordinary or non-continuing payroll but including lease obligations with respect to the Theatre Properties, arising from loss required to be insured by clause (d)(i) of this Section 10. The maximum deductible shall be no greater than \$100,000 per occurrence so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times. Such insurance shall also (i) insure for a period of 12 months that portion of fixed expenses and lease obligations not earned arising from an insured loss or occurrence with respect to the Theatre Properties, and (ii) include extraordinary expenses incurred after an insured loss to make temporary repairs and expedite the permanent repair of the damaged property in excess of the business interruption loss even if such expense does not reduce the business interruption loss in an amount not less than \$100,000, so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times.

(d) Insurance with respect to the Theatre Properties. The Tenant

will maintain, at its expense, or cause to be maintained at no expense to Landlord, insurance of the following character, on each Theatre Property:

(i) All risk insurance or its equivalent (excluding flood and earthquake coverage) coverage against losses by fire and lightning and other risks for the full insurable replacement value of each Theatre Property, with agreed amount endorsement or endorsements providing equivalent protection, including loss by windstorm, hail, explosion, riot (including riot attending a strike), civil commotion, aircraft, vehicles, smoke damage, and vandalism and malicious mischief, in amounts not less than the full insurable replacement value of all buildings and other improvements on each Theatre Property. The term "full insurable replacement value" as used herein means the actual replacement cost, including coverage for up to at least 10% of the direct physical loss for the costs of debris removal, but excluding the cost of constructing foundation and footings, to the extent Tenant can document such amounts.

(ii) Workers' compensation insurance as required by the laws of the states where each Theatre Property is located.

(iii) Explosion insurance in respect of any boilers and similar apparatus located on each Parcel in the minimum amount of \$250,000 or in such greater amounts as are then customary for property similar in use to each Parcel.

(iv) Such other insurance, in such amounts and against such risks, as is customarily maintained by operators of similar properties for businesses similar to that conducted by the Tenant.

(v) Liquor liability insurance with respect to any Theatre Property if required pursuant to the applicable Site Lease or if any alcoholic beverage is offered for sale or served at such Theatre Property.

(vi) Compliance with laws coverage.

The insurance required under this paragraph (d) shall be maintained in effect with insurers of recognized responsibility rated "Very Good" or better by Best's Key Rating Guide and licensed to do business in the States where each Theatre Property is located. Such insurance may provide for such deductibles and the Tenant may self-insure with respect to the required coverage only to the extent approved in writing by the Landlord; provided, that no such approval shall be required for up to \$100,000 of deductibles or self-insurance, so long as Tenant or a guarantor of Tenant's obligations under this Lease meets the Minimum Net Worth Requirement, or \$10,000 of deductible or self-insurance, at all other times. .

Insurance claims by reason of damage or destruction affecting any Theatre Property shall be adjusted by the Tenant, subject to the approval of the Landlord, which approval the Landlord agrees not to unreasonably withhold or delay.

(e) Additional Insureds; Notice. Any policy of insurance carried in

accordance with this Section 10 and any policy taken out in substitution or replacement for any such policy (i) shall name the Landlord, each Site Landlord and the mortgagee of Landlord and each Site Landlord (so long as Tenant has been provided written notice as to the name and other required information relating to any such mortgagee), as additional insureds (the "Additional Insureds"), as their respective interests may appear (but without imposing upon any such Person any obligation imposed on the insured, including, without limitation, the liability to pay the premium for any such policy), (ii) with respect to insurance carried in accordance with the preceding paragraphs (b), (d)(i), (d)(iv) and (d)(v), shall name as loss payee, as their interests may appear, the Landlord, or as otherwise may be specifically required pursuant to a Site Lease or the Landlord's or any Site Landlord's mortgage, (iii) with respect to insurance carried in accordance with the preceding paragraphs (b) and (d), shall provide that as against the Landlord and all other Additional Insureds the insurers shall waive any rights of subrogation and (iv) shall provide that, if the insurers cancel such insurance for any reason whatsoever, such cancellation shall not be effective as to the Landlord and all other Additional Insureds for thirty (30) days after receipt by such parties of written notice by such insurers of such cancellation. Each liability policy (A) shall be primary without right of contribution from any other insurance which is carried by the Landlord with respect to its interest as such in a Theatre Property or Element thereof and (B) shall expressly provide that all of the provisions thereof, except the limits of liability, shall operate in the same manner as if there were a separate policy covering each insured.

(f) Intentionally omitted.

(g) Application of Insurance Proceeds. As between the Landlord and

the Tenant, and subject to the provisions of the applicable Site Lease, the insurance proceeds of any property damage loss to any Element of a Theatre Property will be held in an escrow account, with an escrow agent and under terms reasonably acceptable to Landlord and Tenant and applied in payment (or to reimburse the Tenant) for repairs or replacement in accordance with the terms of paragraph (b) of Section 15 hereof; provided, however, that in the event that any insurance payments received pursuant to this paragraph (g) are less than \$1,000,000 prior to the Funding Date and \$2,000,000 thereafter, such payments shall be paid to the Tenant to be applied to repair or replace in accordance with Section 15 hereof. The Tenant shall be entitled (i) to receive the amounts so deposited against certificates, lien waivers, invoices or bills reasonably satisfactory to the Landlord, delivered to the Landlord from time to time as such work or repair progresses, and (ii) to direct the investment of the amounts so deposited as provided in paragraph (h) of this Section 10. To the extent that the cost of such work or repair shall exceed the amount of the proceeds, the Tenant shall make adequate provisions for the payment thereof, which provisions shall be reasonably acceptable to the Landlord and such sums provided by the Tenant will be applied prior to insurance proceeds. So long as the Lease Term has not expired or if the Purchase Option is exercised, any moneys remaining in the aforesaid account or unused by the Tenant for repairs after final payment in full for repairs has been made shall be paid to Landlord; provided, however, that, during the Initial Term, any such moneys shall be treated as "Taking Proceeds," to be applied or with the consequence as provided in paragraphs (c)(ii) and (d)(i) of Section 16 hereof.

(h) Investment. Any amounts deposited into escrow pursuant to

paragraph (g) of this Section 10 shall be invested, at the Tenant's instruction, in any Permitted Investments. Any interest earned on the investments of such funds shall be deposited in escrow and be a part of the fund for disposition as provided in paragraph (g) above. The Landlord shall not be liable for any loss resulting from the liquidation of each and every such investment and the Tenant shall bear the risk of such loss, if any.

(i) Application in Default. Any amount referred to in paragraph (g)

or (h) of this Section 10 which is payable to the Tenant shall not be payable to the Tenant or, if it has been previously paid to the Tenant, shall not be retained by the Tenant, if at the time of such payment an Event of Default shall have occurred and be continuing. In such event, all such amounts shall be paid to and held by the Landlord as security for the obligations of the Tenant hereunder or, at the Landlord's option, applied by the Landlord toward payment of any of such obligations of the Tenant at the time due hereunder as the Landlord may elect. At such time as there shall not be continuing any Event of Default or at the closing of the Purchase Option (whether or not there then exists an Event of Default other than an Event of Default described in Section 18(f)), all such amounts at the time held by the Landlord in excess of the amount, if any, which the Landlord shall have elected to apply as above provided shall be paid to the Tenant. If the Lease Term shall terminate or expire

when sums are held pursuant to paragraph (g) or (h), such sums shall be paid over to the Landlord free of claim thereto or rights therein of the Tenant.

(j) Certificates, etc. On or before the Effective Date, and annually

on or before the anniversary of the date of this Lease upon the request of the Landlord, the Tenant will furnish to the Landlord certificates of an independent insurance broker reasonably satisfactory to the Landlord or other evidence reasonably acceptable to the Landlord certifying that the insurance then carried and maintained with respect to each Theatre Property complies with the terms hereof. The Tenant will not operate in violation of any policy or negate or limit coverages.

(k) Use or Operation of Theatre Properties. The Tenant covenants

that it will not use or operate any Unit of Equipment or use or occupy any Theatre Property or permit the use or occupancy of any Theatre Property or the use or operation of any Unit of Equipment at a time when the insurance required by this Section 10 is not in force with respect to such Theatre Property or Unit of Equipment.

(l) Prosecution of Claims. With respect to any insurance maintained

by Tenant, the Tenant may, so long as no Event of Default shall have occurred and be continuing, at its own cost and expense, prosecute any claim against any insurer or contest any settlement proposed by any insurer, and the Tenant may, so long as no Event of Default shall have occurred and be continuing, bring any such prosecution or contest in the name of the Landlord, the Tenant, or both, and the Landlord will join therein at the Tenant's request; provided that the Tenant shall indemnify the Landlord against any losses, costs or expenses (including reasonable attorneys' fees) which the Landlord may incur in connection with such prosecution or contest whether or not it is at the request of the Tenant. During the continuance of an Event of Default, the Landlord may prosecute or contest such claim as aforesaid, in its name or in the name of the Tenant, as the Landlord may determine, but in any event at the cost and expense of the Tenant.

(m) Reports. The Tenant will advise the Landlord promptly of any

default in the payment of any premium and of any other act or omission on the part of the Tenant which may invalidate or render unenforceable, in whole or in part, any insurance being maintained by the Tenant pursuant to the terms of this Section 10.

(n) Failure to Maintain Insurance. In the event the Tenant fails to

maintain the full insurance coverage required by this Section 10, the Landlord, upon 30 days' prior notice (unless the aforementioned insurance would lapse within such period, in which event notice should be given as soon as reasonably possible and shall run for a shorter notice period as applicable) to the Tenant of any such failure, may (but shall not be obligated to) take out the required policies of insurance and pay the premiums on the same. The Tenant shall be obligated to reimburse all sums expended by the Landlord (with interest at the Reimbursement Rate from the date incurred by Landlord to the date repaid by Tenant) in connection with the Landlord's expenditures on insurance made pursuant to this Section 10(n).

(o) No Duty of Landlord to Verify or Review. No provision of this

Section 10, or any provision of this Lease, shall impose on the Landlord any duty or obligation to verify the existence or adequacy of the insurance coverage maintained by the Tenant, nor shall the Landlord be responsible for any representations or warranties made by or on behalf of the Tenant to any insurance company or underwriter. Any failure on the part of the Landlord to pursue or obtain the evidence of insurance required by this Lease from the Tenant and/or failure of the Landlord to point out any non-compliance of such evidence of insurance shall not constitute a waiver of any of the insurance requirements in this Lease or render the Landlord liable to the Tenant or others by reason of the Tenant's non-compliance.

(p) Insurance under Site Leases. Notwithstanding anything contained

herein to the contrary, the Tenant shall be obligated to maintain insurance with respect to any Theatre Property of the type and in amounts not less than that required under the applicable Site Lease. To the extent any of the provisions of a Site Lease concerning insurance, or insurance proceeds or the application thereof, require greater coverage than, or are otherwise inconsistent with, the provisions of this Lease, the provisions of the Site Lease shall control as to the applicable Theatre Property and the parties shall be relieved of any inconsistent obligations hereunder; provided, however, that the fact that a Site Lease may mandate lesser amounts or fewer types of coverage shall not be considered an inconsistency and in such event the provisions of this Lease shall control.

(q) Insurance by Parent. Any insurance to be provided by Tenant

hereunder may be provided by blanket or umbrella policies of Parent or any of its Affiliates covering the property to be insured hereunder and other property of Parent or any of its Affiliates provided that the coverage with respect to the Theatre Properties shall not be reduced or otherwise affected thereby and the protections afforded thereby shall be determined as if the Theatre Properties were the only properties thereunder.

SECTION 11. INDEMNITIES.

(a) Indemnification. The Tenant shall, and hereby does, indemnify,

defend, protect and hold harmless Landlord, any Pledgee, each Site Landlord, any mortgagee of a Leased Site or of the Site Landlord's interest therein, and any successor or successors and each Affiliate of each of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants (each of the foregoing a "Landlord Indemnified Person") from and against all liabilities (including, without limitation, Environmental Damages and strict liability in tort), losses, obligations, claims (including, without limitation, Environmental Damages and strict liability in tort and claims for commissions and other compensation made by any agent or agents or any broker or brokers), damages (including, without limitation, consequential damages), penalties, causes of actions, suits, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) and judgments of any nature ("Losses") relating to or arising out of:

(i) The assertion of any claim or demand based upon any infringement or alleged infringement of any patent or other right, by or in respect of any Theatre Improvements or Unit of Equipment; provided, however, that upon request of the Tenant, the Landlord will make available to the Tenant the rights under any similar indemnification arising from any manufacturer's or vendor's warranties or undertakings with respect to any Theatre Improvements or Unit of Equipment;

(ii) Any failure or delay of Tenant in paying any Taxes required to be paid by Tenant pursuant to paragraph (c) of Section 9 hereof;

(iii) Any violation, breach or default by the Tenant of this Lease or any Site Lease to the extent of obligations of Tenant thereunder as herein described, or any violation or alleged violation by the Tenant of any contracts or agreements to which the Tenant is a party or by which it is bound or of any laws, rules, regulations, orders, writs, injunctions, decrees, consents, approvals, exemptions, authorizations, licenses and withholdings of objection, of any Governmental Authority and all other Legal Requirements with respect to the Theatre Properties and Elements thereof;

(iv) (A) The use or occupancy of the Theatre Properties or any Element of any thereof by the Tenant or any Person claiming under the Tenant; (B) any activity, work, or thing done or permitted by the Tenant in or about any Theatre Improvements or Equipment; (C) any acts, omissions, or negligence of the Tenant, or any Person claiming under the Tenant, or the employees, agents, contractors, invitees or visitors of the Tenant or any such Person; (D) any breach, violation, or nonperformance by the Tenant, or any Person claiming under the Tenant, or the employees, agents, contractors, invitees, or visitors of the Tenant or any such Person, of any term, covenant or provision of this Lease, any Site Lease to the extent the performance of obligations thereunder has become an obligation of the Tenant pursuant to the terms hereof or any law, ordinance or governmental requirement of any kind; or (E) any injury or damage to the Person, property, or business of the Tenant, its employees, agents, contractors, invitees, visitors or any other Person entering upon any Theatre Improvements, including without limitation any and all of the foregoing arising from and after the date the membership interest in Landlord is foreclosed upon or otherwise transferred, whether or not this Lease is then in effect;

(v) Liabilities or obligations of the Tenant or any Affiliate of the Tenant to the extent based on facts, activities, omissions or circumstances existing or occurring as of, from or after the Effective Date, including without limitation liabilities or obligations to customers, suppliers, employees and agents, or otherwise arising from operation of the Business from and after the Effective Date or otherwise assumed by the Tenant or made the responsibility of the Tenant pursuant to the terms of this Lease;

(vi) The loss of a Site Lease based on acts or omissions of Tenant in violation of such Site Lease; or

(vii) To the extent arising from or relating to this Lease or the other elements of the transactions entered into between Landlord or any of its Affiliates, on the one hand, and Tenant or any of its Affiliates, on the other hand, on or as of the date hereof: (A) insufficient or inadequate disclosure by Tenant or any of its Affiliates under any Applicable Law relating to proxies, (B) failure by Tenant or any of its Affiliates to follow proper procedures and other matters relating to the fact that the Tenant is owned by a Person the shares of which are traded publicly or (C) alleged breaches of fiduciary duty by Tenant or any of its Affiliates or the existence of conflict of interest; provided, however, that, with respect to claims or liability arising under clause (C), Tenant shall not be obligated to indemnify Landlord to the extent the claimant has been successful in such claim on the merits; provided, further, that the Tenant shall have no obligations for indemnity under this clause (vii) with respect to actual losses or damages ultimately and finally determined and adjudged to be payable to the extent based on a breach by the Landlord of its obligations hereunder or for which Messrs. Michael R. Forman and James J. Cotter are obligated to indemnify Citadel pursuant to Section 8.12 of a certain Merger Agreement, dated the date hereof, among Citadel, a wholly-owned subsidiary of Citadel, Off Broadway Investments, Inc., and Messrs. Cotter and Forman; provided, that Tenant shall not be obligated to indemnify any Landlord Indemnified Person against Losses to the extent Landlord is responsible to indemnify the Tenant Indemnified Persons as provided in paragraph (b) of this Section 11 with respect to the matter from which such Losses arose.

(b) The Landlord shall, and hereby does, indemnify, defend, protect and hold harmless the Tenant, Parent, any successor or successors to either of them, and any Affiliate of each of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants (each of the foregoing a "Tenant Indemnified Person") from and against all Losses relating to or arising out of:

(i) Liabilities or obligations of Landlord or any Affiliate of Landlord to the extent based on facts, activities, omissions or circumstances existing prior to the Effective Date, including without limitation liabilities or obligations to customers, suppliers, employees, and agents, arising from the operation of the Business prior to the Effective Date, except, subject to paragraph (ii) of this Section 11(b), for liabilities expressly assumed by Tenant by this Lease or for which Tenant is responsible pursuant to the terms hereof or thereof;

(ii) Any breach of any representation or warranty made by Landlord under this Lease;

(iii) Any breach of any covenant or agreement of Landlord or any Affiliate under this Lease or, except to the extent assumed by the Tenant hereunder or the responsibility of the Tenant pursuant to the terms hereof, under a Site Lease, to the extent causing a Material Adverse Landlord Effect; or

(iv) Taxes, assessments, levies, fees, water and sewer rents and charges, and all other governmental charges, general and special, ordinary and extraordinary, foreseen and unforeseen, which are or would be the obligation of Landlord pursuant to a Site Lease and which is not pursuant to the terms hereof assumed by or the responsibility of the Tenant.

(c) A party from whom indemnification is due (the "Indemnifying Person") shall forthwith upon demand reimburse any Landlord Indemnified Person or Tenant Indemnified Person, as the case may be (such Person being the "Indemnified Person"), for any sum or sums expended with respect to any of the foregoing or, upon request from any Indemnified Person, shall pay such amounts directly; provided, however, that a claim for indemnification against the Landlord based on a matter covered by clause (ii) of paragraph (b) of this Section 11 shall be subject to the limitations that (i) the total sum of all claims for indemnity for all such matters shall exceed \$480,000 in the aggregate (the "Threshold Amount") before an Indemnified Person shall be entitled to indemnification with respect to such matters, and then the Indemnified Person shall be entitled to indemnification only for claims which exceed \$480,000, (ii) the aggregate liability of the Landlord with respect to such claims shall be \$4,560,000, and (iii) any claim for indemnity with respect to such matters shall be made not later than one year from the Effective Date. Any amount payable to any Indemnified Person or on behalf of any Indemnified Person pursuant to this Section 11 shall be paid promptly upon receipt of a written demand therefor from such Indemnified Person accompanied by a written statement describing in reasonable detail the claims which are the subject of and basis for such indemnity and the computation of the amount so payable and to whom. Any payment made to or on behalf of any Indemnified Person pursuant to this Section 11 shall be increased to such amount as will, after taking into account all taxes imposed with respect to the accrual and receipt (or deemed receipt) of such payment (as the same may be increased pursuant to this sentence), equal the amount of the payment, reduced by the amount of any savings in such taxes actually realized by the Indemnified Person as a result of the payment or accrual of the amounts in respect of which the payment to or on behalf of the Indemnified Person hereunder is made. To the extent that an Indemnifying Person in fact indemnifies any Indemnified Person under the indemnity provisions of this Lease, such Indemnifying Person shall be subrogated to such Indemnified Person's rights in the affected transaction and shall have a right to determine the settlement of such indemnified claims therein.

(d) The indemnities contained in this Section 11 shall not be affected by the expiration or other termination of this Lease, any Other Lease Document, any Site Lease, or the Film Licensing Agreements, and shall continue with respect to Losses relating to events or occurrences which happen, or claims, suits or causes of action which are asserted following such expiration or

other termination if based on events or occurrences which predate (in whole or in part) such expiration or other termination or as otherwise provided herein.

(e) Notwithstanding any provisions of this Section 11 to the contrary, (i) the Tenant shall not be obligated to indemnify and hold harmless any Landlord Indemnified Person against any claims and liabilities to the extent arising from a Landlord Act, and (ii) the Landlord shall not be obligated to indemnify and hold harmless any Tenant Indemnified Person against any claims and liabilities to the extent arising from the negligence or willful misconduct of any Tenant Indemnified Person.

(f) In the event any claim, action, proceeding or suit (a "Third Party Claim") is brought against an Indemnified Person with respect to which indemnification may be sought under this Section 11, such Indemnified Person shall promptly, and in any case within thirty (30) days after receipt by such Indemnified Person of written notice of such Third Party Claim, notify the Indemnifying Person from whom indemnification may be sought of such Third Party Claim, the amount thereof, and the basis or alleged basis therefor. The Indemnifying Person shall assume the defense thereof, including the employment at its expense of counsel; provided, that the Indemnifying Person shall not have the obligation to assume such defense to the extent that such Indemnified Person shall have delivered to the Indemnifying Person a written notice waiving the benefits of the indemnification of such Indemnified Person provided herein in connection with such Third Party Claim. In the event that (i) such Third Party Claim threatens to restrain or adversely affect the conduct of the business of the Indemnified Person, excluding the business of the Landlord's ownership of the Theatre Properties (but not including operations thereon by Landlord or any of its Affiliates at any time when Tenant or a permitted successor or assign is not operating its business therein) or (ii) based on the written opinion of independent counsel to the Indemnified Person, which opinion will be supplied to the Indemnifying Person, such Indemnified Person shall have reasonably concluded that there are defenses available to such Indemnified Person which conflict with those available to the Indemnifying Person, the Indemnifying Person shall not have the obligation to assume the defense of any such action on behalf of the Indemnified Person if such Indemnified Person chooses to defend such action, but all reasonable costs, expenses and attorneys' fees incurred by the Indemnified Person in defending such action shall be borne by the Indemnifying Person. Notwithstanding the assumption of the defense of any Third Party Claim by the Indemnifying Person pursuant to this paragraph, any Indemnified Person shall have the right to employ separate counsel and to participate in its defense, but, except as set forth in the immediately preceding sentence, the fees and expenses of such counsel shall be borne by the Indemnified Person. Any decision by an Indemnified Person to employ its own counsel rather than counsel selected by the Indemnifying Person (whether or not at the Indemnifying Person's expense) shall in no way affect any rights of such Indemnified Person otherwise arising under this Lease.

(g) The Tenant hereby acknowledges and confirms that the indemnification obligations of the Tenant set forth in this Section 11 shall include, without limitation, all Environmental Damages not subject to paragraph (b) or paragraph (e) of this Section 11 arising from

the action or inaction of the Tenant or arising during the Lease Term with respect to the Theatre Properties or prior thereto to the extent not constituting a Landlord Environmental Obligation, and such indemnification obligation shall not be limited in any way by the passage of time or the occurrence of any event. The obligations of the parties under this Section 11 shall survive termination or expiration of this Lease, including by reason of the exercise of the Purchase Option pursuant to Section 12 hereof.

(h) Notwithstanding anything contained in this Lease to the contrary:

(i) In no event shall any Indemnifying Party be liable to any Indemnified Party for special, indirect or consequential damages or loss of profits.

(ii) If any claim for indemnification hereunder is or may be the subject of insurance or other right to indemnification or contribution from any third party, the Indemnified Parties promptly shall notify each applicable insurance carrier of any such claim and related Loss and tender defense thereof to such insurance carrier, and shall notify each potential third party indemnitor or contributor that may be liable for all or any portion of such claim and related Loss. The Indemnified Parties shall cooperate with each such insurance carrier, and shall pursue diligently all rights against and cooperate with each such third party indemnitor or contributor.

(iii) Any liability for indemnification under this Section 11 shall be determined without duplication of recovery by reason of the state of facts giving rise to such liability constituting a breach of more than one representation, warranty, covenant or agreement.

(iv) The Tenant shall provide to the Landlord from time to time notice of any claim based on a matter covered by clause (ii) of paragraph (b) which the Tenant believes would be required to be covered by the Landlord pursuant to this Section 11 but for the fact that the aggregate of Tenant claims with respect to such matters has not reached the Threshold Amount and shall upon the Landlord's request provide reasonable details in writing to support such belief. If the Tenant shall, either at its option or in response to a Landlord request, provide in writing the details, including the amount, of any such claim and including specific reference to this subparagraph of the Lease and the time limit within which the Landlord must respond or be precluded from contesting the Tenant's claim, the Landlord shall have sixty (60) days to challenge the Tenant's assertion that such claim makes up a part of the Threshold Amount or the amount thereof.

(v) A failure by an Indemnified Party to give timely notice of a third party claim will not affect the rights or obligations of any party hereunder except and only to the extent that, as a result of such failure, any party entitled to receive such notice was deprived

of its right to recover any payment under its applicable insurance coverage or was otherwise adversely affected or damaged as a result of such failure to give timely notice.

SECTION 12. TENANT'S RIGHTS OF PURCHASE AND RENEWAL.

(a) So long as there is no Event of Default of the type described in clause (f) of Section 18 hereof, the Tenant shall have the right (the "Purchase Option"), subject to the terms of this Section 12, to purchase all, but not less than all, of the Theatre Properties, including all Elements thereof as then constituted, and all of the Landlord's right, title and interest in, to and under the Site Leases (the "Purchased Assets"), for an amount equal to the Acquisition Cost.

(b) Tenant may exercise the Purchase Option to purchase the Purchased Assets on and as of the last day of the Initial Term by giving Landlord at least one hundred eighty (180) days' written notice (the "Exercise Notice") but any such Exercise Notice delivered prior to June 1, 2009 shall be ineffective.

(c) Within five (5) Business Days after the Tenant gives notice of exercise of the Purchase Option, the Landlord and the Tenant shall execute and acknowledge in duplicate a contract of sale in the form attached to this Lease as Exhibit F. The Landlord and the Tenant shall cooperate and use commercially reasonable efforts to make all filings with, and obtain all consents and approvals of, all Governmental Authorities and other parties necessary in connection with the transfer of the Purchased Assets contemplated by this Section 12.

(d) If, other than as a result of a default by Tenant or an Affiliate under the Sub-Management Agreement, the Sub-Management Agreement is terminated prior to the end of the Initial Term (including by reason of the expiration of its term as it may be extended or renewed), then:

(i) the Acquisition Cost shall be reduced by an amount (the "Acquisition Cost Adjustment") equal to \$200,000 multiplied by the number of calendar months (including partial months) in the period from the date of termination of the Sub-Management Agreement to the date on which the Initial Term is scheduled to end, divided by 12; and

(ii) the Basic Rent, for each period after the date of such termination, will be adjusted in the manner provided in Section 16(d) as if such termination was an Event of Loss, the date of such termination was the Taking Payment Date, and the Acquisition Cost Adjustment was the Taking Proceeds.

(e) If the Tenant exercises the Purchase Option, then, on the Purchase Option Closing Date:

(i) The Tenant shall pay to the Landlord (A) the Acquisition Cost, (B) all Basic Rent payable to the Purchase Option Closing Date, (C) any Additional Rent owing to the Purchase Option Closing Date, (D) any amounts payable by Tenant pursuant to Section 11 hereof, and (E) any other amounts owing by Tenant hereunder. The Tenant shall pay such amounts in cash or certified funds, as the Landlord shall determine in its sole discretion; provided, that the Tenant may pay any of such amounts to any lender to Landlord, or any Person holding or asserting a Lien on any of the Purchased Assets which Lien or asserted Lien arose from any act or omission of the Landlord or any Affiliate (and not by reason of a Tenant Event), if and to the extent the Tenant reasonably determines such payment is necessary to enable the Tenant to obtain title to the Purchased Assets free and clear of Liens (other than Landlord Permitted Liens except those relating to Financing Agreements) and claims; provided, however, that nothing herein shall obligate the Landlord to cause any such Lien to be removed or cured if arising from a Tenant Event or to enforce any provision hereof or exercise any rights or remedies against the Tenant.

(ii) The Landlord shall transfer to the Tenant title to the Purchased Assets by a bill of sale, quitclaim deed or such other conveyance instrument or instruments as the Tenant may reasonably require to convey all the Purchased Assets, which bill of sale, quitclaim deed or other conveyance instrument shall otherwise be reasonably satisfactory to the Landlord and the Tenant. The transfer of the Landlord's interest in all the Theatre Properties and all of the Landlord's right, title and interest in, to and under the Site Leases shall be on an as-is, non-installment sale basis, without warranty by, or recourse to, the Landlord, except that such title shall be free of any Liens (other than Landlord Permitted Liens except those relating to Financing Agreements); provided, however, that nothing herein shall obligate the Landlord to cause any such Lien to be removed or cured if arising from a Tenant Event or to enforce any provision hereof or exercise any rights or remedies against the Tenant.

(f) If this Lease expires or is terminated by Landlord in any manner or for any reason whatsoever, the Purchase Option shall cease and said Option shall be void; provided, however, that this shall not limit Tenant's rights to recover damages for a breach of this Lease by Landlord, which shall include, as applicable, damages for loss of the Purchase Option (subject to the limitation that Landlord shall have no liability for lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damage (in tort, contract or otherwise)). The Purchase Option is not assignable separate from this Lease (to the extent assignable) and the Landlord shall not be obligated to convey hereunder to any party other than the Tenant, except that the Purchase Option shall be exercisable by a permitted mortgagee of Tenant.

(g) In consideration of the Purchase Option, on or before the Effective Date, the Tenant shall pay to the Landlord an amount equal to the excess of the Option Fee over the Deposit Amount. If the Tenant does not exercise the Purchase Option, the Landlord shall be entitled to keep the Option Fee. If the Tenant exercises the Purchase Option, the Acquisition Cost shall be reduced by an amount equal to the Option Fee.

(h) So long as no Event of Default has occurred and is continuing, the Tenant shall have the right, upon at least one hundred eighty (180) days' written notice to the Landlord prior to the expiration of the Initial Term, to renew the lease of all, but not less than all, of the Theatre Properties, including each Element thereof as then constituted, as a whole on the same terms and conditions of the Initial Term, except those terms and conditions conferred in paragraph (f) of Section 9 and in paragraph (a) and this paragraph (h) of this Section 12, for the Renewal Term of ten (10) years, commencing on the day following the last day of the Initial Term, at a Basic Rent determined in accordance with the provisions of paragraphs (i) and (j) of this Section 12 (the "Renewal Rental Rate").

(i) The Renewal Rental Rate of the Theatre Properties for each full calendar month of the first year of the Renewal Term shall be an amount equal to the greater of (i) the Basic Rent as it would be had the Initial Term included such year and (ii) the sum of (A) (x) if the Landlord exercises its option to acquire the fee interest in the underlying real estate comprising the Sutton Theatre and the Murray Hill Theatre, a fair market rental value of such underlying real estate based on the highest and best use of said real estate, or (y) if the Landlord does not exercise such option to acquire the underlying real estate comprising the Sutton Theatre and the Murray Hill Theatre, the lesser of (1) two-thirds of the Fair Market Rental Value (as such amount is determined pursuant to Site Lease for such Theatres) and (2) such Fair Market Rental Value less \$41,666.67 and (B) a fair market rental value of the leasehold interests in the Village East Cinemas and the Cinemas 1, 2 and 3 based on the highest and best use of such applicable leasehold estate (subject to limitations as to use set forth in the applicable Site Lease with respect to the portion (if any) of the Renewal Term to which such limitations apply), as shall be agreed upon by the Landlord and the Tenant or, if they are unable to agree, pursuant to the Appraisal Procedure. Each year thereafter during the Renewal Term, the Basic Rent shall be increased as determined pursuant to the terms of paragraph (j) hereof. If the provisions of clause (A)(y) are applicable, then the Tenant hereunder shall act for and in the name of the Landlord hereunder (but at the expense of the Tenant hereunder) in determining the Fair Market Rental Value for purposes of the Site Lease for the Sutton and Murray Hill Theatres.

(j) The Basic Rent per month for any year during the Renewal Term shall be increased annually by the percentage increase (if any) in the Consumer Price Index for the month which is two months preceding the month in which occurs the first anniversary of the commencement of the Renewal Term, and each subsequent anniversary date thereof, over the Consumer Price Index for the corresponding month in the preceding year, provided, however, that in no event shall the percentage increase in any year during the Renewal Term exceed the average annual Consumer Price Index increase (similarly calculated) over last three years of Initial Term.

(k) Landlord hereby notifies Tenant that, if Tenant exercises the Purchase Option, the Theatre Properties may be sold pursuant to the like kind exchange provisions of the Code. Tenant agrees to execute at the closing of the purchase of the Theatre Properties pursuant to the

Purchase Option (the "Closing") all reasonable and customary documents necessary to accomplish the sale under the like kind exchange rules as prepared by Landlord's attorney, provided that Tenant shall not be required to execute any document that would or might (i) require Tenant to incur any cost or expense; (ii) require Tenant to take title to any property other than the Theatre Properties; or (iii) require Tenant to incur any liability, whether current, accrued or contingent. Landlord shall be responsible for all costs of such documentation and guarantees that no terms or conditions in this Lease shall change due to the execution of the like kind exchange documents, nor shall Closing be delayed thereby. As aforesaid, Tenant will not be required to purchase any property (other than the Theatre Properties), but may be required to pay the Acquisition Cost (or some portion thereof, as the Landlord may direct prior to the Closing) into an escrow fund established for the purpose of the like kind exchange. Landlord shall defend, indemnify and save Tenant harmless from any loss, expense, claims or damages in connection with Tenant executing any such documents. The provisions of this Section 12(k) shall survive Closing.

(1) Compliance by the Tenant with each and all of the time periods set forth in this Section 12 shall be "of the essence."

SECTION 13. UTILITY SERVICES.

(a) During the Lease Term, the Tenant shall pay, or cause to be paid, and shall indemnify, defend and hold the Landlord and the Theatre Properties harmless from all charges for, and the Tenant shall make all required provision for the supplying and proper functioning of, all water, sewage, gas, heat, air conditioning, light, power, steam, telephone service and all other services and utilities used, rendered or supplied to, on or in the Theatre Improvements or Equipment, except to the extent the same are the responsibility of any Site Landlord under a Site Lease.

(b) The Landlord shall not be required to furnish to the Tenant, or any other occupant of any Theatre Property or user of any Theatre Improvements or Unit of Equipment during the Lease Term, any water, sewage, gas, heat, air conditioning, light, power, steam, telephone or any other utilities, equipment, labor, materials or services of any kind whatsoever.

SECTION 14. LEASE EXPIRATION.

(a) Upon the expiration of the Lease Term, if the Purchase Option is not exercised, the Tenant shall surrender all the Theatre Properties under this Lease to the Landlord as required under this Lease.

(b) If, as of the expiration or sooner termination of the Lease Term (and provided the Tenant has either not exercised the Purchase Option or failed to close pursuant thereto), obligations of the Tenant hereunder are not fully performed to the extent performance thereof was due on or before such date of expiration or sooner termination or the performance of obligations of the Tenant hereunder is incomplete or unfinished, the Tenant shall remain liable hereunder to the

Landlord for the extent of the damages Landlord may suffer or incur as a result of such non-performance or incomplete or unfinished performance, including fees, costs and expenses of the Landlord (including reasonable fees and expenses of attorneys and other professionals) in performing any such obligations or completing or finishing such performance and in enforcing claims hereunder; provided, however, that the Landlord shall not perform any such obligation which can be performed by the payment of a sum certain only except following the failure of the Tenant to pay such amount within five (5) Business Days following written notice from the Landlord to the Tenant of Landlord's intention to pay such amount.

(c) If the Purchase Option had not been exercised properly or Tenant had failed to close thereunder at the expiration of the Initial Term, the Tenant shall, on the last day of the Lease Term, surrender the Theatre Properties to the Landlord and pay to the Landlord the amount by which the residual value of the Theatre Improvements and the Equipment has been reduced by wear and tear in excess of that attributable to normal and proper use (the amount of such excess wear and tear to be such amount as the Landlord and the Tenant agree, or if no agreement is reached, the amount determined pursuant to the Appraisal Procedure), and all other amounts owing by the Tenant hereunder. Upon such termination, the Tenant shall have no further right, claim or interest in any Element of any Theatre Property.

(d) If the Purchase Option had not been exercised properly or Tenant had failed to close thereunder at the expiration of the Initial Term, on or prior to the last day of the Lease Term, the Tenant shall pay to the Landlord (i) all Basic Rent payable, (ii) any Additional Rent owing, (iii) any amounts payable pursuant to Section 11 hereof, and (iv) all other amounts owing hereunder. Upon payment by the Tenant to the Landlord of all amounts owing pursuant to the terms of this Lease and delivery of the Theatre Properties under this Lease to the Landlord, this Lease shall terminate, except to the extent provided in Section 11 hereof and elsewhere herein. Nothing contained in this Section 14 shall permit the Tenant to make any payments due Landlord under this Lease at times other than as set forth elsewhere in the Lease.

(e) Subject to the provisions hereof, upon termination of this Lease under circumstances in which the Theatre Properties are to be returned to the Landlord, the Tenant shall surrender the Theatre Properties to the Landlord or a designee of the Landlord at the location where such Theatre Properties are located and the Equipment in the Theatre Property where utilized or at such location as the Landlord and the Tenant may agree and, if they are unable to agree, at such location as the Landlord may reasonably direct.

(f) Upon the surrender of the Theatre Properties, the Tenant shall deliver to the Landlord or its designee all logs, manuals, inspection data, books and records which are applicable to the Theatre Properties which are necessary to operate the Theatre Improvements and Equipment and which are in accordance with sound industry practice customarily retained (or that the Tenant actually did retain) or are required by law to be retained with respect to similar property and equipment, including, without limitation, all software and manuals applicable to all Theatre

Improvements and Equipment and all design plans, know-how, records and information used by the Tenant during operation of the Theatre Improvements and Equipment. The Tenant may retain a copy of any of the foregoing.

SECTION 15. LOSS OF OR DAMAGE TO THEATRE IMPROVEMENTS OR EQUIPMENT.

(a) The Tenant hereby assumes all risk of loss of or damage to the Theatre Improvements and Equipment during the Lease Term, however caused. No loss of or damage to any Theatre Improvements or Equipment shall impair any obligation of the Tenant under this Lease, which shall continue in full force and effect, including with respect to any lost or damaged Theatre Improvements or Equipment, except as otherwise provided in this Section 15 or in Section 16 hereof.

(b) In the event of damage of any kind whatsoever to any Theatre Improvements or Equipment, the Tenant, at its own cost and expense, shall either (i) place the same in good and safe operating order, repair, condition and appearance in material compliance with applicable Legal Requirements and for use as permitted in accordance with this Lease, or (ii) in the case of damage to any Equipment, replace such Equipment with equipment of a similar like and kind, and of a value not less than the Equipment being replaced (assuming that the replaced Equipment had been maintained in accordance with the provisions hereof), subject to the provisions of paragraph (c) hereof with respect to certain occurrences during the Renewal Term. If the Tenant shall replace any such Equipment, the Landlord and the Tenant shall amend, among other things, the description of such Equipment on Exhibit D. The provisions of paragraph (f) of Section 9 hereof shall be applicable with respect to any repairs to any Theatre Improvements undertaken by the Tenant pursuant to this paragraph (b) of this Section 15 as if the affected Theatre Property to be repaired were the "Affected Premises" thereunder; provided, however, that (x) no consent or approval of Landlord, as to plans or any other matters referred to in such paragraph (f) of said Section 9, shall be required if the cost to repair is less than \$1,000,000 prior to the Funding Date or \$2,000,000 thereafter, (y) any such consent required shall not be unreasonably withheld, and (z) the provisions of clause (viii) of said paragraph (f) shall not be applicable and all such repaired property shall from inception be owned by the Landlord, subject to the other provisions of this Lease. The Tenant's right to any proceeds paid under any insurance policy or policies required under Section 10 of this Lease with respect to any such damage to any Theatre Improvements or Equipment which has been so placed by the Tenant in good operating order, repair, condition and appearance or replaced is otherwise governed by paragraph (g) of Section 10 hereof.

(c) In the event of damage of any kind whatsoever to any Theatre Improvements or Equipment during the Renewal Term which results in the loss of a substantial portion of the affected property (a "substantial portion" being determined in the manner set forth in the definition of "Event of Loss"), the Tenant shall promptly notify the Landlord in writing of such event, and the Tenant, at its option, may elect not to repair or replace such Theatre Improvements or Equipment, or any part thereof, as provided in paragraph (b) of this Section 15. If the Tenant makes such an

election, then (i) on the Basic Rent Payment Date designated by the Tenant (the "Casualty Payment Date"), which shall be a date within ninety (90) days following such event but not later than the last day of the Lease Term, the Tenant shall pay to the Landlord the sum of the amount of insurance proceeds received by Tenant with respect to the Theatre Improvements or Equipment, or part thereof, which Tenant elected not to repair or replace plus the amount of the deductible provided for in the insurance maintained by the Tenant plus any co-insurance deduction or offset plus, if Landlord advises Tenant that Landlord believes Tenant had not maintained sufficient insurance to provide for the cost to replace the applicable Theatre Improvements and Equipment in good and safe operating order, repair, condition and appearance in compliance with applicable Legal Requirements, the amount of the deficiency in insurance agreed to by Landlord and Tenant or, if they are unable to so agree, the amount determined by the Appraisal Procedure, and (ii) if such event resulted in the loss of a substantial portion of a Theatre Property, on the Casualty Payment Date, (A) the Lease Term shall terminate as to the affected Theatre Property, and Additional Rent shall not thereafter be payable with respect to such affected Theatre Property (but Additional Rent accrued to the Casualty Payment Date shall be paid), (B) the Lease Term shall continue as to the unaffected Theatre Properties, and (C) the Basic Rent payable and any Additional Rent and other amounts owing thereafter hereunder shall be adjusted in accordance with paragraph (d) below.

(d) If the Basic Rent or any other amounts are to be adjusted pursuant to paragraph (c) of this Section 15, the Basic Rent, for each month in the lease year in which the Casualty Payment Date occurs, shall be reduced by an amount agreed to by the Landlord and the Tenant or determined by the Appraisal Procedure (prorated, in the case of any partial month), taking account of the method for determining the Basic Rent during the Renewal Term as described in paragraph (i) of Section 12 hereof, and any other adjustments shall be determined in a like manner; and the Basic Rent as so adjusted shall be further adjusted for any subsequent lease year as provided in Section 12(j).

SECTION 16. CONDEMNATION AND DEDICATION OF THEATRE PROPERTY;
EASEMENTS.

(a) If the use, occupancy or title to all or a substantial portion of any Theatre Property is taken, requisitioned or sold in, by or on account of actual or threatened eminent domain or confiscation or similar proceedings or other action by any Governmental Authority (such events collectively referred to as a "Taking"), then the Tenant shall promptly notify the Landlord in writing of such event and the Lease Term shall terminate as provided in paragraph (c) of Section 16 hereof with respect to such Theatre Property. Upon receipt of proceeds from any award or sale made in connection with such Taking, so long as no Event of Default has occurred and is continuing, the Landlord shall remit to the Tenant the net amount of such proceeds remaining after reimbursement for all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by the Landlord in connection with the negotiation and settlement of any proceedings related to such Taking up to the amount required to pay for in full such replacement property and equipment, any excess to be retained by Landlord; provided, however, that, if such Taking occurs during the Initial

Term, such excess shall be treated as Taking Proceeds and applied as described in clause (ii) of paragraph (c) of this Section 16 and Basic Rent thereafter due shall be recalculated as described in paragraph (d) of this Section 16. Otherwise such sum shall be paid to and shall belong to Landlord, and the Tenant shall have no claim thereto, by reason of this Lease or otherwise.

(b) If less than a substantial portion of a Theatre Property is subject to a Taking, then this Lease shall continue in effect as to the portion of such Theatre Property not taken and any net proceeds, so long as no Event of Default has occurred and is continuing, shall be paid to the Tenant for the restoration of the Theatre Improvements and Equipment in accordance with paragraph (g) of Section 10 and paragraph (b) of Section 15.

(c) If an Event of Loss with respect to any Theatre Property occurs, then:

(i) on the Basic Rent Payment Date designated by the Tenant (the "Taking Payment Date"), which shall be a date within ninety (90) days following such Taking but not later than the last day of the Lease Term, (A) the Tenant shall pay to the Landlord the Taking Proceeds received by Tenant (or, if not then received by the Tenant, shall assign to the Landlord the right to receive such Proceeds as and when determined), (B) the Lease Term shall terminate as to the affected Theatre Property and Additional Rent shall not thereafter be payable with respect to such affected Theatre Property (but Additional Rent accrued to the Taking Payment Date shall be paid), (C) the Lease Term shall continue as to the unaffected Theatre Properties, and (D) the Basic Rent payable and any Additional Rent and other amounts owing thereafter hereunder shall be adjusted in accordance with paragraph (d) below;

(ii) if such Event of Loss occurs during the Initial Term, (A) the Acquisition Cost shall be reduced by the amount of the Taking Proceeds actually paid or assigned to Landlord, and (B) once the aggregate of Taking Proceeds equals \$39,000,000, any excess Taking Proceeds shall be paid to the Tenant; and

(iii) if the Tenant exercises the option to renew the Lease Term for the Renewal Term, the Renewal Rental Rate shall be determined as if the affected Theatre Property is not subject to this Lease.

The "Taking Proceeds" of any Taking shall mean the amount of proceeds of any award or sale received by Tenant or Landlord or their Affiliates in connection with such Taking, after deduction of any costs or expenses (including, without limitation, reasonable attorneys' fees) incurred by the Landlord or Tenant in connection with the negotiation and settlement of any proceedings related to such Taking. Notwithstanding the foregoing, if the amount of Taking Proceeds from all Takings during the Initial Term shall exceed the Acquisition Cost (as reduced in accordance with clause (ii) of paragraph (d) of Section 12 hereof), the amount in excess thereof shall be paid to and retained by

Tenant (regardless of whether initially paid to Tenant or Landlord) and shall not otherwise be included in the term "Taking Proceeds."

(d) If the Basic Rent or any other amounts are to be adjusted pursuant to paragraph (c) of this Section 16:

(i) If such Event of Loss occurs during the Initial Term, the Basic Rent for each period from and after the Taking Payment Date to the end of the Initial Term shall be an amount equal to the Basic Rent as it would have been in effect for such period absent the adjustment made by this Section 16(d), multiplied by an amount equal to one minus a fraction, the numerator of which is the amount of the Taking Proceeds and the denominator of which is the then determined amount of the Acquisition Cost without taking account of such Event of Loss; and any other amounts shall be adjusted in a like manner as applicable.

(ii) If such Event of Loss occurs during the Renewal Term, the Basic Rent, for each month in the lease year in which the Taking Payment Date occurs, shall be reduced by an amount determined by the Landlord and the Tenant or determined by the Appraisal Procedure (prorated, in the case of any partial month), taking account of the method for determining the Basic Rent during the Renewal Term as described in paragraph (i) of Section 12 hereof, and any other amounts shall be adjusted in a like manner as applicable; and the Basic Rent as so adjusted shall be further adjusted for any subsequent lease year as provided in Section 12(j).

(e) To the extent any of the provisions of the Site Leases concerning any Taking, proceeds relating to any Taking, or the application of any proceeds relating to any Taking are inconsistent with the provisions of this Lease, the provisions of the Site Leases shall control and the parties shall be relieved of any inconsistent obligation hereunder.

(f)(i) So long as no Event of Default hereunder has occurred and is continuing, the Tenant shall have the right during the Initial Term, subject, at all times prior to the Funding Date, to the prior written consent of Landlord, not to be withheld unreasonably, (A) to grant, obtain or enter into minor easements for the benefit of or burdening any Parcel of Property, (B) to voluntarily dedicate or convey, as required, portions of any Parcel of Property for road, highway and other public purposes, (C) to voluntarily execute petitions to have any Parcel of Property or a portion thereof annexed to any municipality or included within any utility, highway or other improvement or service district, provided, that no more than minor restoration is required and such annexation has no material adverse effect on the value of such Parcel of Property and (D) to contest on its own and the Landlord's behalf any proposed Taking or the amount of any award in connection therewith. In connection with the Tenant's development, if any, of a Theatre Property in accordance with and subject to the terms of paragraph (f) of Section 9 hereof, the Tenant shall at all times be free to enter into and/or execute such agreements, dedications, easements, conditions, covenants and restrictions in favor of other property owners, lessees or local agencies as are necessary for the conduct of the

Tenant's operations on the affected Theatre Property. If any monetary consideration is paid for such easement or dedication, the Tenant shall be entitled to receive or retain such consideration. Any monetary consideration paid for such easement or dedication, after deduction for actual costs and expenses (including reasonable counsel fees) of Tenant in connection therewith, shall be treated as Taking Proceeds if received during the Initial Term and shall be paid to Landlord if received during the Renewal Term.

(ii) Subject to the foregoing provisions of this Section 16(f), the Landlord will cooperate, without unreasonable delay and at the Tenant's expense, as necessary and join in the execution of any appropriate instrument or shall execute any separate instrument as necessary. As a condition precedent to the Tenant's exercise of any of the Tenant's powers under this Section 16(f), (A) the Tenant shall give the Landlord five (5) Business Days' prior written notice of the proposed action and (B) the Tenant shall provide to the Landlord a certificate of the Tenant stating that such action will not materially adversely affect either the fair market value of such Theatre Property or the use of such Theatre Property for its intended purpose, will not affect the Landlord's ability to exercise its rights and remedies under this Lease and that the Tenant undertakes to remain obligated under this Lease to the same extent as if the Tenant had not exercised its powers under this Section 16 and the Tenant will perform all obligations under such instrument and shall prepare all required documents and provide all other instruments and certificates as the Landlord may reasonably request.

(g) At any time during the Initial Term following the Funding Date, and provided no Event of Default has occurred and is then continuing, the Tenant shall have the right to conduct all proceedings relating to any Taking, including any negotiations or other proceedings relating to the amount of any Taking Proceeds, with counsel of its choice, reasonably acceptable to Landlord. At any time when Tenant is not permitted by the preceding sentence to conduct such proceedings, Landlord shall conduct such proceedings at Tenant's expense.

SECTION 17. ASSIGNMENT AND SUBLETTING.

(a) Except as hereinafter provided (and then only in compliance with the terms hereof), the Tenant shall not, without the prior written consent of the Landlord in each instance, assign or sublease any right or interest herein or in any Theatre Property or Element thereof; provided, however, that there shall be no assignment or right to assign less than all of Tenant's rights and interest hereunder. The Tenant shall not, without the prior written consent of the Landlord in each instance, sublease or otherwise relinquish possession of any Parcel of Property, Theatre Improvements or Unit of Equipment, except that the Tenant may relinquish possession of Theatre Improvements or Equipment to any contractor for use in performing work for the Tenant on such Theatre Improvements or Equipment; provided, that such relinquishment of possession shall in no way affect the obligations of the Tenant or the rights of the Landlord hereunder with respect to such Theatre Improvements or Equipment. If permitted under the applicable Site Lease(s), (i) the Landlord shall not unreasonably withhold or delay its consent under this paragraph (a) to any

assignment of all but not less than all of Tenant's rights and interest hereunder or any sublease, (ii) no consent of Landlord shall be required for any assignment or sublease to Parent or any controlled Affiliate of Parent provided Parent shall have confirmed in writing that the Lease Guaranty is applicable to and covers the obligations and liabilities of such assignee as if originally named in such Lease Guaranty, and (iii) no consent of Landlord shall be required for any assignment or sublease to Reading or any controlled Affiliate of Reading provided, in the case of an assignment or sublease to such an Affiliate, either Parent shall have confirmed in writing that the Lease Guaranty is applicable to and covers the obligations and liabilities of such assignee as if originally named in such Lease Guaranty or Reading shall have provided a Lease Guaranty. In the event Landlord consents to Tenant's subletting hereunder in any instance, (A) the sublease shall expressly be made subject and subordinate to the provisions hereof, shall by its terms be subject to termination upon the termination for any reason of this Lease and shall expressly provide for the surrender of the applicable Parcel of Property, Theatre Improvements or Unit of Equipment by the sublessee at the election of the Landlord or Pledgee after the occurrence of an Event of Default hereunder, (B) no sublease shall modify or limit any right or power of the Landlord or Pledgee hereunder or affect or reduce any obligation of the Tenant hereunder, and all such obligations shall continue in full force and effect as obligations of a principal and not of a guarantor or surety, as though no such subletting had been made, and (C) any sublease made otherwise than as expressly permitted by this paragraph (a) shall be void and of no force and effect.

(b) As additional security to the Landlord for the performance of the Tenant's obligations under this Lease, the Tenant (A) hereby assigns to the Landlord all of the Tenant's right, title and interest in and to all subleases, whether or not permitted hereby (although the foregoing does not constitute authorization from the Landlord for any sublease not strictly conforming to the limitations of paragraph (a) above) and (B) agrees to cause any sublessee to enter into such commercially reasonable attornment agreement with the Landlord as the Landlord may reasonably request. The Landlord shall have the present and continuing right to collect and enjoy all rents and other sums of money payable under any such sublease, and the Tenant hereby irrevocably assigns such rents and other sums to the Landlord for the benefit and protection of the Landlord; provided, that unless an Event of Default shall have occurred and be continuing hereunder, (i) the Tenant shall be entitled to collect and enjoy such rents and other sums and (ii) Tenant shall be entitled to receive and retain any amounts in excess of the amounts due Landlord hereunder; provided, however, that, with respect to any such excess amounts received by the Landlord or the Tenant during the existence of an Event of Default hereunder, such amount shall be held by the recipient until either such Event of Default shall be cured or the closing pursuant to the Purchase Option shall have occurred, in which event such excess shall be retained by, or be paid to, as the case may be, the Tenant, or the Lease Term shall be terminated or shall expire (the Purchase Option not having been exercised or the closing pursuant thereto not having occurred), in which event such excess shall be retained by, or paid to, as the case may be, the Landlord.

(c) (i) In connection with a Business Sale by Parent, Parent may be relieved of its future obligations under its Lease Guaranty (and, if such Business Sale includes the sale of the

Theatre Properties as such, Tenant may be relieved of its future obligations hereunder) if Parent provides a Suitable Replacement (whether as Tenant hereunder or guarantor pursuant to a guaranty substantially in the form of the Lease Guaranty); provided, however, that the foregoing shall not limit the proviso in the first sentence of paragraph (a) of this Section 17 as relates to the Theatre Properties.

(ii) If Parent seeks to provide a Suitable Replacement (other than Reading), Parent or the Tenant shall provide to Landlord, at least thirty days prior to the date such assignment is to become effective, such information regarding the financial ability and movie theatre operating and management experience of the relevant party(ies) as shall enable Landlord to perform a thorough evaluation of the suitability of the proposed party(ies). Landlord will advise within fifteen days following its receipt of such information whether the information is sufficient or, if additional information is required by Landlord to conduct its evaluation, the areas and topics where the initially-proffered information is insufficient. This process shall be repeated as Landlord may reasonably require and Landlord shall ultimately be afforded ten Business Days from the last delivery of information hereunder to determine whether the proposed party(ies) constitute a Suitable Replacement.

(iii) Any provision of this paragraph (c) to the contrary notwithstanding, Citadel will not be relieved of its obligations under the Lease Guaranty, whether or not a Suitable Replacement is provided as the Tenant or guarantor, until (A) such Suitable Replacement becomes the guarantor or the Tenant hereunder and (B) either of the following has occurred: (I) the Funding Date or (II) the Suitable Replacement or an Affiliate of such Suitable Replacement has succeeded to Citadel's obligations under the Loan Agreement and, if there then remains any unused Commitment under and as defined in the Loan Agreement, such successor (or a guarantor of such obligations, pursuant to the terms of a guaranty reasonably acceptable to Landlord) is either Reading or meets the Minimum Net Worth Requirement.

(iv) Except upon compliance with and subject to the terms of this paragraph (c), nothing in this Section 17 shall be construed to relieve Tenant of its obligations hereunder.

(d) The Tenant shall, within thirty (30) days after the execution of any sublease or assignment, deliver a conformed copy thereof to the Landlord and any Pledgee.

(e) The decision of the Landlord to grant a request to approve a subletting or assignment in any instance shall not constitute a waiver of the obligation of the Tenant to seek such consent in any other instance (whether for the same or a different Theatre Property, whether for the same proposed subtenant or a different one) or a waiver by the Landlord of its rights to withhold its consent in connection with any subsequent request.

(f) For purposes hereof, an assignment shall include a transfer of the direct or indirect interests in the Tenant such that the Tenant ceases to be an Affiliate of the Parent.

SECTION 18. EVENTS OF DEFAULT.

Any of the following events of default shall constitute an "Event of Default" and shall give rise to the rights on the part of the Landlord described in Section 19 hereof:

(a) Failure of the Tenant to pay Basic Rent or Additional Rent pursuant to Section 7 hereof on or prior to the earlier of (i) five (5) Business Days after such payment is due and (ii) the Lease Termination Date, or failure of the Tenant to pay any other amount payable by the Tenant hereunder on or prior to the earlier of (i) fifteen (15) Business Days after demand for such other payment from the Landlord made on or after the due date therefor and (ii) the Lease Termination Date;

(b) Failure of the Tenant to maintain the insurance required by Section 10 hereof, or default in the performance of the covenant contained in paragraph (k) of Section 10 hereof and, in either case, the continuance of such default for two (2) Business Days after written notice of such default is given to the Tenant by the Landlord or written notice of the expiration of any required policy is received by the Tenant from its insurance agent or an insurer; or

(c) Default in the performance of any other obligation or covenant of the Tenant pursuant to this Lease and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice of such default is given to the Tenant by the Landlord; or with respect to any such default that it is not capable of being cured within such thirty (30) day period, the failure of Tenant within such initial thirty (30) day period to commence appropriate steps to cure such default or, thereafter, to continue to pursue such cure with diligence and good faith; or

(d) The Tenant shall fail to observe or perform, after the expiration of any applicable grace period, any material term, covenant or condition of any of the Site Leases on the part of the Landlord, as tenant thereunder, to be observed or performed, unless any such observance or performance shall have been waived or not required by the Site Landlord under the applicable Site Lease, or if any one or more of the events referred to in a Site Lease shall occur which would cause such Site Lease to terminate without notice or action by the Site Landlord thereunder or which would entitle the Site Landlord under such Site Lease to terminate such Site Lease and the term thereof by the giving of notice to the Landlord without opportunity to cure, as tenant thereunder; or

(e) A default by Parent under the Lease Guaranty in favor of Landlord past notice and time to cure if required or if any such Guaranty ceases to be in full force and effect; or

(f) (i) A default by Tenant in making any payment when due under the notes delivered by Tenant under the Agreement of Purchase and Sale of Membership Interest, of even date

herewith, between Tenant and certain Affiliates of Landlord, in any such case following expiration of cure and notice periods set forth therein; or (ii) a default by the lender under the Loan Agreement to make a loan thereunder when required to so lend by the terms thereof, provided such failure continues for 30 days after notice; or (iii) the Lender under the Loan Agreement shall default on any obligation under any indemnity agreement entered into pursuant to Section 4.2(e)(y) of the Loan Agreement, provided such default continues for 30 days after notice; or

(g) The entry of a decree or order for relief in respect of the Tenant or Parent by a court having jurisdiction in the premises or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Tenant or the Parent of any substantial part of the Tenant's or Parent's property, which appointment is not discharged within sixty (60) days, or ordering the winding up or liquidation of the Tenant's or Parent's affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against the Tenant or Parent of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, and the continuance of any such case undismissed and in effect for a period of sixty (60) days; or

(h) The suspension or discontinuance of the Tenant's or Parent's business operations, the Tenant's or the Parent's insolvency (however evidenced) or the Tenant's or the Parent's admission of insolvency or bankruptcy, or the commencement by the Tenant or the Parent of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by the Tenant or the Parent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Tenant or the Parent or of any substantial part of the Tenant's or the Parent's property, or the making by the Tenant or the Parent of an assignment for the benefit of creditors, or the failure of the Tenant or the Parent generally to pay its debts as such debts become due, or the taking of corporate action by the Tenant or the Parent in furtherance of such action; or

(i) Failure of the Tenant to pay when due the Acquisition Cost if the Purchase Option is exercised; or

(j) This Lease or any Theatre Property or Element thereof is taken upon execution or by other process of law (other than eminent domain or similar proceedings) directed against the Tenant.

SECTION 19. RIGHTS UPON DEFAULT.

(a) Upon the occurrence and continuation of any Event of Default, the Landlord may, at its sole option, give to the Tenant a notice (hereinafter called "Notice of Termination") terminating this Lease at the expiration of fifteen (15) days from the date of service of such Notice of

Termination, and at the expiration of such fifteen (15) days, this Lease and the term of this Lease, as well as all of the right, title and interest of the Tenant hereunder, shall wholly cease and expire in the same manner and with the same force and effect as if the date of expiration of such fifteen (15) day period were the date originally specified herein for the expiration of the term of this Lease, and the Tenant shall then quit and surrender the Theatre Properties and each and every Element thereof to the Landlord, and the Landlord or Landlord's agents or servants may, either by summary process or by any suitable action or proceeding at law, immediately or at any time thereafter re-enter the Theatre Properties and each and every Element thereof and remove therefrom Tenant, its agents, employees, servants, licensees, and any subtenants and other persons, and all or any of its or their property therefrom, and repossess and enjoy the Theatre Properties and each and every Element thereof, together with all additions, alterations and improvements thereto; but Tenant shall remain liable as hereinafter provided.

(b) If this Lease shall be terminated as provided in paragraph (a) of this Section 19, all of the right, title, estate and interest of Tenant (i) in and to each Theatre Property and each and every Element thereof, all changes, additions and alterations therein, and all renewals and replacements thereof, (ii) in and to all rents, income, receipts, revenues, issues and profits issuing from the Theatre Properties, or any Element, part or portion thereof, whether then accrued or to accrue, (iii) in and to all insurance policies and all insurance monies paid or payable thereunder, and (iv) in the then entire undisbursed balance of any funds then being held by any party pursuant to the terms hereof shall automatically pass to, vest in and belong to Landlord, without further action on the part of either party, free of any claim thereto by Tenant.

(c) If this Lease is terminated under the provisions of paragraph (a) of this Section 19, or in the event of the termination of this Lease, or of re-entry, by or under any summary dispossession or other proceeding or action or any provision of law by reason of an Event of Default hereunder on the part of Tenant, Tenant shall pay to Landlord as liquidated damages, at the election of Landlord, either

(i) a sum which at the time of such termination of this Lease or at the time of any such re-entry by Landlord, as the case may be, represents the then value of the excess, if any, of (A) the aggregate amount of the Basic Rent and Additional Rent which would have been payable by Tenant for the period commencing with such earlier termination of this Lease and ending with the date contemplated as the expiration date hereof (ignoring the Renewal Term if such termination occurs during the Initial Term) if this Lease had not so terminated or if Landlord had not so re-entered the Theatre Properties, over (B) the aggregate rental value of the Theatre Properties for the same period, discounted at the rate of 7.75% per annum, or

(ii) a sum equal to any deficiency between the Basic Rent and Additional Rent which would have been payable by Tenant had this Lease not so terminated and the net amount, if any, of the rents, additional rent and other charges collected on account of the

lease or leases of the Theatre Properties or any of them for each month of the period which would otherwise have constituted the balance of the term of this Lease, payable on the respective due dates thereof as specified herein. Any such reletting may be for a period shorter or longer than the remaining term of this Lease; but in no event shall Tenant be entitled to receive any excess of such credits over the sums payable by Tenant to Landlord hereunder, nor shall Tenant be entitled in any suit for the collection of damages pursuant to this Section to a credit in respect of any net rents from a reletting except to the extent that such net rents are actually received by Landlord. If the Landlord shall operate any or all of the Theatre Properties itself (or if the Landlord shall relet to an Affiliate of the Landlord), the deficiency shall be determined as if the Landlord had relet such Theatre Properties to a non-Affiliate, using as the rent from such re-letting the rent determined by agreement of the Landlord and the Tenant, or, if no such agreement can be reached, by the Appraisal Procedure.

In either event, Tenant shall pay Landlord the fair rental value of any space in the Theatre Properties occupied by Tenant or an Affiliate after such termination or re-entry. Suit or suits for the recovery of such damages, or any installments thereof, may be brought by Landlord from time to time at its election, and nothing contained herein shall be deemed to (x) require Landlord to postpone suit until the date when the term of this Lease would have expired if it had not been so terminated under the provisions of paragraph (a) of this Section 19 or under any provision of law, or had Landlord not re-entered the Theatre Properties, or (y) preclude the bringing of additional or subsequent suits.

(d) In computing such damages there shall be added to the said deficiency such reasonable expenses as Landlord may incur in connection with re-letting, such as reasonable legal expenses, reasonable attorneys' fees, brokerage, advertising and expenses incurred in keeping the Theatre Properties in good order or for preparing the same for re-letting or for use by Landlord for its own operations or operations of an Affiliate. Any such damages shall be paid in monthly installments by Tenant on the rent day specified in this Lease, based on the amount of expense incurred by Landlord during the preceding month. Landlord, in putting the Theatre Properties in good order or preparing the same for re-rental or for use by Landlord for its own operations or operations of an Affiliate, may, at Landlord's option, make such alterations, repairs, replacements, and/or decorations in the Theatre Properties as Landlord, in Landlord's sole judgment, considers advisable and necessary for the purpose of re-letting the Theatre Properties or for use by Landlord for its own operations or operations of an Affiliate and the making of such alterations, repairs, replacements, and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid. Landlord shall in no event be liable in any way whatsoever for failure to re-let the Theatre Properties or to operate the Business therein, either directly or through an Affiliate, or in the event that the Theatre Properties are re-let, for failure to collect the rent thereof under such re-letting, and in no event shall Tenant be entitled to receive the excess, if any, of such net rents collected over the sums payable by Tenant to Landlord hereunder. In the event of a breach or threatened breach by Tenant of any of the covenants or provisions hereof beyond the applicable grace period, if any, Landlord shall have the right of injunction and the right to invoke any remedy

allowed at law or in equity as if re-entry, summary proceedings and other remedies were not herein provided for. Mention in this Lease of any particular remedy shall not preclude Landlord from any other remedy, in law or in equity. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the Theatre Properties by reason of the violation by Tenant of any of the covenants and conditions of this Lease, or otherwise.

(e) The receipt of any payments under this Lease by the Landlord with knowledge of any breach of this Lease by the Tenant or of any default by the Tenant in the performance of any of the terms, covenants or conditions of this Lease, shall not be deemed to be a waiver of any provision of this Lease.

(f) No receipt of moneys by the Landlord from the Tenant after the termination or cancellation hereof in any lawful manner shall reinstate, continue or extend Lease Term or affect any notice theretofore given to the Tenant, or operate as a waiver of the right of the Landlord to enforce the payment of Basic Rent, Additional Rent or other charges payable hereunder, or operate as a waiver of the right of the Landlord to recover possession of the Theatre Properties and Equipment subject to this Lease by proper suit, action, proceedings or remedy; it being agreed that, after the service of notice to terminate or cancel this Lease, and the expiration of the time therein specified, if the default has not been cured in the meantime, or after the commencement of any suit, action or summary proceedings or of any other remedy, or after a final order, warrant or judgment for the possession of any Theatre Property or Element thereof, the Landlord may demand, receive and collect any moneys payable hereunder, without in any manner affecting such notice, proceedings, suit, action, order, warrant or judgment. Acceptance of the keys to any Theatre Property or Theatre Improvements, or any similar act, by the Landlord, or any agent or employee of the Landlord, during the term hereof, shall not be deemed to be an acceptance of a surrender of any Theatre Property or Theatre Improvements unless the Landlord shall consent thereto in writing.

(g) With respect to the termination of this Lease as a result of an Event of Default, the Tenant hereby waives service of any notice of intention to re-enter. The Tenant hereby waives any and all rights to recover or regain possession of any Parcel of Property, Theatre Improvement or Unit of Equipment or to reinstate this Lease as permitted or provided by or under any statute, law or decision now or hereafter in force and effect. The words "re-enter" and "re-entry" (and words of similar import) are not restricted to their technical legal meaning.

(h) No remedy referred to in this Section 19 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to the Landlord at law or in equity, and the exercise in whole or in part by the Landlord of any one or more of such remedies shall not preclude the simultaneous or later exercise by the Landlord of any or all such other remedies. No waiver by the Landlord of any Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Event of Default, whether similar or dissimilar to the previously assumed Event of Default.

(i) Each party shall pay to the other all costs and expenses, including reasonable attorneys' fees, incurred by such other party in successfully enforcing any of the covenants and provisions of this Lease and incurred in any successful action brought by such other party on account of the provisions hereof, and all such costs, expenses, and attorneys' fees may be included in and form a part of any judgment entered in any proceeding brought by such other party on or under this Lease. All of the sums paid or obligations incurred by one party as aforesaid with interest and costs shall be paid by such party to the other within five (5) days of the rendition by such first party to the other of any bill or statement therefor, and sums owing by the Tenant shall be treated as Additional Rent.

(j) Tenant expressly waives, for itself and for any person claiming through or under Tenant, any rights which Tenant or any such person may have under the provisions of Section 2-201 of the New York Civil Practice Law and Rules and of any successor law of like import then in force, in connection with any holdover summary proceedings which Landlord may institute to enforce the provisions of this Article 19.

SECTION 20. LANDLORD'S LIEN.

To secure its payment of all Basic Rent, Additional Rent and all other amounts owing hereunder and the performance of its covenants and agreements contained in this Lease (including, without limitation, the covenants and agreements contained in the Site Leases), the Tenant hereby grants to the Landlord an express first and prior contractual lien and security interest on all property (including fixtures, equipment, chattels and merchandise) that may be placed on a Theatre Property, and also upon all proceeds of any insurance that may accrue to the Tenant by reason of the destruction or damage to that property. The Tenant will not remove that property from each Theatre Property (except in the ordinary course of business) without the prior written consent of the Landlord, which can be unreasonably withheld or delayed in the Landlord's absolute discretion, until all arrearages in Basic Rent, Additional Rent and all other amounts owing hereunder have been paid. The Tenant waives the benefit of all exemption laws in favor of this lien and security interest. This lien and security interest is given in addition to the Landlord's statutory lien and is cumulative with it. Upon the occurrence of any Event of Default, these liens may be foreclosed with or without court proceedings by public or private sale, so long as the Landlord gives the Tenant at least ten (10) days' notice of the time and place of the sale. The Landlord will have the right to become the purchaser of such property if it is the highest bidder at the sale. Contemporaneously with its execution of this Lease, and if requested by the Landlord at any time after the Effective Date, the Tenant will execute and deliver to the Landlord Uniform Commercial Code financing statements in form and substance sufficient (upon proper filing) to perfect the security interest granted in this Section 20 hereof. If requested by the Landlord, the Tenant will also execute and deliver to the Landlord Uniform Commercial Code continuation statements in form and substance sufficient to reflect any proper amendment of, modification in or extension of the security interest granted in this Section 20 hereof.

SECTION 21. SUBORDINATION AND ATTORNMENT.

This Lease and the Tenant's rights under this Lease are subject and subordinate to any ground lease or underlying lease (including the Site Leases), first mortgage, first deed of trust or other first lien encumbrance or indenture (or series of mortgages held by or for the benefit of Affiliated parties), whether encumbering any Theatre Property or the interest of the Landlord under any of the Site Leases, together with any renewals, extensions, modifications, consolidations, and replacements of them listed on Exhibit C that now or at any subsequent time affects any Parcel of Property, Theatre Improvement or Unit of Equipment or any interest of the Landlord in any Parcel of Property, Theatre Improvement or Unit of Equipment or the Landlord's interest in this Lease and the estate created by this Lease or such landlord's interest; provided, that this Lease shall not be subordinate to any Lien created by Landlord other than a Landlord Permitted Lien; and any and all mortgages and other encumbrances on the interest of a Site Landlord under its Site Lease or in and to the estate of such Site Landlord in and to the real property interest of the Site Landlord thereunder. This provision will be self-operative and no further instrument of subordination will be required in order to effect it. Nevertheless, the Tenant will execute, acknowledge and deliver to the Landlord, at any time and from time to time, within ten (10) Business Days following written demand by the Landlord, documents reasonably requested by the Landlord, any Site Landlord or underlying lessor or any mortgagee, or any holder of a deed of trust or other instrument described in this paragraph, to confirm or effect the subordination. Notwithstanding the foregoing, if Landlord shall not obtain from the holder of any ground lease or underlying lease, first mortgage, first deed of trust or other first lien encumbrance or indenture a reasonably acceptable non-disturbance and attornment agreement, this Lease shall not be subject and subordinate to such ground lease or underlying lease, first mortgage, first deed of trust or other first lien encumbrance or indenture or other Landlord Permitted Lien except to the extent now so provided in any Site Lease. Such non-disturbance and attornment agreement will provide, among other things, that anyone succeeding to the interest of the Landlord as a result of the exercise of its rights under any ground lease or underlying lease, first mortgage, first deed of trust or other first lien encumbrance or indenture or other Landlord Permitted Lien will not be bound by (i) any payment of Basic Rent, Additional Rent or any other amount payable hereunder for more than one month in advance, or (ii) any amendment or modification of this Lease made thereafter without its written consent, or (iii) any claim against the Landlord arising prior to the date that the successor succeeded to the Landlord's interest (except to the extent such claim relates to a condition or circumstance which continues to exist thereafter), or (iv) any claim or offset of Basic Rent, Additional Rent or any other amount owing hereunder against the Landlord (except to the extent such claim or offset relates to a condition or circumstance which continues to exist thereafter but then, so long as such party is not an Affiliate of Landlord, only as to the time period following such party's succession to the interest of landlord hereunder). Upon request by the successor and without cost to the Landlord or the successor, the Tenant will execute, acknowledge and deliver reasonable documents confirming the attornment.

SECTION 22. RIGHT TO PERFORM FOR TENANT.

(a) If the Tenant fails to pay when due any amounts payable under this Lease (including amounts payable pursuant to a Site Lease which are the obligation of Tenant pursuant to the terms hereof) or to perform or comply with any of its covenants or agreements contained in this Lease (including, without limitation, the covenants or agreements contained in any of the Site Leases), and the period to cure such failure has expired without the Tenant curing such failure, the Landlord may, upon at least ten (10) days' advance written notice to the Tenant (or without notice to the Tenant if the Landlord in its reasonable discretion determines that any delay in performing or complying with such covenant or agreement could have a Material Adverse Property Effect or in cases of emergency), but without any obligation so to do (whether or not so done in any previous instance) and without waiving or releasing any obligations or default, itself perform or comply with such covenant or agreement.

(b) All amounts paid by the Landlord pursuant to paragraph (a) hereof and all costs and expenses incurred by the Landlord in connection with the performance or compliance with any of those obligations will be payable by the Tenant to the Landlord on demand, together with interest at the Reimbursement Rate from the date incurred by the Landlord until the date repaid by the Tenant. Any payments from Tenant to Landlord may be applied to costs, fees and interest as Landlord may elect.

(c) In the proof of any damages that the Landlord may claim against the Tenant arising out of the Tenant's failure to maintain insurance pursuant to any of the provisions of Section 10 hereof, the Landlord will not be limited to the amount of the unpaid insurance premium but rather the Landlord will also be entitled to recover, as damages for the breach, the amount of any uninsured loss (to the extent of any deficiency in the insurance required by and actually maintained pursuant to Section 10 hereof), damages, costs, and expenses of suit, including reasonable attorneys' fees, arising out of damage to, or destruction of, any Theatre Improvement and Unit of Equipment occurring during any period for which the Tenant has failed to provide such insurance.

(d) Nothing herein shall affect obligations of, or claims or rights against, Tenant pursuant to Section 11 hereof.

SECTION 23. PERMITTED CONTESTS.

(a) The Tenant shall not be required, nor shall the Landlord have the right, to pay, discharge or remove any tax, assessment, levy, fee, rent, charge or Lien, or to comply or cause any Parcel of Property, Theatre Improvement or Unit of Equipment to comply with any Legal Requirements applicable to any Parcel of Property, Theatre Improvement or Unit of Equipment or the occupancy, use or operation thereof, so long as no Event of Default exists under this Lease, and, in the reasonable judgment of the Tenant's counsel (which, if the amount at issue would be reasonably likely to exceed \$50,000 and to comply with the following would not result in the loss of any attorney-client, work product, or similar privilege, the Landlord may request to be provided to it in writing), the Tenant shall have reasonable grounds to contest the existence, amount, applicability

or validity thereof by appropriate proceedings, which proceedings, in the reasonable judgment of the Landlord, (i) shall not involve any danger that the Parcel of Property, Theatre Improvement or Unit of Equipment or any Basic Rent, Additional Rent or any other amounts owing hereunder would be subject to sale, forfeiture or loss or loss of use, as a result of failure to comply therewith, (ii) shall not affect the payment of any Basic Rent, Additional Rent or any other sums due and payable hereunder or result in any such sums being payable to any Person other than the Landlord or any Pledgee except as provided herein, (iii) will not place the Landlord, any Pledgee or a Site Landlord in any danger of civil liability for which the Landlord, any Pledgee or such Site Landlord is not adequately indemnified (the Tenant's obligations under Section 11 of this Lease shall be deemed to be adequate indemnification if no Event of Default exists and if such civil liability is reasonably likely to be less than \$50,000 per Parcel or Unit and \$100,000 in the aggregate prior to the Funding Date and \$500,000 per Parcel or Unit and \$1,000,000 in the aggregate from and after the Funding Date, and so long as Tenant or a guarantor of its obligations hereunder meets the Minimum Net Worth Requirement) or subject the Landlord, any Pledgee or such Site Landlord to any danger of criminal liability, (iv) if involving Taxes, shall suspend the collection of Taxes (unless the Tenant has provided a bond for the full amount in dispute), and (v) shall be permitted under and be conducted in accordance with the provisions of any other instrument (including, without limitation, the Site Leases) to which the Tenant or the Parcel of Property, Theatre Improvement or Unit of Equipment is subject and shall not constitute a default thereunder (the "Permitted Contest"). The Tenant shall conduct all Permitted Contests in good faith and with due diligence and shall promptly after the final determination (including appeals) of any Permitted Contest (or, if earlier, upon any of the above criteria no longer being satisfied) pay and discharge all amounts which shall be determined to be payable therein. The Landlord shall at the Tenant's expense reasonably cooperate in good faith with the Tenant with respect to all Permitted Contests conducted by the Tenant pursuant to this Section 23, including, without limitation, in assisting in the preparation of, and participating in, filings related to such Permitted Contests.

(b) At least ten (10) days prior to the commencement of any Permitted Contest, the Tenant shall notify the Landlord in writing thereof if the amount in contest or the cost of compliance exceeds (or is reasonably estimated by Tenant to exceed) \$100,000 if prior to the Funding Date or \$500,000 thereafter, and shall describe such proceeding in reasonable detail. In the event that the Landlord shall receive written notice from a taxing authority or subdivision thereof which proposes an additional assessment or levy of any tax for which the Tenant is obligated to reimburse the Landlord under this Lease which notice does not indicate that an original or copy thereof was provided to the Tenant, or in the event that the Landlord is notified in writing of the commencement of an audit or similar proceeding which could result in such an additional assessment which notice does not indicate that an original or copy thereof was provided to the Tenant, then the Landlord shall in a timely manner notify the Tenant in writing of such proposed levy or proceeding.

SECTION 24. PLEDGE BY LANDLORD.

(a) The Landlord shall have the right to obtain debt financing for the continuing ownership of any Theatre Property or Element thereof by pledging its right, title and interest in any or all amounts payable by or due from the Tenant or any third party under this Lease and granting a security interest in (including a Lien on) this Lease, or the Landlord's estate in such Theatre Property and/or Element, to a lender or lenders under a Financing Agreement; provided, that any such financing shall be subject to the rights and interests of the Tenant under this Lease, including, without limitation, the Purchase Option. In no event may the Landlord enter into any Financing Agreement or other instrument, or take any other action, which would constitute or incur a Lien which is not a Permitted Landlord Lien.

(b) Any Pledgee shall, except as otherwise agreed by the Landlord and such Pledgee, have all the rights, powers, privileges and remedies of the Landlord hereunder, and the Tenant's obligations as between itself and such Pledgee hereunder shall not be subject to any claims or defense that the Tenant may have against the Landlord other than payment; provided that the foregoing shall not be deemed to be a waiver of any claims the Tenant may have against the Landlord. Anything contained herein to the contrary notwithstanding, no Pledgee shall be obligated to perform any duty, covenant or condition required to be performed by the Landlord hereunder, and any such duty, covenant or condition shall be and remain the sole obligation of the Landlord.

SECTION 25. NOTICES AND REQUESTS

Any notices, consents, or other communications between Landlord and Tenant may be oral or in writing, so long as the Landlord remains Sutton Hill Capital, L.L.C. or an Affiliate thereof and the Tenant remains Reading or Citadel or a Subsidiary of Reading or Citadel; provided, however, that, if this Lease specifically provides that a notice, consent or communication must be in writing, then such provision controls. Subject to the preceding sentence, all notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder or under any other instrument, certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 25. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to the Tenant:

Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90017
Attn: President
Telecopy: (213) 239-0548

With a copy of all notices under this Section 25 to be simultaneously given, delivered or served to Michael H. Margulis, Esq. at the following address:

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, NY 10168
Telecopy: (212) 692-1020

If to Landlord:

Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, CA 90048
Attention: Legal Department
Telecopy: (310) 652-6490

With a copy of all notices under this Section 25 to be simultaneously given, delivered or served to Howard E. Peskoe, Esq. at the following address:

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10166
Telecopy: (212) 351-3131

With a copy of all notices under this Section 25 to any Pledgee at such address as such Pledgee may specify by written notice to the Landlord and the Tenant.

SECTION 26. COVENANT OF QUIET ENJOYMENT.

During the Lease Term and so long as (i) no Event of Default shall have occurred and be continuing and (ii) the Tenant is performing and observing all the covenants, conditions and agreements on the Tenant's part to be observed and performed, the Landlord recognizes the Tenant's right to uninterrupted use and quiet enjoyment of the Theatre Properties and all material Elements

thereof on the terms and conditions provided in this Lease without any interference from the Landlord or anyone claiming through or under the Landlord, subject, however, to the terms and conditions of the Site Leases and to the liens and encumbrances listed on Exhibit C attached hereto. This covenant shall be construed as running with the land to and against subsequent owners and successors in interest, and is not, nor shall it operate or be construed as, a personal covenant of the Landlord, except to the extent of the Landlord's interest in the Theatre Properties, and this covenant and any and all other covenants of the Landlord contained in this Lease shall be binding upon the Landlord and upon such subsequent owners and successors in interest of the Landlord's interest under this Lease, to the extent of their respective interests in the Theatre Properties as and when they shall acquire same and then only for so long as they shall retain such interest.

SECTION 27. LEASEHOLD INTERESTS.

(a) This Lease is subject to all of the terms, covenants, conditions and agreements contained in the Site Leases for the Lease Term. Except as otherwise expressly provided in this Lease, all of the terms, covenants, conditions and agreements contained in the Site Leases, except such as by their nature or purpose are inapplicable or inappropriate to the leasing of the Theatre Properties pursuant to this Lease, are hereby incorporated in and made a part of this Lease with the same force and effect as though set forth at length herein and except that obligations and liabilities of the tenant or lessee thereunder are deemed to refer to Tenant hereunder and all rights, benefits, indemnities and protections in favor of the lessor or landlord thereunder also inure to the benefit of the Landlord hereunder.

(b) For the purposes of this Lease, the provisions of the Site Leases, as incorporated herein, are subject to the following modifications or deletions: (i) in all provisions requiring the approval or consent of the Landlord, if the approval or consent of the lessor under any of the applicable Site Leases is also required, the Tenant shall be required to obtain the approval or consent of such lessor in addition to the approval or consent of the Landlord; and (ii) the time limits provided in each of the Site Leases for the giving of notice, making demands, performance of any act, condition or covenant, or the exercise of any right, remedy, or option, are amended for the purpose of this Lease by lengthening or shortening the same in each instance by five (5) days, as appropriate, so that notices may be given, demands made, or any act, condition or covenant performed, or any right, remedy or option hereunder exercised, by the Landlord or the Tenant, as the case may be, within the same limit relating thereto contained in the Site Leases.

(c) The Tenant hereunder covenants and agrees to perform and to observe and to cause each permitted sublessee to perform and observe all of the terms, covenants, provisions, conditions and agreements of the Site Leases on the Landlord's part as lessee or sublessee thereunder to be performed and observed (including, without limitation, (x) payment of all rent, additional rent, and any other amounts payable by the Landlord as lessee under the Site Leases, (y) surrender of each Theatre Property under the Site Lease applicable thereto in the condition required at the end of the

term thereof as if such term end coincided with the expiration or sooner termination of the Lease Term, and (z) reconstruction following a casualty if and to the extent required therein) to the end that all things shall be done which are necessary to keep unimpaired the rights of the Landlord as lessee under the Site Leases. The Landlord and Tenant further covenant that they shall cause to be exercised any renewal option contained in the Site Leases which relates to renewal occurring in whole or in part during the Lease Term. The Tenant agrees to cooperate fully with the Landlord to enforce the Landlord's rights as the lessee under any of the Site Leases as against the lessor under any of the Site Leases.

(d) The Tenant covenants and agrees pursuant to Section 11 hereof to indemnify and hold harmless the Landlord and any Pledgee from and against any and all Losses arising by reason of the Tenant's or any permitted sublessee's failure to comply with the Site Leases or the provisions of this Section 27 other than to the extent arising, from (i) a Landlord Act or (ii) any breach of any covenant or agreement of Landlord or any Affiliate under this Lease or any Other Lease Document.

(e) The Landlord and the Tenant agree that during the Lease Term the Landlord shall have no obligation or responsibility to provide services or equipment required to be provided or repairs or restorations required to be made in accordance with the provisions of the Site Leases by the lessor thereunder. The Landlord shall in no event be liable to the Tenant nor shall the obligations of the Tenant hereunder be impaired or the performance thereof excused because of any failure or delay on the part of the Landlord as the lessee under the Site Leases in providing such services or equipment or making such restorations or repairs and such failure or delay shall not constitute a basis for any claim against the Landlord or any offset against any amount payable to the Landlord under this Lease. So long as there is no Event of Default hereunder, the Landlord will reasonably cooperate, at the Tenant's sole cost and expense, to seek from the lessor under any Site Lease the performance by such lessor of its obligations under the applicable Site Lease.

SECTION 28. MISCELLANEOUS.

(a) All agreements, indemnities, representations and warranties shall survive the expiration or other termination hereof.

(b) This Lease and the instruments, documents or agreements referred to herein constitute the entire agreement between the parties and no representations, warranties, promises, guarantees or agreements, oral or written, express or implied, have been made by any party hereto with respect to this Lease or any Theatre Property or Element thereof, except as provided herein or therein.

(c) This Lease may not be amended, modified or terminated, nor may any obligation hereunder be waived orally, and no such amendment, modification, termination or waiver

shall be effective for any purpose unless it is in writing, signed by the party against whom enforcement thereof is sought. The consent or approval by the Landlord to or of any act by the Tenant requiring the Landlord's consent or approval shall not be deemed to have been waived by the Landlord unless such waiver is in writing signed by the Landlord waiving such covenant or condition.

(d) The captions in this Lease are for convenience of reference only, and shall not be deemed to affect the meaning or construction of any of the provisions hereof. Any provision of this Lease which is prohibited by law or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and the parties hereto shall negotiate in good faith appropriate modifications to reflect such changes as may be required by law, and, as nearly as possible, to produce the same economic, financial and tax effects as the provision which is prohibited or unenforceable; and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the Landlord and the Tenant hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

THIS LEASE HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE TENANT AND THE LANDLORD AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAW OF THE STATE OF NEW YORK, THIS LEASE, AND THE RIGHTS AND DUTIES OF THE TENANT AND THE LANDLORD HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, INCLUDING, WITHOUT LIMITATION, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. EACH OF THE TENANT AND THE LANDLORD HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS LEASE OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS LEASE OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NON-EXCLUSIVE AND DOES NOT PRECLUDE EITHER PARTY FROM OBTAINING

JURISDICTION OVER THE OTHER IN ANY COURT OTHERWISE HAVING JURISDICTION. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE TENANT AND THE LANDLORD AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. EACH OF THE TENANT AND THE LANDLORD AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS LEASE OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

THE LANDLORD AND THE TENANT HEREBY WAIVE THEIR RESPECTIVE RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM, COUNTERCLAIM OR CROSS COMPLAINT IN ANY ACTION, PROCEEDING AND/OR HEARING BROUGHT BY EITHER THE LANDLORD AGAINST THE TENANT OR THE TENANT AGAINST THE LANDLORD ON ANY MATTER WHATSOEVER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF THE LANDLORD AND THE TENANT, THE TENANT'S USE OR OCCUPANCY OF THE THEATRE PROPERTIES AND THE ELEMENTS THEREOF, OR ANY CLAIM OF INJURY OR DAMAGE, OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY LAW, STATUTE OR REGULATION, EMERGENCY OR OTHERWISE, NOW OR HEREAFTER IN EFFECT. THE LANDLORD AND THE TENANT ACKNOWLEDGE THAT THE PROVISIONS OF THIS PARAGRAPH (D) OF SECTION 28 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

(e) This Lease may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(f) One or more waivers of any covenant or condition by the Landlord shall not be construed as a waiver of a subsequent breach of the same covenant or condition. The giving by the Landlord of any consent or approval hereunder (whether affirmatively or by inaction) shall not be deemed a waiver of the requirement for Tenant to seek such consent or approval in the future for the same or a dissimilar event.

(g) The Landlord recognizes the Tenant's right to call any Theatre Property by such name or designation as the Tenant may deem appropriate in the ordinary course of the Tenant's business and to place such signs, labels, plates or other markings on any Theatre Property as the Tenant may desire in exercising such rights, subject to the provisions of paragraph (b) of Section 8 hereof and the provisions of the Other Lease Documents.

(h) Each and every covenant contained herein shall be deemed separate and independent and not dependent upon other provisions of this Lease.

(i) The relationship of the parties hereto is that of landlord and tenant and no partnership, joint venture or participation is hereby created.

(j) Either party shall have the right to obtain specific performance of any and all covenants or obligations of the other under this Lease, and nothing contained in this Lease shall be construed as, or shall have the effect of, abridging such right.

(k) The Landlord acknowledges that Citadel, pursuant to its obligations under the Securities Acts and the rules and regulations thereunder, may be required to file this Lease, and certain or all of the Other Lease Documents, with the Securities and Exchange Commission as exhibits to its reports and statements under the Securities Acts, and the Landlord hereby consents to the same.

(l) This Lease has been prepared by the Landlord and its professional advisors and reviewed by the Tenant and its professional advisors. The Landlord, the Tenant and their separate advisors believe that this Lease is the product of all of their efforts, that it expresses their agreement, and that it should not be interpreted in favor of either the Landlord or the Tenant or against the Landlord or the Tenant merely because of their efforts in preparing it.

(m) The Tenant agrees from time to time, no later than ten (10) Business Days after a written request by the Landlord (including therein the proposed certificate as the Landlord then in good faith would complete it on behalf of the Tenant), to execute, acknowledge and deliver to the Landlord an estoppel certificate, in form reasonably satisfactory to the Landlord, which: (i) certifies that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified, and stating the modifications); (ii) states the expiration date of the Lease Term and that (except as set forth herein) there are no agreements with the Landlord to extend or renew the Lease Term or to permit any holding over (or if there are any such other agreements, describes them and specifies the periods of extension or renewal); (iii) certifies the dates through which Basic Rent, Additional Rent and all other amounts owing hereunder have been paid; (iv) states whether or not, to the knowledge and belief of the Tenant, the Landlord is in default in performance of any of its obligations under this Lease, and specifies each default of which the Tenant has knowledge; (v) states whether or not, to the knowledge and belief of the Tenant, any event has occurred which, with the giving of notice or passage of time, or both, would constitute a default by the Landlord and, if such an event has occurred, specifies each such event; (vi) states whether or not, to the knowledge and belief of the Tenant, the Tenant is entitled to any credits, offsets, defenses or deductions against payment of any amounts owing hereunder, and, if so, describes them; and (vii) such other matters as may be reasonably requested by the Landlord. An estoppel certificate issued by the Tenant pursuant to this paragraph (m) shall be a representation and warranty by the Tenant which may be relied upon by the Landlord and by others with whom the Landlord may be dealing, regardless of independent investigation. If the Tenant fails within ten (10) Business Days after a written request by the

Landlord to execute and deliver an estoppel certificate or to advise the Landlord in writing what, if anything, Tenant believes in good faith to be incorrect in the form certificate provided by the Landlord, the Landlord's representations concerning the factual matters covered by its proposed estoppel certificate, as described above, shall be conclusively presumed to be correct.

(n) All exhibits referred to in this Lease are attached hereto and incorporated herein by reference.

(o) The Landlord and its authorized representatives shall have the right during business hours, upon not less than twenty-four (24) hours' oral or written notice to the Tenant (except that in the case of an emergency, the existence of which shall be determined by the Landlord in its reasonable discretion, no advance notice shall be required) to enter upon any Theatre Property for purposes of inspection and exercising its rights under this Lease, provided that such inspections shall not unreasonably interfere with the Tenant's construction or business activities.

(p) Any holding over by the Tenant after the expiration of the Lease Term shall be construed as a tenancy from month to month and shall be subject to all of the terms and conditions which are provided for in this Lease except that the Basic Rent for any such month shall be an amount equal to 150% of the Basic Rent which would have been in effect for such month calculated as if the Lease Term had continued (including beyond the originally scheduled expiration hereof) and Basic Rent had been calculated for the applicable continuation period (Lease Year by Lease Year) without reference to the adjustments contemplated by this Section 28(p). Nothing herein shall be construed as an agreement or approval by Landlord of any right or option to extend or renew the term hereof (except strictly in compliance with and subject to the terms of Section 12 hereof).

(q) This Lease shall not be recorded, but at the request of either the Landlord or the Tenant, the other party agrees to join in the execution, acknowledgment and delivery of any and all documents necessary to record a memorandum or short form of this Lease. Subject to paragraph (g) of Section 2.2 and paragraph (e) of Section 2.4, all costs of recording a memorandum or short form of this Lease shall be borne by the party requesting recordation.

(r) The Landlord and any Pledgee shall, to the extent reasonably requested by the Tenant, and at the Tenant's cost and expense, cooperate to allow the Tenant to (a) perform its covenants contained in this Lease, including at any time and from time to time, upon the reasonable request of the Tenant, and at the Tenant's cost and expense, to execute and deliver any and all such further instruments and documents as the Tenant may reasonably request in order to perform such covenants, and (b) further the Tenant's requirements as lessee of the Theatre Properties, including, at the Tenant's cost and expense, to file any tax abatements or other tax requirements.

SECTION 29. CONSENTS.

(a) The Tenant hereby waives any claim against Landlord which the Tenant may have based upon any assertion that, when the consent or approval (or words of similar import) of the Landlord is not to be withheld or delayed unreasonably or the discretion or judgment (or words of similar import) of the Landlord is to be exercised reasonably (any such instance, a "Consent"), Landlord has unreasonably withheld or unreasonably delayed its Consent; and the Tenant agrees that its sole remedy in any such instance shall be an action or proceeding to enforce any such provision for specific performance, injunction or declaratory judgment so long as the Landlord has not acted in bad faith. In the event of such a determination by a court of competent jurisdiction, the requested Consent shall be deemed to have been granted; provided, however, that the Landlord shall have no liability to the Tenant for its refusal or failure to give such Consent so long as the Landlord has not acted in bad faith. The sole remedy for Landlord's unreasonably withholding or delaying of Consent, so long as the Landlord has not acted in bad faith, shall be as provided in this Section 29 and shall be available only in those cases where Landlord has expressly agreed in this Lease not to unreasonably withhold or unreasonably delay its Consent. In any proceeding with respect to matters covered by this Section 29, the prevailing party shall be liable for all costs (including reasonable attorneys' fees and disbursements) of the other party.

(b) In any instance in this Lease when Consent is not specified to be subject to the reasonable discretion of the party whose consent is sought, such Consent may be withheld in the sole and absolute discretion of the party in question, for any reason or no reason at all, and without the need or obligation to provide any explanation.

SECTION 30. NO RECOURSE.

The Landlord's obligations hereunder are intended to be the obligations of the limited liability company Landlord only and no recourse for the payment of any amount due under this Lease, the Site Leases or any other agreement contemplated hereby or thereby, or for any claim based hereon or thereon or otherwise in respect hereof or thereof, shall be had against any member of the Landlord, or any incorporator, officer, director, member or Affiliate, as such, past, present or future of the Landlord, any such member, parent or other subsidiary of an Affiliate, except as set forth in a certain Guaranty of even date herewith by Messrs. Cotter and Forman in favor of Tenant (as well as Citadel Investment Company, Inc.) and as set forth in a certain Pledge Agreement of even date herewith between Citadel Capital Corporation and Sutton Hill Associates, it being understood that the Landlord is a limited liability company formed for the purpose of the transactions involved in and relating to this Lease on the express understanding aforesaid. Nothing contained in this Section 30 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Lease and any other documents referred to herein, of the rights and remedies against the Landlord or the assets of the Landlord.

SECTION 31. NO MERGER.

There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in any Parcel of Property by reason of the fact that the same person acquires or holds, directly or indirectly, this Lease or the leasehold estate hereby created or any interest herein or in such leasehold estate as well as the fee estate in any Parcel of Property or any interest in such fee estate.

SECTION 32. EQUIPMENT TO BE PERSONAL PROPERTY.

It is the intention and understanding of the Landlord and the Tenant that all Equipment shall be and at all times remain personal property. The Tenant shall obtain and record such instruments and take such steps as may be necessary to prevent any Person from acquiring any rights in the Equipment paramount to the rights of the Landlord by reason of such Equipment being deemed to be real property.

SECTION 33. MERGER, CONSOLIDATION OR SALE OF ASSETS.

The Tenant may not consolidate with or merge into any other corporation or sell or assign all or substantially all of its assets or its interest in the Lease or any Theatre Property and Equipment to any Person, unless the surviving corporation or transferee Person shall assume, by execution and delivery of instruments reasonably satisfactory to the Landlord prior to any such consolidation, merger, sale or assignment, the obligations of the Tenant hereunder and become successor to the Tenant, but the Tenant shall not thereby be released, without the consent of the Landlord, from its obligations hereunder and provided, further, that no Event of Default shall have occurred and be continuing, both prior and after giving effect to any such consolidation, merger, sale or assignment and, if the successor Tenant shall be other than Citadel Cinemas, Inc., Reading, Craig Corporation, or a controlled Affiliate of Reading or Craig Corporation with respect to which Reading or Craig Corporation, respectively, has furnished a Lease Guaranty, Citadel shall have confirmed in writing that the Lease Guaranty is applicable to and covers the obligations and liabilities of such successor as if originally named in such Lease Guaranty. The terms and provisions of this Lease shall be binding upon and inure to the benefit of the Tenant and its respective successors and assigns.

SECTION 34. SUCCESSORS AND ASSIGNS.

This Lease shall be binding on the parties hereto and their respective successors and assigns but the foregoing shall not affect, alter or limit the provisions of Section 17 hereof.

IN WITNESS WHEREOF, the Landlord and the Tenant have caused this Lease to be executed and delivered by their duly authorized officers as of the day and year first above written.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

SUTTON HILL CAPITAL, L.L.C.

By: /s/ James J. Cotter

Name: James J. Cotter
Title: Operating Member

LEASE GUARANTEE

GUARANTEE, dated as of July 28, 2000 (this "Guarantee"), from CITADEL HOLDING CORPORATION, a Nevada corporation (the "Guarantor"), in favor of SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (the "Lessor"), and its successors and assigns.

WHEREAS, the Guarantor wishes to induce the Lessor to enter into a certain Lease (as defined below) with an Affiliate (as defined below) of the Guarantor; and

WHEREAS, the Lessor is unwilling to enter into the Lease unless the Guarantor enters into this Guarantee;

NOW, THEREFORE, in order to induce the Lessor to enter into the Lease, 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 Lease, have the meanings set forth in the Lease.

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 the Lessor and each Assignee that (i) all Payment Obligations will be promptly paid in full as and when due in accordance with the terms thereof, whether at the stated due date, by acceleration or otherwise, and (ii) the Lessee will duly and punctually perform, comply with, and observe all Covenant Obligations as and when required in accordance with the terms 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 lessee under the Lease; provided, however, that the foregoing limitation imposing on the Guarantor obligations hereunder as if it were the lessee under the Lease (except as herein set forth) 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 Lessee results from an Insolvency or Liquidation Proceeding, and in such event the Guarantor shall be liable in respect of obligations of the Lessee pursuant to the Lease as if no such Insolvency or Liquidation Proceeding had been initiated.

If an event permitting the exercise of remedies under the Lease shall at any time have occurred and be continuing and such exercise, or any consequences thereof provided in the Lease, shall at such time be prevented by reason of the pendency of any Insolvency or Liquidation Proceeding, the Guarantor agrees that, solely for purposes of this Guarantee and its obligations hereunder, the Obligations and all other amounts payable under the Lease shall be deemed to have been declared in default, with all attendant consequences as provided in the Lease, as if such declaration of default and the consequences thereof had been accomplished in accordance with the terms of the Lease, and the Guarantor shall forthwith pay any amounts guaranteed hereunder, without further notice or demand.

2.2 Guarantee Absolute. 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 Lessee or upon any other event or 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, notwithstanding any provision in the Lease limiting the ability of any Person to look for payment or performance with respect thereto. 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 Lessee shall be in default with respect to the Obligations under the terms of the Lease and that, notwithstanding the recovery hereunder for or in respect of any given default with respect to the Obligations by the Lessee under the Lease, this Guarantee shall remain in full force and effect and shall apply to each and every subsequent default with respect to the Obligations; but the foregoing shall not limit rights and remedies under the Lease 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 Lessee 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 the Lessor of the Obligations or any part thereof is rescinded or must otherwise be returned by the Lessor upon the Insolvency or Liquidation Proceeding, as though such payment to the Lessor 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 Lessee, and in connection with the enforcement of the obligations of the Guarantor under this Guarantee.

2.5 Guarantee Not Subject to 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 lessee under the Lease. 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 the Lessor and each Assignee whose interest is then effective in writing) that the Guarantor may have against the Lessee or, except as stated in the preceding sentence, 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 4.2(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 Lessee or to its Obligations, or any part thereof; (b) any failure on the part of the Lessee to perform or comply with any term of any Operative Document or any failure of any other Person (other than the Lessor and its Affiliates, to the extent such failure constitutes a defense to performance by the lessee under the Lease 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 the Lessor, the Lessee 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 the Lessor to furnish, accept or release said security); (f) any limitation on the liability or Obligations of the Lessee 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 any such limitation, termination, cancellation, frustration or unenforceability arises in favor of the Lessee 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 lessee under the Lease; (g) any lien, charge or encumbrance on or affecting the Guarantor's or the Lessee's respective assets and properties; (h) any act, omission or breach on the part of the Lessor or any Assignee under any Operative Document, or any other agreement at any time existing between the Lessor and the Lessee or any other Law or other agreement applicable to the Lessor 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 lessee under the Lease; (i) any claim as a result of any other dealings among the Lessor, any Assignee, the Guarantor or any of them, 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 lessee under the Lease; (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 Lessee or the Obligations by the Lessor to any other Person; (k) any change in the name of the Lessor, any Assignee, the Lessee or any other Person referred to herein; (l) any subleasing or further subleasing of the Property or Equipment or any part thereof, or any redelivery, repossession, sale, transfer or other disposition, surrender or destruction of the Property or Equipment or any part thereof; (m) the transfer, assignment, mortgaging or purported transfer, assignment or mortgaging of all or any part of the interest of the Lessor, its successors or assigns, or the Lessee in the Property or Equipment; (n) any failure of title with respect to the interest of the Lessee in the Property or Equipment so long as such failure does not result from a Landlord Act; (o) any defect in the

compliance with specifications, condition, design, operation or fitness for use of, or any damage to or loss or destruction of, or any interruption or cessation in the use of the Property or Equipment or any portion thereof by the Lessee or any other Person (excluding the Lessor) except to the extent provided in the first sentence of this Section 2.5 for any reason whatsoever (including without limitation any governmental prohibition or restriction, condemnation, requisition, seizure or any other act on the part of any governmental or military authority, or any act of God or of the public enemy), and regardless of the duration thereof (even though such duration would otherwise constitute a frustration of the Lease), whether or not without fault on the part of the Lessee or any other Person; (p) any merger or consolidation of the Lessee or the Guarantor into or with any other Person or any sale, lease or transfer of any other assets of the Lessee or the Guarantor to any other Person, whether or not permitted pursuant to the terms of the Operative Documents; (q) the availability to the Lessor 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 (r) any change in the ownership of any shares of capital stock of or other evidences of equity interests in the Guarantor or the Lessee (including any such change which results in an Affiliate of the Guarantor no longer owning capital stock of, or any such interests in, the Lessee), 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 Lessee or the Guarantor of any claim of the Lessee or the Guarantor which may be asserted against the Lessor 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 the Lessor or any Assignee, 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 the Lessor 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 Lessee may otherwise be entitled, except as provided in any Operative Document; and (g) the right to require the Lessor to proceed against the Lessee or any other Person liable on the Obligations, to proceed against or exhaust security held from the Lessee or any other Person, or to pursue any other remedy in the Lessor's power whatsoever, and the Guarantor waives the right to have the property of the Lessee first applied to the discharge of the Obligations.

The Lessor may, at its election, exercise any right or remedy it might have against the Lessee or any security held by the Lessor, 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 Lessee or any such security, whether resulting from such election by the Lessor 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 Lessee (which may nevertheless be asserted in a separate action or proceeding against the Lessor or any other party), or by reason of the cessation of the liability, either in whole or in part, of the Lessee to the Lessor for the Obligations (other than as a result of payment, performance or affirmative discharge, release or termination of this Guarantee by the Lessor and each Assignee).

The Guarantor assumes the responsibility for being and keeping informed of the financial condition of the Lessee and of all other circumstances bearing upon the risk of nonpayment of the Obligations and agrees that neither the Lessor nor any Assignee shall have any duty to advise the Guarantor of information regarding any condition or circumstance or any change in such condition or circumstance. The Guarantor acknowledges that the Lessor has not made any representation to the Guarantor concerning the financial condition of the Lessee.

SECTION 3

REPRESENTATIONS & WARRANTIES

The Guarantor represents and warrants to the Lessor 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 Corporate Power; Authorization; Enforceable Obligations. The

Guarantor has full power and authority to execute, deliver and perform its obligations under this Guarantee and has taken all necessary corporate action to authorize the execution, delivery and performance of this Guarantee. No consent of any other Person (including stockholders and creditors of the Guarantor), and no authorization of, notice to, or other act by or in respect of the Guarantor by or with any governmental authority, agency or instrumentality which has not been given or obtained is required in connection with the execution, delivery, performance, validity or enforceability of this Guarantee. This Guarantee has been duly executed and delivered by the Guarantor and constitutes a legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as the enforceability of this Guarantee may be

limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity.

3.3 No Legal Bar. Neither the execution, delivery or performance by the

Guarantor of this Guarantee will violate any provision of any existing Law applicable to the Guarantor or any order or decree applicable to the Guarantor of any court, arbitrator or governmental authority, or of the articles of incorporation or bylaws of the Guarantor or of any security issued by the Guarantor of any mortgage, indenture, lease, contract or other agreement or undertaking to which the Guarantor is a party or by which the Guarantor or any of its properties or assets is bound, or will result in the creation or imposition of any lien, charge, encumbrance or security interest on any of the properties or assets of the Guarantor pursuant to the provisions of any of the foregoing.

3.4 Ownership of Lessee; Guarantor's Business. All of the Lessee's common

stock is owned beneficially and of record by the Guarantor or a Subsidiary.

SECTION 4

MISCELLANEOUS

4.1 Payments. Each payment by the Guarantor under this Guarantee shall be

made in immediately available funds to or on the order of the Lessor, in each case without setoff or counterclaim except as permitted herein; provided that no such payment shall be deemed a waiver of any rights the Guarantor may have against the Lessor or the Lessee.

4.2 Parties. (a) This Guarantee shall inure to the benefit of the Lessor

and each Assignee and its and their respective successors, assigns or transferees, and shall be binding upon the Guarantor and its successors and assigns. Except as provided in Section 4.2(b), the Guarantor may not delegate any of its duties under this Guarantee without the prior written consent of the Lessor. Upon notice to the Guarantor, the Lessor 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 the Lessor 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 the Lessor and its successors, assigns or transferees in and to the Property and Equipment.

(b) If in connection with a Business Sale (i) either (A) the Lessee shall assign to any Person the Lessee's obligations under the Lease or (B) the Guarantor shall transfer the capital stock of the Lessee to any Person which is not an Affiliate of the Guarantor (whether by transfer of the stock of the Lessee or any Subsidiary of the Guarantor which owns such stock, by merger of the Lessee or any such Subsidiary of the Guarantor, or otherwise), and (ii) a Suitable Replacement (which may be the successor lessee or any Affiliate thereof) either assumes the Lessee's obligations under the Lease or executes and delivers to the Lessor a Lease Guarantee substantially similar to this Guarantee (subject to such modifications as may be reasonably

acceptable to the Lessor), this Guarantee shall be terminated and the Guarantor shall have no further liability hereunder with respect to Obligations thereafter arising.

4.3 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 4.3. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to the Lessor:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Ira Levin

Telecopier: (310) 855-8416

If to the Guarantor:

Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: President
Telecopier: (213) 239-0548

4.4 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 lessee under the Lease subject to the proviso in Section 2.1 hereof.

4.5 Right to Deal with the Lessee. 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, the Lessor or any Assignee may deal with the Lessee 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 Lessee, 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 payment of or otherwise change the terms of payment or any part thereof contained in or arising under any Operative Document, or to waive any Obligation of the Lessee to perform any act or acts as the Lessor or any Assignee may deem advisable.

4.6 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 all of the Obligations have been indefeasibly paid in full in cash and performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all of the Obligations shall not have been paid in full in cash, such amount shall be held in trust for the benefit of the Lessor and shall forthwith be paid as provided in Section 4.1 hereof to 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 the Lessor or any successor, assignee or transferee of the Lessor of all or any part of the Obligations and (b) all the Obligations shall be indefeasibly paid in full in cash, the Lessor or any such successor, assignee or transferee of the Lessor will, at the Guarantor's request and expense, execute and deliver to the Guarantor appropriate documents, without recourse as set forth in Section 30 of the Lease, and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

4.7 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 the Lessor or any Assignee and shall continue in full force and effect until all of the obligations of the Guarantor under this Guarantee shall be fully performed in accordance with the terms hereof, including without limitation the payment and performance in full of all Obligations.

4.8 Governing Law. THIS GUARANTEE HAS BEEN EXECUTED AND DELIVERED IN THE

STATE OF NEW YORK. THE GUARANTOR AND LESSOR 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 LESSOR 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.

4.9 Consent to Jurisdiction. THE GUARANTOR HEREBY IRREVOCABLY SUBMITS,

FOR ITSELF AND ITS PROPERTIES, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS GUARANTEE, AND TO THE EXTENT PERMITTED 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 LESSOR OR ANY ASSIGNEE FROM OBTAINING JURISDICTION OVER THE GUARANTOR IN ANY COURT OTHERWISE HAVING JURISDICTION.

4.10 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 LESSOR EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM RELATED TO THIS GUARANTEE. THE GUARANTOR AND LESSOR ACKNOWLEDGE THAT THE PROVISIONS OF SECTIONS 4.8, 4.9 AND 4.10 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

4.11 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 Lessor.

4.12 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.

4.13 No Merger. There shall be no merger of this Guarantee and the Lease

by reason of the fact that the same person, firm or entity is, directly or indirectly, the Guarantor and a lessee under the Lease or acquires or holds the leasehold estate created by the Lease or any part of such leasehold estate.

4.14 No Waiver. No delay on the part of the Lessor 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 the Lessor 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 the Lessor 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, the Lessor, 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.

4.15 Limitations. In no event shall the Guarantor have any liability to

the Lessor 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 actually obtained under the Lease or acquired in connection therewith.

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

CITADEL HOLDING CORPORATION
as Guarantor

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

Acknowledged and Agreed:

SUTTON HILL CAPITAL, L.L.C.

By: /s/ James Cotter

Name: James Cotter
Title: Operating 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) the Lessor and its Affiliates (the "Lessor's Affiliates") shall not include the Guarantor and its Subsidiaries; and (b) the Guarantor and its Subsidiaries (including the Lessee), on the one hand, and the Lessor and the Lessor's Affiliates, on the other hand, shall not be considered Affiliates of each other.

"Covenant Obligations" means all obligations, covenants, and undertakings of the Lessee contained in the Operative Documents, other than Payment Obligations.

"Indemnification Obligations" means any amount or amounts due to any Indemnified Person from the Lessee pursuant to Section 11 of the Lease.

"Insolvency or Liquidation Proceeding" means:

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

"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.

"Lease" means the Lease Agreement dated as of July 28, 2000 between Sutton Hill Capital, L.L.C., as Lessor, and Citadel Cinemas, Inc., as Lessee.

"Lessee" means Citadel Cinemas, Inc. in its capacity as Lessee under the Lease, and its successors and assigns and including without limitation the party holding the interest of the lessee under the Lease from time to time.

"Obligations" means Payment Obligations and Covenant Obligations, individually and collectively.

"Operative Documents" means the Lease and each agreement, certificate or instrument delivered by the Lessee pursuant to the terms of the Lease.

"Payment Obligations" means (a) all amounts of Basic Rent and Additional Rent stated in the Lease to be payable by the Lessee and (b) all amounts of Indemnification Obligations.

"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.

"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.

AGREEMENT WITH RESPECT TO FEE OPTION

Agreement ("Agreement"), made this 28/th/ day of July, 2000, by and between

 Sutton Hill Capital, L.L.C., a New York limited liability company, having an
 office at 120 North Robertson Boulevard, Los Angeles, California 90048 ("Option

 Holder"), and Citadel Realty, Inc., a Nevada corporation, having an office at

 550 South Hope Street, Suite 1825, Los Angeles, CA 90071 ("Optionee").

WHEREAS:

(A) Option Holder has entered into a certain Lease Agreement ("Lease

 Agreement"), dated as of July 28, 2000, with Citadel Cinemas, Inc., as tenant

 (the "Tenant"), pursuant to which the Tenant has leased from the Option Holder

 certain Theatre Properties, including the Sutton Theatre and Murray Hill
 Theatre;

(B) Option Holder holds an option ("Fee Option"), a copy of which is

 attached hereto as Exhibit "B", to purchase the land described on Exhibit "A",

 being the land underlying the Sutton Theatre and the Murray Hill Theatre (the
 "Underlying Fees");

(C) Pursuant to the provisions of the Lease Agreement, the Tenant has a
 Purchase Option to acquire the Purchased Assets;

(D) Option Holder has agreed that, if the Tenant exercises the Purchase
 Option pursuant to the Lease Agreement and closes thereunder in accordance with
 the terms thereof and if Optionee complies with the terms hereof, Optionee shall
 have an option to purchase the Underlying Fees in connection with and at the
 time of the closing of the Purchase Option pursuant to the Lease Agreement; and

(E) Certain capitalized terms are defined in Section 8 hereof.

NOW, THEREFORE, in consideration of the premises and for other valuable
 consideration, the receipt and sufficiency of which are hereby acknowledged, the
 parties hereto hereby agree as follows:

1. Purchase Option; Fee Price. Subject to the satisfaction of the

 Conditions Precedent (as defined in Section 4 hereof), Optionee shall have the

 option ("Optionee Fee Option") to acquire the Underlying Fees by funding the

 Purchase Price of the Fee Option.

2. Procedure for Exercise of Purchase Option. (a) To exercise the

 Optionee Fee Option, Optionee shall give written notice ("Notice") to Option

 Holder by January 5, 2010 but no earlier than the date on which the Tenant gives
 notice to the Option Holder pursuant to the Lease Agreement of the exercise by
 Tenant of the Purchase Option thereunder.

(b) Upon the receipt by Option Holder of the Notice, Option Holder shall provide notice to the owner of the Underlying Fees of the exercise by Option Holder of the Fee Option.

3. Closing. (a) The closing of the acquisition of the Underlying Fees

shall occur simultaneously with the closing on the Purchased Assets pursuant to the Purchase Option (the "Closing"). At the Closing, Option Holder shall direct

the transferor of the Underlying Fees to deliver title thereto directly to Optionee; provided, however, at the election of Optionee, exercised by written

notice to Option Holder given not less than 5 days prior to the anticipated date of the Closing, Option Holder shall direct the transferor of the Underlying Fees to deliver title to the Underlying Fees as the Optionee shall direct in such notice.

(b) At the Closing, title to the Underlying Fees will be transferred in accordance with the Fee Option. The transfer of the Underlying Fees shall be on an as-is, non-installment sale basis, without warranty by, or recourse to, the Option Holder, except that such title shall be free of any Liens resulting from the Option Holder's act or omission; provided, however, that nothing herein

shall obligate the Option Holder to cause any such Lien to be removed or cured if arising from a Tenant Event.

(c) The Optionee shall pay the Purchase Price of the Fee Option at the Closing by wire transfer or certified funds, as the Option Holder shall determine in its sole discretion by notice to Optionee no less than two days prior to the anticipated date of the Closing.

4. Conditions Precedents to Optionee's Rights. (a) OPTIONEE RECOGNIZES,

ACKNOWLEDGES AND AGREES THAT, SUBJECT TO PARAGRAPH 4(b), IF THE FOLLOWING TWO CONDITIONS ARE NOT STRICTLY ADHERED TO TIMELY (THE "CONDITIONS PRECEDENT"),

OPTIONEE SHALL HAVE NO RIGHT TO ACQUIRE THE UNDERLYING FEES: IF THE TENANT UNDER THE LEASE AGREEMENT: (1) DOES NOT EXERCISE ITS PURCHASE OPTION THEREUNDER OR DOES NOT HAVE THE RIGHT TO EXERCISE THE PURCHASE OPTION BY REASON OF THE OCCURRENCE OF A DEFAULT UNDER SECTION 18(f) OF THE LEASE AGREEMENT OR (2) EXERCISES ITS PURCHASE OPTION, AND IS NOT IN DEFAULT UNDER SECTION 18(f) OF THE LEASE AGREEMENT BUT FAILS TO SATISFY ITS OBLIGATIONS TO CLOSE IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE LEASE AGREEMENT.

(b) If, at any time during the Term of the Lease Agreement an Affiliate of the Optionee shall succeed to the interest of the Option Holder under the Lease Agreement, then the Conditions Precedent shall be deemed of no further force and effect.

5. Relationship of Optionee to Tenant. Optionee recognizes and

acknowledges that, while it is now an Affiliate of the Tenant, there is no assurance or requirement that it will in fact be an Affiliate of the Tenant at the time the Optionee Fee Option is exercised and, even if it is

then not an Affiliate of the Tenant, Optionee does not have an independent right to exercise the Optionee Fee Option unless and until, as described in paragraph 4(a) hereof (but subject to paragraph 4(b) hereof), the Tenant (whether or not then an Affiliate of Optionee) duly and properly exercises the Purchase Option and, as aforesaid, consummates the transaction and closes.

6. '1031 "Like-Kind" Exchange. Option Holder hereby notifies Optionee

that, if Optionee exercises the Optionee Fee Option in accordance with this Agreement, the Underlying Fees may be sold pursuant to the like kind exchange provisions of the Code. Optionee agrees to execute at the Closing all reasonable and customary documents necessary to accomplish the sale under the like kind exchange rules as prepared by Option Holder's attorney, provided, however, that

Optionee shall not be required to execute any document that would or might require Optionee to incur any cost or expense; require Optionee to take title to any property other than the Underlying Fees (except for the Purchased Assets); or require Optionee to incur any liability, whether current, accrued or contingent. Option Holder shall be responsible for all costs of such documentation and guarantees that no terms or conditions in this Agreement shall change due to the execution of the like kind exchange documents, nor shall Closing be delayed thereby. As aforesaid, Optionee will not be required to purchase any property (other than the Underlying Fees and Purchased Assets), but may be required to pay the Purchase Price (or some portion thereof, as the Option Holder may direct prior to the Closing) into an escrow fund established for the purpose of the like kind exchange. Option Holder shall defend, indemnify and save Optionee harmless from any loss, expense, claims or damages in connection with Optionee executing any such documents. The provisions of this Section 6 shall survive Closing.

7. Notice. Any notices, consents, or other communications between Option

Holder and Optionee may be oral or in writing, so long as the Option Holder remains Sutton Hill Capital, L.L.C. or an Affiliate thereof and the Optionee remains an Affiliate or a Subsidiary of either Citadel or Reading Entertainment, Inc. or Craig Corporation; provided, however, that, if this Agreement

specifically provides that a notice, consent or communication must be in writing, then such provision controls. Subject to the preceding sentence, all notices, offers, acceptances, approvals, waivers, requests, demands and other communications hereunder or under any other instrument, certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in

the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 7. All notices shall be effective upon receipt by the addressee;

provided, however, that if any notice is tendered to an addressee and the

delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the

purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to the Option Holder:
Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, California 90048
Attention: Legal Department
Telecopy: (310) 652-6490

With a copy of all notices under this Section 7 to be simultaneously given,

delivered or served to Howard E. Peskoe, Esq., at the following address:

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10166
Telecopy: (212) 351-3131

If to the Optionee:
Citadel Realty, Inc.
550 South Hope Street
Suite 1825
Los Angeles, California 90071;
Attention: President
Telecopy: (213) 239-0548

With a copy of all notices under this Section 7 to be simultaneously given,
delivered or served to:

Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, California 90071;
Attention: President
Telecopy: (213) 239-0548

and to Michael H. Margulis, Esq. at the following address:

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, New York 10168

Telecopy: (212) 692-1020

8. Certain Definitions. As used herein the following terms shall have

the respective meanings as set forth below:

(a) "Affiliate" of any Person means any other Person controlling,

controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," when used with respect to any

specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and

"controlled" have the meanings correlative to the foregoing. Notwithstanding the

foregoing: (i) the Option Holder and its Affiliates (the "Option Holder's Affiliates") shall not include Citadel and its Subsidiaries; (ii) Citadel and its Subsidiaries (including the Tenant), on the one hand, and the Option Holder and the Option Holder's Affiliates, on the other hand, shall not be considered Affiliates of each other; and (iii) Nationwide and its Affiliates shall not be considered an Affiliate of any of Citadel or any of its Subsidiaries or the Tenant or any of its Affiliates.

(b) "Citadel" shall mean Citadel Holding Corporation, a Nevada

corporation.

(c) "Contract" shall mean any contract, agreement, indenture, loan or

credit agreement, receivable sales or financing agreement, capital note, mortgage, security agreement, bond or note (or any guarantee of any of the foregoing).

(d) "Code" means the Internal Revenue Code of 1986, as heretofore and

hereafter amended from time to time, or any successor code as in effect from time to time.

(e) "Indemnity Guarantee" means the guarantee, dated as of the date

hereof, entered into by and among the Messrs. Forman and Cotter, Citadel Cinemas, Inc. and Optionee.

(f) "Insolvency or Liquidation Proceeding" means:

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

(ii) The commencement by SHC of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

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

(h) "Nationwide" means Nationwide Theatres Corp., a California corporation, and its successors.

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

(j) "Nationwide Indebtedness" means any and all indebtedness, obligations and liabilities of Option Holder from time to time outstanding under the Nationwide Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, premium, interest, fees, indemnities, costs, expenses or otherwise.

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

(l) "Pledge Agreement" means the agreement, dated as of the date hereof, entered into between Sutton Hill Associates, as pledgor, and Citadel, as pledgee, as the same may be amended, restated, modified or supplemented from time to time.

(m) "Purchased Assets" has the meaning set forth in paragraph (a) of

Section 12 of the Lease Agreement.

(n) "Purchase Option" means Tenant's right to purchase the Purchased

Assets as set forth in paragraph (a) of Section 12 of the Lease Agreement.

(o) "Purchase Price" means four million dollars (\$4,000,000).

(p) "Subsidiary" of any Person shall mean any corporation, partnership,

limited liability company, joint venture, trust or estate of which (or in which) more than 50% of

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

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

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

(q) "Tenant Event" shall mean an event arising from or attributable to an

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

(r) "Underlying Lease" shall mean that certain Ground Lease dated as of

August 16, 1985, between Sutcin Holding Corp., as landlord, and Sutton Hill Associates, as tenant, covering the premises at (a) 205 East 57th Street, New York, New York 10022, containing the Sutton Theatre, and (b) 160 East 34th Street, New York, New York 10016, containing the Murray Hill Theatre, as amended by the First Addendum to Ground Lease, dated as of January 1, 1992, between Sutcin Holding Corp. and Sutton Hill Associates, Second Addendum to Ground Lease, dated as of January 1, 1995, between Sutcin Holding Corp. and Sutton Hill Associates, Third Addendum to Ground Lease, dated as of July 1, 1996, between Nationwide (successor-in-interest to Sutcin Holding Corp.) and Sutton Hill Associates, and Fourth Addendum to Ground Lease, dated as of the date hereof, between Nationwide and Sutton Hill Associates.

9 Representations and Warranties

(a) Option Holder hereby represents and warrants to Optionee that as of the date hereof:

(i) The signatory for Option Holder hereto is in all respects authorized and qualified to enter into this Agreement on behalf of Option Holder and Option Holder has authorized the assumption of the obligations described herein.

(ii) Attached hereto as Exhibit "B" is a true and correct copy of the

option agreement to which Option Holder has been granted the Fee Option. The Fee Option is in full force and effect. To the knowledge of Option Holder, there is no default under the Fee Option.

(b) Optionee hereby represents and warrants to Option Holder that as of the date hereof:

(i) The signatory for Optionee hereto is in all respects authorized and qualified to enter into this Agreement on behalf of Optionee and Optionee has authorized the assumption of the obligations described herein.

10 Indemnities.

(a) Option Holder shall and hereby does indemnify, defend, protect and hold harmless Optionee, any successor or successors and any Affiliate of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants from and against all liabilities, losses, obligations, claims, penalties, causes of action, suits, demands, damages, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) or judgments of any nature arising out of or otherwise in respect of a breach of any (i) representation or (ii) covenant or agreement made by Option Holder hereunder.

(b) Notwithstanding anything to the contrary contained herein, all claims for indemnification under paragraph (a) of this Section 10 shall be made in

accordance with the procedures set forth in Section 11 of the Lease, shall, in the case of claims under clause (i) of such paragraph (a), be included in computing claims for indemnification subject to the limitations set forth in paragraph (c) of Section 11 of the Lease Agreement, which limits claims brought under clause (ii) of paragraph (b) of Section 11 of the Lease Agreement, and shall be subject to the other provisions of paragraph (h) of said Section 11.

(c) Optionee shall and hereby does indemnify, defend, protect and hold harmless Option Holder, any successor or successors and any Affiliate of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents

and servants from and against all liabilities, losses, obligations, claims, penalties, causes of action, suits, demands, damages, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) or judgments of any nature arising out of or otherwise in respect of (A) the use or occupancy of the Underlying Fees or any Element (as such term is defined in the Lease Agreement) of any thereof by the Optionee or any Person claiming under the Optionee; (B) any activity, work, or thing done or permitted by the Optionee in or about any of the Underlying Fees; (C) any acts, omissions, or negligence of the Optionee, or any Person claiming under the Optionee, or the employees, agents, contractors, invitees or visitors of the Optionee or any such Person; (D) any breach, violation, or nonperformance by the Optionee, or any Person claiming under the Optionee, or the employees, agents, contractors, invitees, or visitors of the Optionee or any such Person, of any term, covenant or provision of this Agreement, the Underlying Lease to the extent the performance of obligations thereunder has become an obligation of the Optionee pursuant to the terms hereof or any law, ordinance or governmental requirement of any kind; or (E) any injury or damage to the Person, property, or business of the Optionee, its employees, agents, contractors, invitees, visitors or any other Person entering upon any of the Underlying Fees, as to all of the foregoing to the extent arising from and after the Closing.

11 Miscellaneous

(a) All agreements, indemnities, representations and warranties shall survive the expiration or other termination hereof.

(b) This Agreement and the instruments, documents or agreements referred to herein constitute the entire agreement between the parties relating to the subject matter hereof and no representations, warranties, promises, guarantees or agreements, oral or written, express or implied, have been made by any party hereto with respect to this Agreement.

(c) This Agreement may not be amended, modified or terminated, nor may any obligation hereunder be waived orally, and no such amendment, modification, termination or waiver shall be effective for any purpose unless it is in writing, signed by the party against whom enforcement thereof is sought. The consent or approval by the Option Holder to or of any act by the Optionee requiring the Option Holder's consent or approval shall not be deemed to have been waived by the Option Holder unless such waiver is in writing signed by the Option Holder waiving such covenant or condition.

(d) The captions in this Agreement are for convenience of reference only, and shall not be deemed to affect the meaning or construction of any of the provisions hereof. Any provision of this Agreement which is prohibited by law or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and the parties hereto shall negotiate in good faith appropriate modifications to reflect such changes as may be required by law, and, as

nearly as possible, to produce the same economic, financial and tax effects as the provision which is prohibited or unenforceable; and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the Option Holder and the Optionee hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

(e) THIS AGREEMENT HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE OPTION HOLDER AND THE OPTIONEE AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAW OF THE STATE OF NEW YORK, THIS AGREEMENT, AND THE RIGHTS AND DUTIES OF THE OPTION HOLDER AND THE OPTIONEE HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK IN ALL RESPECTS, INCLUDING, WITHOUT LIMITATION, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. EACH OF THE OPTION HOLDER AND THE OPTIONEE HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS AGREEMENT OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE EITHER PARTY FROM OBTAINING JURISDICTION OVER THE OTHER IN ANY COURT OTHERWISE HAVING JURISDICTION. TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH OF THE OPTION HOLDER AND THE OPTIONEE AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. EACH OF THE OPTION HOLDER AND THE OPTIONEE AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

(f) THE OPTION HOLDER AND THE OPTIONEE HEREBY WAIVE THEIR RESPECTIVE RIGHT TO TRIAL BY JURY OF ANY CAUSE OF ACTION, CLAIM,

COUNTERCLAIM OR CROSS COMPLAINT IN ANY ACTION, PROCEEDING AND/OR HEARING BROUGHT BY EITHER THE OPTION HOLDER AGAINST THE OPTIONEE OR THE OPTIONEE AGAINST THE OPTION HOLDER ON ANY MATTER WHATSOEVER ARISING OUT OF, OR IN ANY WAY CONNECTED WITH THIS AGREEMENT, OR THE RELATIONSHIP OF THE OPTION HOLDER AND THE OPTIONEE, OR ANY CLAIM OF INJURY OR DAMAGE, OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY LAW, STATUTE OR REGULATION, EMERGENCY OR OTHERWISE, NOW OR HEREAFTER IN EFFECT. THE OPTION HOLDER AND THE OPTIONEE ACKNOWLEDGE THAT THE PROVISIONS OF THIS PARAGRAPH (F) OF SECTION 8 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

(g) This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(h) One or more waivers of any covenant or condition by the Option Holder shall not be construed as a waiver of a subsequent breach of the same covenant or condition. The giving by the Option Holder of any consent or approval hereunder (whether affirmatively or by inaction) shall not be deemed a waiver of the requirement for Optionee to seek such consent or approval in the future for the same or a dissimilar event. Each and every covenant contained herein shall be deemed separate and independent and not dependent upon other provisions of this Lease.

(i) This Agreement has been prepared by the Option Holder and its professional advisors and reviewed by the Optionee and its professional advisors. The Option Holder, the Optionee and their separate advisors believe that this Agreement is the product of all of their efforts, that it expresses their agreement, and that it should not be interpreted in favor of either the Option Holder or the Optionee or against the Option Holder or the Optionee merely because of their efforts in preparing it.

(j) This Agreement shall be binding on the parties hereto and their respective successors and assigns but the foregoing shall not affect, alter or limit the provisions of Section 5 hereof.

(k) This Agreement shall expire and become unenforceable against Option Holder if the Optionee Fee Option is not exercised on or before the earlier to occur of (i) February 1, 2010 (subject to extension if the Optionee is precluded from exercising by reason of an Insolvency or Liquidation Proceeding affecting Option Holder and in such event is extended until the time when such exercise is not longer so precluded and for five days thereafter) or (ii) the termination of the Lease Agreement.

(1) Except to the extent of and under the circumstances specifically provided for in Section 5 of the Pledge Agreement and the Indemnity Guarantee, no recourse hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect partner or owner of the Option Holder or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect partner. Nothing contained in this paragraph (1) shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the assets of the limited liability company, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

IN WITNESS WHEREOF, the Option Holder and the Optionee have caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first above written.

Option Holder: Sutton Hill Capital, L.L.C., a New York
limited liability company

By /s/ James J. Cotter

Name: James J. Cotter
Title: Operating Manager

Optionee: Citadel Realty, Inc., a
Nevada corporation

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

GUARANTY OF CITADEL HOLDING CORPORATION

GUARANTY AGREEMENT (this "Guaranty"), dated as of July 28, 2000, between CITADEL HOLDING CORPORATION, a Nevada corporation (the "Guarantor"), and SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (together with its successors, the "Beneficiary").

RECITALS

A. The Guarantor is an affiliate of Citadel Realty, Inc., a Nevada corporation (together with its permitted successors, the "Company").

B. The Beneficiary and the Company have entered into an agreement, dated as of the date hereof (as the same may be amended, restated, modified or supplemented from time to time, the "Fee Option Agreement"), pursuant to which the Company has agreed to indemnify the Beneficiary pursuant to paragraph (c) of Section 10 thereof.

C. The Beneficiary is unwilling to enter into the Fee Option Agreement unless this Guaranty shall have been executed and delivered by the Guarantor and shall be in full force and effect.

NOW THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby agrees as follows:

1. Guaranty of Obligations. Subject to the terms and conditions in this

 Guaranty, the Guarantor hereby unconditionally guarantees to the Beneficiary the due and punctual payment when due of all amounts now due or hereafter becoming due in respect of the Company's obligations arising under paragraph (c) of Section 10 of the Fee Option Agreement (such obligations being herein called the "Obligations"), and agrees to pay any and all reasonable expenses incurred by the Beneficiary in successfully enforcing any rights under this Guaranty. This Guaranty is a primary and original obligation of the Guarantor and is an absolute, unconditional, continuing and irrevocable guaranty of payment and not of collectibility or performance and is in no way conditioned or contingent upon any attempt to collect from the Company or to realize upon any property constituting security for the Obligations, all to the same extent, except as otherwise specifically provided herein, as if the Guarantor were the Company under the Fee Option Agreement; provided, however, that the foregoing limitation imposing on the Guarantor obligations hereunder as if it were the Company under the Fee Option Agreement (except as set forth herein) 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 Company results from (a) any insolvency or bankruptcy case or proceeding (including any case under the U.S. Bankruptcy Code of 1978, as amended), or any receivership, liquidation, reorganization or other similar case or proceeding relative to the Company or all or substantially all of its assets, or (b) any liquidation, dissolution, reorganization or winding up of the Company, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c)

any assignment of all or substantially all of the assets of the Company for the benefit of creditors or any other marshalling of assets and liabilities of the Company (the events in (a), (b) and (c) collectively referred to as an "Insolvency or Liquidation Proceeding"), and in such event the Guarantor shall be liable in respect of obligations of the Company pursuant to the Fee Option Agreement as if no such Insolvency or Liquidation Proceeding had been initiated. If the Company shall fail to pay any of the Obligations when and as the same shall become due and payable, the Guarantor shall forthwith pay such Obligations, in immediately available funds, directly to the Beneficiary at its address specified herein or at such other place as the Beneficiary shall direct. The Guarantor hereby waives diligence, presentment or protest. Each default in payment of any of the Obligations shall give rise to a separate cause of action hereunder and separate suits may be brought hereunder as each cause of action arises.

Character of Obligations Hereunder: Subrogation. (a) The right of

the Beneficiary to enforce the obligations of the Guarantor hereunder by any proceedings, whether by action at law, suit in equity or otherwise, shall not be impaired by any right, claim or defense (against the Company or any other person) of any character whatsoever, including without limitation any right, claim or defense of rescission, recoupment, reduction, limitation, termination, setoff, counterclaim, waiver, frustration, surrender, alteration or compromise except, and then only to the extent, any such right, claim or defense would have been available to the Company pursuant to the Fee Option Agreement. Without limiting the generality of the foregoing, such obligations of the Guarantor shall not be discharged, released or impaired or otherwise affected by: (i) any renewal, extension, amendment or modification of or addition or supplement to or deletion from this Guaranty or the Fee Option Agreement except to the extent of the Company's rights, claims or defenses thereunder as aforesaid; (ii) any inability or failure on the part of the Company to perform or comply with the Fee Option Agreement; (iii) any waiver, consent, extension, indulgence or other action or inaction (including, without limitation, any lack of diligence) under or in respect of this Guaranty, the Fee Option Agreement, or any obligation or liability of the Company, or any other person, or any exercise or nonexercise of any right, power or remedy under or in respect of any such agreement or any such obligation or liability; (iv) any Insolvency or Liquidation Proceeding; and (v) any limitation or any party's obligation or liability under any such agreement or any such obligation or liability or any termination, cancellation, frustration, invalidity or enforceability, in whole or in part, of any such agreement or any such obligation or liability or any term of any thereof except to the extent of the Company's rights, claims or defenses thereunder as aforesaid.

(b) This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Beneficiary upon the insolvency, bankruptcy or reorganization of the Company or otherwise, all as though such payment had not been made.

(c) The Guarantor will not exercise any rights which it may acquire by way of subrogation under this Guaranty, by any payment made hereunder or otherwise, until all of the Obligations shall have been paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Obligations then outstanding shall not have been indefeasibly paid in full, such amount shall be held in trust for the benefit of the Beneficiary and shall forthwith be paid to the Beneficiary and applied upon the Obligations, whether matured

or unmatured. If (i) the Guarantor shall make payment to the Beneficiary of all or any part of the Obligations and (ii) all the Obligations shall be paid in full and the period under the Fee Option Agreement for the Beneficiary to assert claims against the Company shall have expired, the Beneficiary will, at the Guarantor's request, execute and deliver to the Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

Representations and Warranties of the Guarantor. The Guarantor

represents and warrants to the Beneficiary that:

(i) The Guarantor is a corporation duly organized and validly existing under the laws of Delaware and has full power, authority and legal right to carry on its business as currently conducted, to own its properties and to enter into and perform its obligations under this Guaranty;

(ii) The execution, delivery and performance by the Guarantor of this Guaranty have been duly authorized by all necessary corporate action and do not and will not contravene any presently existing law or any governmental rule, regulation or order applicable to the Guarantor or its properties;

(iii) The execution, delivery and performance by the Guarantor of this Guaranty do not require the consent or approval or authorization or order of, the giving of notice to, or the registration with, or the taking of any other action in respect of, any governmental authority or agency, foreign or domestic, other than such as have been duly obtained, given or taken; and

(iv) This Guaranty has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as the enforceability of this Guaranty may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally and by general principles of equity.

2. Miscellaneous.

(i) No failure on the part of the Beneficiary to exercise, no delay in exercising, and no course of dealing with respect to, any right or remedy hereunder will operate as a waiver thereof; nor will any single or partial exercise of any right or remedy hereunder preclude any exercise of any other right or remedy. This Guaranty may not be amended or modified except by written agreement of the Guarantor and the Beneficiary.

(ii) All notices in connection with this Guaranty shall be in writing, shall be deemed given and shall become effective when delivered by hand or courier service or received by telex, telecopier, telegram, cable or registered or certified first-class mail, postage prepaid, addressed as follows: if to the Guarantor, at 550 South Hope Street, Suite 1825, Los Angeles, CA 90071; if to the Beneficiary, addressed to: 120 North Robertson Blvd., Los Angeles, California 90048 or at such other addresses which either of the foregoing shall from time to time designate in writing.

(iii) The terms of this Guaranty shall be binding upon the Guarantor and its successors and assigns and shall inure to the benefit of, and be enforceable by, the Beneficiary and its successors and assigns.

(iv) This Guaranty shall be construed in accordance with and governed by the internal laws of the State of New York.

(v) If any term of this Guaranty and any other application thereof shall be invalid or unenforceable, the remainder of this Guaranty and any other application of such terms shall not be affected thereby.

(vi) Each of the parties hereto (i) hereby irrevocably submits to the nonexclusive jurisdiction of the Supreme Court of the State of New York, New York County (without prejudice to the right of any party to remove to the United States District Court for the Southern District of New York) and to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Guaranty or the subject matter hereof or any of the transactions contemplated hereby or thereby brought by either of the parties hereto or their successors or assigns, (ii) hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such Federal court, (iii) hereby waives any right it may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Guaranty, and (iv) to the extent permitted by applicable law, hereby irrevocably 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 subject to the jurisdiction of the above-named courts, 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 Guaranty or the subject matter hereof may not be enforced in or by such court. A final judgment obtained in respect of any action, suit or proceeding referred to in this Section 4 shall be conclusive and may be enforced in other jurisdictions by suit or judgment or in any manner as provided by applicable law. Each of the parties hereto hereby consents to service of process by registered mail, Federal Express, DHL or similar courier at the address to which notices to it are to be given, it being agreed that service in such manner shall constitute valid service upon such party or its respective successors or assigns in connection with any such action or proceeding only; provided, however, that nothing in this Section 4 shall affect the right of any of such parties or their respective successors or assigns to serve legal process in any other manner permitted by applicable law or affect the right of any of such parties or its respective successors or assigns to bring any action or proceeding against any other one of such parties or its respective property in the courts of other jurisdictions.

IN WITNESS WHEREOF, the parties hereto have caused this Guaranty to be duly executed as of the date first set forth herein.

GUARANTOR:

CITADEL HOLDING CORPORATION

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

BENEFICIARY:

SUTTON HILL CAPITAL, LLC

By: /s/ James J. Cotter

Name: James J. Cotter
Title: Operating Manager

GUARANTY

This Guaranty, made as of this 28th day of July, 2000, by Michael R. Forman and James J. Cotter (collectively, the "Guarantors") in favor of Citadel Cinemas, Inc. (including its successors and assigns, "Citadel Cinemas"), and Citadel Realty, Inc. (including its successors and assigns, "FeeSub" and, together with Citadel Cinemas, the "Beneficiaries").

W I T N E S S E T H:

WHEREAS, Sutton Hill Capital, L.L.C. ("SHC") is acquiring certain interests in various theatre properties in New York City, including the option (the "Sutton/Murray Hill Fee Option") to acquire the fee interests in and to two of such properties (the "Sutton & Murray Hill Fees");

WHEREAS, Citadel Cinemas is subleasing from SHC certain of the theatre properties, including the improvements and equipment located therein or thereon (collectively, the "Leased Interests"), pursuant to the provisions of a certain Lease Agreement, dated as of the date hereof (the "Lease Agreement"), between SHC, as lessor, and Citadel Cinemas, as lessee;

WHEREAS, included in the Lease Agreement is an option in favor of Citadel Cinemas (the "Lease Option") to acquire from SHC the Leased Interests;

WHEREAS, pursuant to an agreement, dated the date hereof (the "Fee Option Agreement"), between FeeSub and SHC, SHC is granting to FeeSub the right (the "Fee Option Right"), subject to the exercise by Citadel Cinemas of the Lease Option and payment by Citadel Cinemas of the exercise price under the Lease Option, to require SHC to exercise the Sutton/Murray Hill Fee Option and direct the delivery of title to the Sutton & Murray Hill Fees to or as directed by FeeSub, upon payment by FeeSub or its designee of the exercise price under the Sutton/Murray Hill Fee Option;

WHEREAS, the Guarantors are indirect owners of the membership interest in SHC and will benefit by the execution and delivery by SHC of the Lease Agreement and the Fee Option Agreement;

WHEREAS, it is the intention of the Guarantors in executing and delivering this Guaranty to (i) assure to Citadel Cinemas, if it exercises the Lease Option, that it will acquire title to the Leased Interests subject only to the Permitted Liens (as hereinafter defined) and (ii) assure to FeeSub, if it exercises the Fee Option Right, that no Insolvency or Liquidation Proceeding (as hereinafter defined) will cause to be stayed or otherwise impede such exercise and that, when and if it acquires title to the Sutton & Murray Hill Fees, there will be no Liens arising from any action of SHC or its Affiliates, except for Liens existing on the date hereof listed on Exhibit A attached hereto or liens resulting from a Tenant Event;

NOW, THEREFORE, the Guarantors hereby agree, for the benefit of the Beneficiaries, as follows:

1. Unless otherwise defined herein, terms that are defined in the Lease Agreement and used herein are so used as so defined. In addition, the following terms shall have the following meanings:

"Bad Faith Determination" with respect to a Beneficiary Proceeding means the entry of one or more Final Orders (i) (a) dismissing such Beneficiary Proceeding if (I) neither Nationwide nor SHC consented to such Beneficiary Proceeding and at least one of Nationwide or SHC opposed such Beneficiary Proceeding and (II) such Final Order is based on a finding by the court that (A) in the case of a Beneficiary Proceeding under the Federal bankruptcy laws, the criteria in 11 U.S.C. '303(b) are not satisfied or (B) in any other case, the relevant statutory criteria for bringing such Beneficiary Proceeding are not satisfied and (b) finding that the Beneficiary or Beneficiaries or Affiliate of any Beneficiary which is a Petitioning Creditor in such Beneficiary Proceeding, at the time such petition or other action was filed or taken, initiated such Beneficiary Proceeding in "bad faith" (or words of similar import) or (ii) granting judgment against a Petitioning Creditor therein which is a Beneficiary under 11 U.S.C. '303(i)(2) (as any such statutory section referenced herein may hereafter be modified, restated or amended).

"Beneficiaries" has the meaning set forth in the recitals hereto.

"Beneficiary Proceeding" means an Insolvency or Liquidation Proceeding in which a Beneficiary or any Affiliate of a Beneficiary is a Petitioning Creditor.

"Certificate of Title" means a title search or report provided by a title insurance company or agency licensed to do business in the state where the Leased Interests are located.

"Citadel Cinemas" means Citadel Cinemas, Inc., a Nevada corporation, and its successors and assigns.

"Covered Asset" means any material component of real estate comprising the Leased Interests and the Sutton & Murray Hill Fees, if to be transferred as herein described.

"Cure" (including grammatical alternatives thereof) means (i) the removal of the Lien or Title Impairment in question, either of record or by arrangement for the title company insuring the interest of the transferee to "omit" the Lien or Title Impairment in question, or (ii) the causing of the title company involved to insure against collection or to insure against loss or forfeiture of title with respect to the Lien or Title Impairment in question, provided, that, in the case of a Cure described in clause (ii) hereof, the title company must agree to "omit" such Lien or Title Impairment in question in connection with any mortgagee title insurance policy with respect to any third party financing.

"Designated Payments" means the amounts (if any) required to be paid to satisfy the principal amount of the Nationwide Indebtedness.

"Fee Option Agreement" has the meaning set forth in the recitals hereto.

"Fee Option Right" has the meaning set forth in the recitals hereto.

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

"Final Order" means a judgment by a court of competent jurisdiction, not subject to further appeal or with respect to which the time to appeal has lapsed.

"Insolvency or Liquidation Proceeding" means:

(i) the entry of a decree or order for relief in respect of SHC by a court having jurisdiction in the premises, or the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, in an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or the commencement against SHC of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law; or

(ii) the commencement by SHC of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of SHC or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

"Lease Agreement" has the meaning set forth in the recitals hereto.

"Leased Interests" has the meaning set forth in the recitals hereto.

"Lease Option" has the meaning set forth in the recitals hereto.

"Nationwide Accrual" means interest on the principal of the Nationwide Indebtedness (i) relating to any period in respect of which either (A) Citadel Cinemas has failed to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) or (B) as a result of the failure by Citadel Cinemas to perform any of its obligations under the Lease Agreement or any of the Other Lease Documents, SHC has applied Basic Rent received by it to perform such obligations, in each case under clause (A) or (B) limited to the lesser of (x) the amount which Citadel Cinemas has failed to so pay or the amount which SHC has so applied, as the case may be, and (y) the amount of such interest, or (ii) which remains unpaid and accruing on such principal (or, but for the filing of a Beneficiary Proceeding, that would have accrued on such principal) during the pendency of a Beneficiary Proceeding if there is a Bad Faith Determination with respect to such Beneficiary Proceeding.

"Permitted Liens" means the following Liens and other matters affecting the title of any Leased Interest: (i) Liens securing the payment of taxes, assessments and other governmental charges or levies which are not yet delinquent to the extent not the obligations of the Tenant pursuant to the Lease Agreement; (ii) Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions, easements, rights-of-way, licenses, reservations, covenants, conditions, waivers, or restrictions on the use of any Covered Asset which exist on the date hereof and either are set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement or are not disclosed therein; (iii) encroachments or irregularities of title none of which materially impairs the current use or value of the affected Theatre Property; (iv) the Liens created pursuant to the Nationwide Agreement, provided that the amount secured by such Liens shall not exceed the sum of (A) \$11,300,000 or the principal amount of the Nationwide Indebtedness, whichever is less, and (B) the Nationwide Accrual, and provided, further, that the principal amount of the Nationwide Indebtedness secured by such Liens is paid with the applicable Designated Payment; (v) leases and licenses in effect with respect to any Theatre Property which are permitted by the Lease Agreement; (vi) mechanics' and materialmen's liens or Liens not disclosed in the title insurance policy and existing on the date hereof; (vii) exceptions to the title of any such Covered Asset as set forth in the title insurance policy delivered to Citadel Cinemas hereunder or in connection with the Lease Agreement; (viii) existing Liens listed on Exhibit A attached hereto; (ix) any Lien which is or results from a Tenant Event or is approved by the Tenant for purposes of the Lease Agreement; (x) Liens, including Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions and any of the matters affecting title, which result from acts of Governmental Authority from and after the date hereof not caused by or resulting from a Landlord Act; and (xi) such other or additional matters as may be approved in writing by Citadel Cinemas in its sole discretion.

"Petitioning Creditor" with respect to any Insolvency or Liquidation Proceeding means the creditors that filed the petition to commence or otherwise commenced such Insolvency or Liquidation Proceeding.

"Prepared" means that the Person in question is ready, willing and able to consummate the transaction in question, recognizing that such Person shall be Prepared to close even if such Person must satisfy typical closing conditions for a financing to provide a portion of the price so long as such Person can show its ability to comply with such conditions in the ordinary course.

"SHC" means Sutton Hill Capital, L.L.C., a New York limited liability company and its successors and assigns, including without limitation any trustee in bankruptcy, receiver, debtor-in-possession, or other person or entity controlling any of the foregoing.

"Sutton & Murray Hill Fees" has the meaning set forth in the recitals hereto.

"Sutton/Murray Hill Fee Option" has the meaning set forth in the recitals hereto.

"Title Impairment" means a claim, charge or other matter affecting title to an Asset or interest therein, other than a Lien, which materially impairs the intended use or value of the Asset (or interest therein) in question excluding, however, the matters affecting title as of the date hereof, the Site Leases and the terms and conditions thereof and matters which constitute Tenant Events.

2.(a) (i) If, at the time title to the Leased Interests is to be conveyed by SHC to or as directed by Citadel Cinemas by reason of the timely and proper exercise of the Lease Option (or if, at the time notice of such exercise would be required to be given, such timely and proper exercise is stayed by an Insolvency or Liquidation Proceeding), title to any Covered Asset shall be subject to a Lien other than a Permitted Lien or to a Title Impairment and provided the Beneficiaries are able to provide to the Guarantors evidence reasonably satisfactory to the Guarantors that the respective Beneficiaries are then Prepared to close, then the Guarantors shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

(ii) Not less than ten days prior to the date of the anticipated transfer described in paragraph (i) of this Section 2, Citadel Cinemas shall deliver to the Guarantors a Certificate of Title with respect to the asset or assets to be transferred indicating whether or not any Liens encumbering such title constitute Liens other than Permitted Liens and whether there exist any Title Impairments, together with evidence that Citadel Cinemas is then Prepared to close as aforesaid. At the Closing (as such term is defined in the Lease Agreement), the Guarantors shall have the right to instruct the transferee to pay, to or as the Guarantors may direct, any excess of the cash amount paid by Citadel Cinemas as part of the Acquisition Cost (such cash amount

having given effect to any offsets to which Citadel Cinemas is entitled) over that amount necessary to satisfy Designated Payments.

(b)(i) If, at the time title to the Sutton & Murray Hill Fees is to be conveyed to or as directed by FeeSub by reason of the timely and proper exercise of the Fee Option Right (or if, at the time notice of such exercise would be required to be given, such timely and proper exercise is stayed by an Insolvency or Liquidation Proceeding), title to any part of the Sutton & Murray Hill Fees shall be subject to a Lien or to a Title Impairment, in either case arising solely from or relating to any action or omission by SHC or an Affiliate which is not a Tenant Event and provided the Beneficiaries are able to provide to the Guarantors evidence reasonably satisfactory to the Guarantors that the respective Beneficiaries are then Prepared to close, then the Guarantors shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

(ii) Not less than ten days prior to the date of the anticipated transfer described in paragraph (b)(i) of this Section 2, FeeSub shall deliver to the Guarantors a Certificate of Title with respect to the asset or assets to be transferred indicating whether or not any Liens encumbering such title constitute such Liens other than Permitted Liens and whether there exist any such Title Impairments, each as described in paragraph (b)(i) of this Section 2, together with evidence of FeeSub's ability to close as aforesaid.

(c) If by reason of the occurrence of an Insolvency or Liquidation Proceeding, (i) SHC shall fail to convey or cause to be conveyed title to any of the Leased Interests, at the time provided in the Lease Agreement, (ii) Citadel Cinemas shall be stayed from exercising the Lease Option on a timely basis, (iii) SHC shall fail to cause the Sutton/Murray Hill Fee Option to be exercised on a timely basis or to cause the Sutton & Murray Hill Fees to be delivered to or as directed by FeeSub at the time provided in the Sutton/Murray Hill Fee Option and the Fee Option Agreement, or (iv) FeeSub shall be stayed from exercising the Fee Option Right on a timely basis, then, provided all conditions to such transfer or exercise, as the case may be, which then should have been satisfied by Citadel Cinemas or FeeSub, as the case may be, have been satisfied (excluding, however, those conditions which could not have been satisfied by reason of such Insolvency or Liquidation Proceeding), the Guarantors shall cause such Insolvency or Liquidation Proceeding to be terminated or otherwise to be resolved as promptly as practicable and in a manner such that, or take such other actions as may be necessary so that, the applicable transaction can be consummated in accordance with its terms. Any such action may include causing SHC to apply to any liability or claim, or distribute to its member for application to any liability or claim of, funds available or to be available to SHC in connection with consummation of the applicable transactions or otherwise, after payment of any obligations owing by it to either Beneficiary or any Affiliates of either Beneficiary. All times referred to in this Section 2(c) shall be determined without regard to any additional time that may be permitted or authorized under any statute or order entered in or applicable to such Insolvency or Liquidation Proceeding.

(d) Any provisions of subsection 2(c) or Section 3 hereof to the contrary notwithstanding, if an Insolvency or Liquidation Proceeding is a Beneficiary Proceeding, then (i) each of the Beneficiaries shall defer claims or actions hereunder against either of the Guarantors and the exercise of its rights pursuant to said Section 3 until the earliest of (A) the issuance of a Final Order in connection with such Insolvency or Liquidation Proceeding precluding, or with the result of precluding, the consummation of the Closing with respect to the transfer of the Leased Interest or the Sutton & Murray Hill Fees, as the case may be, or otherwise declaring as null and void or otherwise unenforceable the Lease Option or the Fee Option Agreement (assuming in any such instance that the applicable Beneficiary had properly exercised its rights pursuant to the Lease Option or the Fee Option Agreement, as applicable, or had been stayed from so doing by reason of the filing of the Insolvency or Liquidation Proceeding), (B) the rejection of the Lease Option or the Fee Option Agreement as an executory obligation of SHC, (C) the issuance of a Final Order inconsistent with a Bad Faith Determination, (D) 30 days after such Insolvency or Liquidation Proceeding is dismissed, (E) such Insolvency or Liquidation Proceeding is converted, (F) a plan is confirmed in any such Insolvency or Liquidation Proceeding (unless such plan provides for the consummation of the Closing of the transfer of the Leased Interest or the Sutton & Murray Hill Fees, or both, as the case may be), and (G) the termination of the term of the Lease Agreement (after giving effect to any extension of the Lease Term, so long as the periods to exercise and consummate the transactions contemplated by the Lease Option and Fee Option Agreement have also been extended for the same period) and (ii) any statute of limitations or similar defense applicable to such deferred claims or actions against the Guarantors hereunder is deemed tolled during such Insolvency or Liquidation Proceeding; provided, however, that, if a Bad Faith Determination is issued with respect to such Beneficiary Proceeding, then the statute of limitations and similar defenses will not be deemed tolled.

3. In the event the Guarantors do not timely perform any of the above obligations, any Beneficiary may, after written demand to perform has been served upon the Guarantors and the Guarantors have been given 15 days to perform, perform said obligations at the Guarantors' sole cost and expense; provided, however, that no Beneficiary shall exercise its option to perform said obligations for up to 90 days if within said 15-day period the Guarantors have commenced to perform the obligation or obligations in question and thereafter to the reasonable satisfaction of such Beneficiary continue to perform such obligation or obligations with reasonable diligence; and provided, further, that such 15-day period, and the preceding proviso, shall not apply if such Beneficiary reasonably concludes that delay in exercising its right hereunder would materially and adversely affect the ability of the parties to consummate the closing on a timely basis in accordance with the Lease Agreement or the closing of the transfer of the Sutton & Murray Hill Fees in accordance with the Fee Option Agreement or the Sutton/Murray Hill Fee Option. The Beneficiaries' exercise of or failure to exercise their rights under this Section 3 shall not relieve the Guarantors of their obligations under this Agreement. The Guarantors shall, upon written demand from a Beneficiary, reimburse such Beneficiary for all costs, including reasonable attorney's fees and out-of-pocket expenses, and all liabilities incurred by such Beneficiary by reason of the foregoing, with interest thereon at the Reimbursement Rate.

4. The obligations, covenants, agreements and duties of the Guarantors under this Agreement shall in no way be affected or impaired by reason of the occurrence from time to time of any of the following with respect to the Lease Agreement, the Fee Option Agreement or this Agreement, even though notice may not have been given to, or received from, the Guarantors or the further consent of either Guarantor thereto may not have been obtained: (a) any amendment, modification, waiver or termination of or supplement to the Lease Agreement, or the Fee Option Agreement or any agreement, instrument or document executed or delivered pursuant thereto or in connection therewith (collectively the "Documents"); (b) the validity or enforceability of any of the Documents; or (c) any exercise or non-exercise of any right, power or remedy under or in respect of any of the Documents or arising at law.

5. Except as expressly set forth herein, the agreements of each of the Guarantors set forth in this Agreement constitute the absolute, present, primary, continuing, irrevocable, unlimited and unconditional obligations of the Guarantors in accordance with the terms hereof, without limitation, and are not conditioned or contingent upon any effort to attempt to seek payment or performance from the other Guarantor or any other person or entity (whether or not pursuant to this Agreement) or upon any other condition or contingency; provided, however, that nothing herein shall obligate the Guarantors hereunder if Citadel Cinemas or FeeSub, as applicable, shall fail to satisfy the conditions for proper and timely exercise of the Lease Option or the Fee Option Right, as applicable (excepting only those conditions which cannot reasonably be satisfied by reason of an Insolvency or Liquidation Proceeding). The obligations of the Guarantors set forth herein constitute full recourse obligations of each Guarantor enforceable against him to the full extent of all his assets and properties, notwithstanding any provision in the Lease Agreement or Fee Option Agreement limiting the liability of any Person. Without limiting the foregoing, it is agreed and understood that repeated and successive demands for performance hereunder may be made and this Agreement shall remain in full force and effect and shall apply to each and every subsequent event to which it applies by its terms. The Guarantors assume full responsibility for being and staying informed as to all facts and circumstances bearing upon the risk of nonperformance of the obligations guaranteed hereunder, and the Guarantors agree that the Beneficiaries shall have no obligation to advise the Guarantors or any of them of information known to the Beneficiaries regarding such condition or any other circumstance.

6. The Guarantors irrevocably waive (i) any and every right they may have to injunctive relief, (ii) any and every right they may have to have any suit, action or proceeding brought by the Beneficiaries on this Agreement consolidated with any other or separate suit, action or proceeding, and (iii) the right, in such suit, action, proceeding or counterclaim, to interpose any counterclaims (except to the extent that such counterclaims are compulsory and may not be brought in a separate action) or setoffs of any kind or description.

7. Except as to applicable statutes of limitation, no delay on the part of any Beneficiary in exercising any power or right hereunder shall operate as a waiver thereof; nor

shall any single or partial exercise of any power or right hereunder or the failure to exercise same in any instance preclude other or further exercise thereof or the exercise of any other power or right; nor shall any Beneficiary be liable for exercising or failing to exercise any such power or right. The rights and remedies hereunder expressly specified are cumulative and not exclusive of any rights or remedies which any Beneficiary may or will otherwise have.

8 The obligations of the Guarantors hereunder shall be joint and several obligations.

9 In case any Document or obligation thereunder shall be terminated or rejected by any trustee, receiver or liquidating agent of SHC or any of its properties in any Insolvency or Liquidation Proceeding, the Guarantors' obligations hereunder shall continue to the same extent as if such Document had not been so rejected or terminated. The Guarantors agree that this Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment or performance by SHC is rescinded or must otherwise be returned as a result of any Insolvency or Liquidation Proceeding.

10 The obligations of the Guarantors hereunder shall not be subject to any counterclaim, setoff, deduction or defense (other than payment, performance or affirmative discharge, release or termination of this Agreement by the Beneficiaries in writing) based upon any claim the Guarantors or SHC may have against any Beneficiary (except for claims that may not be asserted in a separate action or proceeding) or the Guarantors may have against SHC or any other Person and shall remain in full force and effect without regard to, and shall not be released, discharged, reduced or in any way affected by, any circumstance or condition (whether or not the Guarantors shall have any knowledge or notice thereof) whatsoever which might constitute a legal or equitable discharge or defense; provided, however, that the Guarantors shall not be precluded from asserting, whether by way of defense or otherwise, the failure by Citadel Cinemas or FeeSub, as applicable, to satisfy the conditions to the proper and timely exercise of the Lease Option or the Fee Option Right, as the case may be (excepting those conditions which could not be so satisfied by reason of an Insolvency or Liquidation Proceeding).

11 Except as specifically provided herein, the Guarantors unconditionally waive: (a) notice of any of the matters referred to in Section 4 or 10 hereof; (b) all notices which may be required by statute, rule of law or otherwise to preserve any rights against the Guarantors hereunder, including notice of the acceptance of this Agreement; (c) except as otherwise specifically set forth herein, any requirement for the enforcement, assertion or exercise of any right, remedy, power or privilege under or in respect of any Document, including diligence in collection or protection of or realization upon any obligations or any part thereof or any collateral therefor; (d) any requirement of diligence; (e) any requirement to mitigate the damages resulting from a default under any Document, except that this shall not relieve the Beneficiaries of any such obligation; or (f) the occurrence of every other condition precedent to which the Guarantors or SHC may otherwise be entitled, except as provided in any Document.

12 Any Beneficiary may, at its election, exercise any right or remedy it might have against SHC or any security held by such Beneficiary, including the right to foreclose upon any such security by judicial or nonjudicial sale, without affecting or impairing in any way the liability of the Guarantors hereunder, and the Guarantors waive any defense arising out of the absence, impairment or loss of any right of reimbursement, contribution or subrogation or any other right or remedy of the Guarantors against SHC or any such security, whether resulting from such election by a Beneficiary or otherwise. The Guarantors waive any defense arising by reason of any disability or other defense of SHC (which may nevertheless be asserted in a separate action or proceeding against the Beneficiaries or any other party), or by reason of the cessation from any cause whatsoever of the liability, either in whole or in part, of SHC to a Beneficiary (other than as a result of payment, performance or affirmative discharge, release or termination of this Agreement by the Beneficiaries).

13 The Guarantor understands that the Beneficiaries' exercise of certain rights and remedies contained in the Documents may affect or eliminate the Guarantors' rights of subrogation against SHC and that the Guarantors may therefore incur partially or totally nonreimbursable liability hereunder; nevertheless, the Guarantors hereby authorize and empower the Beneficiaries to exercise, in its or their sole discretion, any rights and remedies, or any combination thereof, which may then be available, it being the purpose and intent of each Guarantor that its obligations hereunder shall be absolute, independent and unconditional under any and all circumstances.

14 Each Guarantor represents and warrants to the Beneficiaries that, as to himself, the following statements are true and correct in all material respects as of the date hereof:

(a) Guarantor has full power and authority to execute, deliver and perform its obligations under this Agreement. No consent of any other person, and no authorization of, notice to, or other act by or in respect of the Guarantor by or with any Governmental Authority, is required in connection with the execution, delivery, performance, validity or enforceability of this Agreement. This Agreement has been duly executed and delivered by the Guarantor and constitutes a legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as the enforceability of this Agreement may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and by general principles of equity.

(b) Neither the execution, delivery or performance by the Guarantor of this Agreement will violate any provision or any existing Law applicable to the Guarantor or any order or decree applicable to the Guarantor of any court, arbitrator or governmental authority, or of any mortgage, indenture, lease, contract or other agreement or undertaking to which the Guarantor is a party or by which the Guarantor or any of his properties or assets is bound, or will result in the creation or imposition of any lien,

charge, encumbrance or security interest on any of the properties or assets of the Guarantor pursuant to the provisions of any of the foregoing.

(c) There is no action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal now pending or threatened in writing against or affecting the Guarantor or any property or rights of the Guarantor or questioning the enforceability of this Agreement which, if adversely determined, could reasonably be expected to have a material adverse effect on (a) the business, assets, properties, revenues, financial condition, operations or prospects of the Guarantor or (b) the ability of the Guarantor to perform its obligations under this Agreement in a timely manner.

15 In no event shall the Guarantors have any liability to any Beneficiary hereunder for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise). The parties further agree that no claim for direct damages by a party hereunder shall include any amounts for which such party has been reimbursed or is entitled to be reimbursed under any insurance required to be obtained under the Lease Agreement or acquired in connection therewith.

16 Except as provided in the last sentence of Section 9 hereof, this Agreement, and the obligations of the Guarantors hereunder, shall expire, terminate and be of no further force and effect on and after the earlier of the end of the Initial Term or the date of the Closing provided SHC complies with its obligations in respect thereof.

17 The Guarantor will not exercise any rights which it may acquire by way of subrogation hereunder, by any payment made hereunder or otherwise, until all of the obligations of SHC to the Beneficiaries under the Documents have been indefeasibly paid in full in cash and performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all of such obligations shall not have been paid in full in cash, such amount shall be held in trust for the benefit of the Beneficiaries and shall forthwith be paid as provided herein to be credited and applied upon such obligations, in accordance with the terms of the Documents.

18 All covenants and agreements made herein and in statements or certificates delivered pursuant hereto shall survive any investigation or inspection made by or on behalf of the Beneficiaries and shall continue in full force and effect until all of the obligations of the Guarantors under this Agreement shall be fully performed in accordance with the terms hereof.

19 THIS AGREEMENT HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. THE GUARANTORS AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAWS OF THE STATE OF NEW YORK, THIS AGREEMENT, AND THE RIGHTS AND DUTIES OF THE GUARANTORS

HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE.

20 EACH GUARANTOR HEREBY IRREVOCABLY SUBMITS, FOR HIMSELF AND HIS PROPERTIES, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS AGREEMENT, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH GUARANTOR HEREBY WAIVES AND AGREES NOT TO ASSERT BY WAY OF MOTION, AS A DEFENSE OR OTHERWISE IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY CLAIM THAT HE IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF SUCH COURT, THAT THE SUIT, ACTION OR PROCEEDING IS BROUGHT IN AN INCONVENIENT FORUM, THAT THE VENUE OF THE SUIT, ACTION OR PROCEEDING IS IMPROPER, OR THAT THIS AGREEMENT OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE ANY BENEFICIARY FROM OBTAINING JURISDICTION OVER THE GUARANTORS IN ANY COURT OTHERWISE HAVING JURISDICTION.

21 TO THE EXTENT PERMITTED BY APPLICABLE LAW, EACH GUARANTOR AGREES NOT TO SEEK AND HEREBY WAIVES THE RIGHT TO ANY REVIEW OF THE JUDGMENT OF ANY SUCH COURT BY ANY COURT OF ANY OTHER NATION OR JURISDICTION WHICH MAY BE CALLED UPON TO GRANT AN ENFORCEMENT OF SUCH JUDGMENT. EACH GUARANTOR AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THIS AGREEMENT OR ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK.

EACH GUARANTOR AND EACH BENEFICIARY EXPRESSLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM RELATED TO THIS AGREEMENT. THE GUARANTORS AND BENEFICIARIES ACKNOWLEDGE THAT THE PROVISIONS OF SECTIONS 19, 20 AND 21 HAVE BEEN BARGAINED FOR AND THAT THEY HAVE BEEN REPRESENTED BY COUNSEL IN CONNECTION THEREWITH.

22 All notices or other communications required or permitted to be given hereunder shall be deemed to have been satisfactorily given or served for all purposes when sent by United States registered mail, return receipt requested, postage prepaid as follows:

If to the Guarantors:

Michael R. Forman
120 North Robertson Boulevard
Los Angeles, California 90048

James J. Cotter
120 North Robertson Boulevard
Los Angeles, California 90048

With a copy of all notices under this Section 22 to a Guarantor to be simultaneously sent to the following addresses:

Howard Peskoe, Esq.
Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10166

If to Citadel Cinemas:

Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548
Attention: President

If to FeeSub:

Citadel Realty, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548
Attention: President

With a copy of all notices under this Section 22 to a Guarantor to be simultaneously sent to the following addresses:

Michael Margulis, Esq.
Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, New York 10168

or to such other address with respect to any party as such party or holder shall notify the other in writing. All such notices shall be deemed given three (3) Business Days after delivery to the United States Post Office registry clerk.

23 This Agreement shall bind the Guarantors and their respective successors and assigns and shall inure to the benefit of the Beneficiaries and their respective successors and assigns (including, without limitation, (a) any successor to Citadel Cinemas as tenant under the Lease Agreement, and (b) any person to whom FeeSub shall assign the Fee Option Right).

24 This instrument represents the entire agreement between the parties with respect to the subject matter hereof and may not be modified or amended except by a writing duly executed by the party sought to be charged.

25 Neither this Agreement nor any uncertainty or ambiguity herein shall be construed against any particular party, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each of the parties and their counsel and shall be construed and interpreted according to the ordinary meaning of the words so used as to fairly accomplish the purposes and intentions of all parties hereto.

26 In the event that a Beneficiary for any reason whatsoever shall deem it necessary to refer this Agreement to an attorney for the enforcement thereof or of any rights hereunder, by suit or otherwise and prevails therein, there shall be immediately due from the Guarantors to such Beneficiary, in addition to the sums due and payable hereunder, reasonable attorneys' fees and disbursements, together with all costs and expenses of such action, which costs, expenses, fees and disbursement shall be deemed part of the obligation hereunder. If such Beneficiary initiates such legal action and does not prevail in such action, the Guarantors shall be entitled to recover from such Beneficiary all of such costs incurred by Guarantors in connection therewith.

27 In the event that any provision of this Agreement or the application thereof to a Guarantor or any circumstance in any jurisdiction governing this Agreement shall, to any extent, be invalid or unenforceable under any applicable statute, regulation, or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform to such statute, regulation or rule of law, and the remainder of this Agreement and the application of any such invalid or unenforceable provision to parties,

jurisdictions or circumstances other than to whom or to which it is held invalid or unenforceable, shall not be affected thereby nor shall same affect the validity or enforceability of any other provision of this Agreement.

28 This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and it shall not be necessary in making proof of this Agreement to produce or account for more than one such counterpart.

IN WITNESS WHEREOF, this Agreement was duly executed and delivered by the undersigned as of the 28/th/ day of July, 2000.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

CITADEL REALTY, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

GUARANTORS:

/s/ James J. Cotter

James J. Cotter

/s/ Michael R. Forman

Michael R. Forman

Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, California 90048

July 28, 2000

Citadel Holding Corporation
Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071

RE: Lease Agreement -- Financial Statements

Dear Sirs:

We refer to the Lease Agreement, dated as of the date hereof (the "Lease"), between Sutton Hill Capital, L.L.C., a New York limited liability company ("SHC"), and Citadel Cinemas, Inc., a Nevada corporation ("Citadel Cinemas"), the obligations of which have been guaranteed by its parent, Citadel Holding Corporation, a Nevada corporation ("Citadel"). Terms used and not defined herein have the meanings as defined in the Lease.

In consideration of the execution and delivery of the Lease, the Fee Option Agreement, the License of Intangibles, the Sub-Management Agreement, the Assignment and Assumption Agreement of even date herewith relating to certain operating contracts, the letter agreement of even date herewith relating to certain employee matters, the apportionments letter of even date herewith, and the assignments on the date hereof of certain management agreements, SHC hereby represents and warrants to and agrees with Citadel Cinemas and Citadel as follows:

1. SHC represents and warrants to Citadel Cinemas and Citadel as follows:

Attached hereto as Exhibit A are the unaudited operating statements of operations of the theatres located at the Leased Sites (the "Theatres") for the fiscal years ended December 30, 1999 and December 31, 1998 and for the three month periods ended March 30, 2000 and April 1, 1999 (collectively, the "Theatre Statements"). The Theatre Statements fairly present the financial results of operations at the Theatres for the periods indicated therein and have been prepared in accordance with GAAP. The Theatre Statements were prepared and are derived from, and are in accordance with, the books and records of Sutton Hill Associates and its Subsidiaries (collectively, "Sutton Hill"), which books and records were used to prepare the audited consolidated financial statements of Sutton Hill for the fiscal years ended December 30, 1999 and December 31, 1998 (the "Sutton Hill Statements"), and the Sutton Hill Statements were prepared in

accordance with GAAP and include all footnote disclosures related to recognition of revenue and expense.

2. SHC shall indemnify and defend the Tenant Indemnified Persons from any breach of any representation or warranty made herein, to the same extent as provided in Section 11(b)(ii) of the Lease, and subject to the provisions and limitations of Section 11 of the Lease, as if the representations and warranties made herein were made in the Lease. Notwithstanding anything to the contrary herein, all claims for indemnification hereunder shall be included in computing claims for indemnification subject to the limitations set forth in Section 11(c) of the Lease.

3. This letter agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof, supersedes any previous agreements between the parties with respect to the subject matter hereof, and may be modified only in writing signed by the parties hereto.

4. The terms of this Letter Agreement shall be binding upon SHC and its successors and assigns and shall inure to the benefit of, and be enforceable by, Citadel, Citadel Cinemas, and their respective successors and assigns.

5. This Letter Agreement shall be construed in accordance with and governed by the internal laws of the State of New York.

6. The provisions of Sections 28(a) - (f) and (l) of the Lease shall apply to this Letter Agreement as if set forth herein in full, and applied to the provisions hereof.

7. Nothing contained in this Letter Agreement and the exhibits attached hereto shall be construed as a representation or warranty by SHC of the future performance of the Theatres.

Very truly yours,

SUTTON HILL CAPITAL, L.L.C.

By: /s/ James J. Cotter

Name: James J. Cotter
Title: Operating Manager

CITADEL CINEMAS, INC.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071

July 28, 2000

City Cinemas Corporation
120 North Robertson Blvd.
Los Angeles, California 90048

Re: Employees of City Cinemas Corporation

Dear Sirs:

On the date hereof (the "Effective Date"), Citadel Cinemas, Inc., a Nevada corporation ("Citadel Cinemas"), is subleasing from Sutton Hill Capital, L.L.C. ("SHC") various Theatre Properties as described in a certain Lease Agreement, dated the date hereof (the "Lease"), between SHC, as lessor, and Citadel Cinemas, as lessee. City Cinemas Corporation, a New York corporation ("City Cinemas") and an Affiliate of SHC, has served as manager of the Theatre Properties through the Effective Date. In addition, City Cinemas has managed certain other theatre properties and, as of the Effective Date, Citadel Cinemas will become the manager or submanager of those theatres, either by assignment from City Cinemas of its management agreement or by the execution and delivery by City Cinemas to Citadel Cinemas of a submanagement agreement. All of the theatre properties managed by City Cinemas in respect of which Citadel Cinemas is to become manager or submanager as of the Effective Date are listed on Exhibit "A" hereto (the "Properties").

As manager of the Properties, City Cinemas has employed at the Properties or in connection with the management thereof the individuals listed on Exhibit "B" hereto (the "Employees"). It is the intention of Citadel Cinemas to engage all or substantially all of such Employees with respect to its operations at the Properties; provided, however, that Citadel Cinemas will not be assuming the

obligations of City Cinemas as employer with respect to those employees of City Cinemas who are also currently employees of Reading Entertainment, Inc. or one or more of its subsidiaries, and such individuals, who are listed on Exhibit B-1 hereto, shall not be considered "Employees" for purposes of this letter.

Accordingly, this letter agreement shall confirm the assumption by Citadel Cinemas of the duties and responsibilities as employer with respect to the Employees. From and after the Effective Date, Citadel Cinemas shall be considered the employer of the Employees, with City Cinemas released from all of its duties and obligations with respect thereto except as expressly set forth herein. Capitalized terms used herein but not defined herein shall have the meaning set forth in the Lease.

1. Covenants of Citadel Cinemas

(a) From and after the Effective Date, Citadel Cinemas shall be deemed to have offered employment to the Employees. Citadel Cinemas shall be responsible for the wages of the Employees listed on Exhibit "B" and all other responsibilities of the employer with respect to the Employees accruing from and after the Effective Date as well as those previously accrued liabilities for other benefits except as specifically excluded hereunder. Citadel Cinemas shall provide all Employees, for a period of at least sixty (60) days immediately subsequent to the Effective Date, the applicable rate of pay not less than that provided by City Cinemas immediately prior to the Effective Date and employee benefits comparable, in the aggregate, to those in effect as of the Effective Date.

(b) Citadel Cinemas acknowledges the rates of pay, hours of work and other conditions of employment of certain of the Employees are subject to the provisions of the bargaining agreements (including any applicable side letters, oral agreements and schedules) set forth in Exhibit "C" (the "Bargaining Agreements"). Citadel Cinemas shall assume the obligations of City Cinemas under the Bargaining Agreements according to their terms as in effect on and as of the Effective Date as relates to the applicable Employees, and shall honor the Bargaining Agreements for the remainder of their respective terms following the Effective Date.

(c) Citadel Cinemas shall assume the obligations of City Cinemas under the Benefit Plans (as defined below).

(d) Citadel Cinemas agrees to pay and be responsible for all liability, cost, expense and sanctions relating to, arising from or resulting from Citadel Cinemas's failure to comply after the Effective Date with the Worker Adjustment and Retraining Notification Act of 1988, 29 USC 2101-2109 (the "Federal WARN ACT"), and the regulations thereunder or any State or local law and applicable regulations of similar import (the Federal WARN ACT and such State and local laws and applicable regulations, the "WARN ACT") for any action by Citadel Cinemas which causes the WARN ACT to apply.

(e) Citadel Cinemas shall have responsibility for all workers' compensation events which relate to incidents occurring on and after the Effective Date.

2. Representations by City Cinemas

City Cinemas hereby represents and warrants to Citadel Cinemas that as of the date hereof:

(a) Except for the Employees listed on Exhibit "B", there are no other individuals employed by City Cinemas at the Properties or in connection with the management thereof.

(b) Exhibit "B" correctly sets forth for each Employee his or her current compensation including salary and bonus, if any, social security number, date of birth, date of hire, benefits, and amount and date of last bonus.

(c) True and correct copies of the Bargaining Agreements have been delivered to Citadel Cinemas

(d) Except for the Bargaining Agreements, there are no other union agreements or benefit and severance agreements or policies maintained or contributed to by City Cinemas in which the Employees are entitled to participate or other employee related agreements which relate to the Employees.

(e) Exhibit "D" lists all of the benefit and severance agreements or policies maintained or contributed to by City Cinemas in which the Employees are entitled to participate (collectively the "Benefit Plans") and copies of all such written Benefit Plans have been made available to Citadel Cinemas. Except as listed on Exhibit "D", (i) such Benefit Plans comply in all material respects, to the extent applicable, with the requirements of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA"); (ii) City Cinemas has not incurred any material liability for any tax imposed under Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or Part 4, Subtitle B of Title 1 of ERISA with respect to any of the Benefit Plans; (iii) none of the Benefit Plans is a multiemployer plan within the meaning of Section 3(37)(A) of ERISA; (iv) except as otherwise is provided in this Agreement, all contributions to the Benefit Plans that were required to be made under such Benefit Plans as of the date hereof have been paid; and (v) each Benefit Plan covering non-U.S. Employees complies in all material respects with all applicable laws, rules and regulations.

(f) All payments owed to the Employees or made on their behalf (including payments to governmental authorities) have been made through the Effective Date.

(g) The signatory for City Cinemas hereto is in all respects authorized and qualified to enter into this letter agreement on behalf of City Cinemas and City Cinemas has authorized the assumption of the obligations described herein.

(h) City Cinemas has not, at any time within the 60-day period prior to the Effective Date, effectuated a mass layoff, as that term is defined in the Federal WARN ACT or any State or local law of similar import, affecting in whole or in part any City Cinema's site of employment, theatre or employee.

3. Representations by Citadel Cinemas

The signatory for Citadel Cinemas is in all respects authorized and qualified to enter into this letter agreement on behalf of Citadel Cinemas and Citadel Cinemas has authorized the assumption of the obligations described herein.

4. Indemnities.

(a) Citadel Cinemas shall, and hereby does, indemnify, defend, protect and hold harmless City Cinemas, any successor or successors and any affiliate of each of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants from and against all liabilities, losses, obligations, claims, penalties, causes of action, suits, demands, damages, costs and expenses (including, without limitation, reasonable attorneys' and accountants' fees and expenses) or judgments of any nature ("Losses") relating to or arising out of the liabilities and obligations assumed by Citadel Cinemas hereby. Notwithstanding the foregoing, Citadel Cinemas shall not be responsible for any Losses which are finally determined to have resulted from City Cinemas' bad faith or gross negligence.

(b) City Cinemas shall and hereby does indemnify, defend, protect and hold harmless Citadel Cinemas, any successor or successors and any affiliate of the foregoing parties, and their respective officers, directors, incorporators, shareholders, partners, members, employees, agents and servants from and against all Losses arising out of or otherwise in respect of (i) termination by City Cinemas of any of the Employees on or prior to the Effective Date; (ii) any claim made by any Employee based on events arising prior to or upon the Effective Date; (iii) any suit or claim of violation brought against Citadel Cinemas under the WARN Act for any action taken by City Cinemas on or prior to the Effective Date; (iv) any claims by Employees for workers' compensation which relate to incidents occurring prior to the Effective Date; and (v) a breach of any representation made by it hereunder.

(c) Notwithstanding anything to the contrary contained herein, all claims for indemnification under clause (v) of paragraph B of this Section IV shall be included in computing claims for indemnification subject to the limitations set forth in paragraph (c) of Section 11 of the Lease, which limits claims brought under clause (ii) of paragraph (b) of Section 11 of the Lease.

5. Miscellaneous

(a) On and as of the Effective Date, Citadel Cinemas and City Cinemas will adjust and apportion Employee salaries (including manager concession commissions) and benefit costs, including year-end incentive or bonus compensation, except that year-end and other incentive or bonus compensation shall be apportioned only as and when actually paid by Citadel Cinemas and such apportionment shall be based on the portions of the year any such compensated Employee was employed by City Cinemas and Citadel Cinemas (or their respective Affiliates), respectively.

(b) This letter agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof, supersedes any previous agreements between the parties with respect to the subject matter hereof and may be modified only in writing signed by the parties hereto.

(c) Each party acknowledges that the facts and circumstances were negotiated and executed in, and shall be governed by the laws of, the State of New York.

(d) Each party agrees to submit to the jurisdiction of the courts of the State of New York.

(e) Nothing herein expressed or implied confers upon any Employee any rights or remedies of any nature or kind, including, without limitation, any rights of employment with Citadel Cinemas for a specified period of time.

(f) EACH PARTY HERETO HEREBY WAIVES TRIAL BY JURY.

If this letter agreement reflects our mutual understanding, please execute two copies in the space indicated below and return one to us and this will constitute the entire agreement between us.

Very truly yours,

Citadel Cinemas, Inc.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

Agreed and accepted this
28/th/ day of July, 2000

City Cinemas Corporation

By: /s/ James D. Vandever

Name: James D. Vandever
Title: Secretary

GUARANTY OF SUTTON HILL ASSOCIATES

GUARANTY AGREEMENT (this "Guaranty"), dated as of July 28, 2000, between SUTTON HILL ASSOCIATES, a California general partnership (the "Guarantor") and Citadel Cinemas, Inc., a Nevada corporation (together with its successors, the "Beneficiary").

RECITALS

A. The Guarantor is the sole member of Sutton Hill Capital, L.L.C., a New York limited liability company (together with its permitted successors, the "Company").

B. The Beneficiary and the Company are about to enter into an agreement, dated as of the date hereof (as the same may be amended, restated, modified or supplemented from time to time, the "Lease Agreement"), pursuant to which the Company will sublease various Theatre Properties as described therein to the Beneficiary.

C. The Company has agreed to make certain representations and warranties to the Beneficiary in subsection 2.3 of the Lease Agreement.

D. The Beneficiary and the Company are about to enter into a letter agreement, dated as of the date hereof (as the same may be amended, restated, modified or supplemented from time to time, the "Financial Letter Agreement"), pursuant to which the Company has agreed to make certain representations and warranties regarding the financial condition of the operations of the Theatre Properties.

E. The Beneficiary and the Company's affiliate, City Cinemas Corporation, a New York corporation ("City Cinemas"), are about to enter into an agreement, dated as of the date hereof (as the same may be amended, restated, modified or supplemented from time to time, the "Employee Letter"), pursuant to which the Beneficiary has agreed to assume the duties and responsibilities as employer with respect to the employees of City Cinemas.

F. City Cinemas has agreed to make certain representations and warranties to the Beneficiary with respect to the employees in Section 2 of the Employee Letter.

G. The Beneficiary is unwilling to enter into the Lease Agreement, the Financial Letter Agreement and the Employee Letter unless the Guarantor enters into this Guaranty.

NOW THEREFORE, in consideration of the foregoing premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby agrees as follows:

Section 1. Guaranty of Obligations. Subject to the terms and conditions

in this Guaranty, the Guarantor hereby unconditionally guarantees to the Beneficiary the due and punctual payment when due of all amounts arising under the Lease Agreement and Financial Letter Agreement, as the case may be, as a result of the Company's breach of the representations and warranties made in subsection 2.3 of the Lease Agreement and in the Financial Letter Agreement and arising under the Employee Letter as a result of City Cinemas' breach of the representations and warranties made in Section 2 of the Employee Letter (such obligations being herein called the "Obligations"), and agrees to pay any and all reasonable expenses incurred by the Beneficiary in successfully enforcing any rights under this Guaranty. This Guaranty is a primary and original obligation of the Guarantor and is an absolute, unconditional, continuing and irrevocable guaranty of payment and not of collectibility or performance and is in no way conditioned or contingent upon any attempt to collect from the Company or City Cinemas, as the case may be, or to realize upon any property constituting security for the Obligations, all to the same extent, except as otherwise specifically provided herein, as if the Guarantor were the Company under the Lease Agreement or Financial Letter Agreement, or City Cinemas under the Employee Letter; provided, however, that the foregoing limitation imposing on the Guarantor obligations hereunder as if it were the Company under the Lease Agreement or Financial Letter Agreement, or City Cinemas under the Employee Letter (except as set forth herein) 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 Company or City Cinemas, as the case may be, results from (a) any insolvency or bankruptcy case or proceeding (including any case under the U.S. Bankruptcy Code of 1978, as amended), or any receivership, liquidation, reorganization or other similar case or proceeding relative to the Company or City Cinemas, as the case may be, or all or substantially all of their respective assets, or (b) any liquidation, dissolution, reorganization or winding up of the Company or City Cinemas, as the case may be, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment of all or substantially all of the assets of the Company or City Cinemas, as the case may be, for the benefit of creditors or any other marshalling of assets and liabilities of the Company or City Cinemas, as the case may be (the events in (a), (b) and (c) collectively referred to as an "Insolvency or Liquidation Proceeding"), and in such event the Guarantor shall be liable in respect of obligations of the Company pursuant to the Lease Agreement or Financial Letter Agreement, or of City Cinemas pursuant to the Employee Letter, as if no such Insolvency or Liquidation Proceeding had been initiated. If the Company or City Cinemas, as the case may be, shall fail to pay any of the Obligations when and as the same shall become due and payable, the Guarantor shall forthwith pay such Obligations, in immediately available funds, directly to the Beneficiary at its address specified herein or at such other place as the Beneficiary shall direct. The Guarantor hereby waives diligence, presentment or protest. Each default in payment of any of the Obligations shall give rise to a separate cause of action hereunder and separate suits may be brought hereunder as each cause of action arises. Notwithstanding anything herein to the

contrary, the obligations of the Guarantor hereunder shall be limited to the same extent as set forth in paragraph (c) of Section 11 of the Lease Agreement, but shall not be limited by the provisions of Section 30 of the Lease Agreement.

Section 2. Character of Obligations Hereunder: Subrogation. (a) The

right of the Beneficiary to enforce the obligations of the Guarantor hereunder by any proceedings, whether by action at law, suit in equity or otherwise, shall not be impaired by any right, claim or defense (against the Company or any other person) of any character whatsoever, including without limitation any right, claim or defense of rescission, recoupment, reduction, limitation, termination, setoff, counterclaim, waiver, frustration, surrender, alteration or compromise except, and then only to the extent, any such right, claim or defense would have been available to the Company pursuant to the Lease Agreement or Financial Letter Agreement, or to City Cinemas pursuant to the Employee Letter. Without limiting the generality of the foregoing, such obligations of the Guarantor shall not be discharged, released or impaired or otherwise affected by: (i) any renewal, extension, amendment or modification of or addition or supplement to or deletion from this Guaranty or the Lease Agreement, Financial Letter Agreement or Employee Letter except to the extent of the Company's or City Cinemas' rights, claims or defenses thereunder as aforesaid, as the case may be; (ii) any inability or failure on the part of the Company to perform or comply with the Lease Agreement or Financial Letter Agreement or on the part of City Cinemas to perform or comply with the Employee Letter; (iii) any waiver, consent, extension, indulgence or other action or inaction (including, without limitation, any lack of diligence) under or in respect of this Guaranty, the Lease Agreement, the Financial Letter Agreement, the Employee Letter or any obligation or liability of the Company or City Cinemas, or any other person, or any exercise or non-exercise of any right, power or remedy under or in respect of any such agreement or any such obligation or liability; (iv) any Insolvency or Liquidation Proceeding; and (v) any limitation or any party's obligation or liability under any such agreement or any such obligation or liability or any termination, cancellation, frustration, invalidity or enforceability, in whole or in part, of any such agreement or any such obligation or liability or any term of any thereof except to the extent of the Company's or City Cinemas' rights, claims or defenses thereunder as aforesaid.

(b) This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by the Beneficiary upon the insolvency, bankruptcy or reorganization of the Company or City Cinemas or otherwise, all as though such payment had not been made.

(c) The Guarantor will not exercise any rights which it may acquire by way of subrogation under this Guaranty, by any payment made hereunder or otherwise, until all of the Obligations shall have been paid in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the Obligations then outstanding shall not have been indefeasibly paid in full, such amount shall be held in trust for the benefit of the Beneficiary and shall forthwith be paid to the Beneficiary and applied upon the Obligations, whether matured

or unmatured. If (i) the Guarantor shall make payment to the Beneficiary of all or any part of the Obligations and (ii) all the Obligations shall be paid in full and the period under the Lease Agreement, Financial Letter Agreement and Employee Letter for the Beneficiary to assert claims against the Company or City Cinemas shall have expired, the Beneficiary will, at the Guarantor's request, execute and deliver to the Guarantor appropriate documents, without recourse and without representation or warranty, necessary to evidence the transfer by subrogation to the Guarantor of an interest in the Obligations resulting from such payment by the Guarantor.

Section 3. Representations and Warranties of the Guarantor. The Guarantor

represents and warrants to the Beneficiary that:

(a) The Guarantor is a general partnership duly organized and validly existing under the laws of California and has full power, authority and legal right to carry on its business as currently conducted, to own its properties and to enter into and perform its obligations under this Guaranty;

(b) The execution, delivery and performance by the Guarantor of this Guaranty have been duly authorized by all necessary partnership action and do not and will not contravene any presently existing law or any governmental rule, regulation or order applicable to the Guarantor or its properties;

(c) The execution, delivery and performance by the Guarantor of this Guaranty do not require the consent or approval or authorization or order of, the giving of notice to, or the registration with, or the taking of any other action in respect of, any governmental authority or agency, foreign or domestic, other than such as have been duly obtained, given or taken; and

(d) This Guaranty has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor, enforceable against the Guarantor in accordance with its terms, except as the enforceability of this Guaranty may be limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and by general principles of equity.

Section 4. Miscellaneous.

(a) No failure on the part of the Beneficiary to exercise, no delay in exercising, and no course of dealing with respect to, any right or remedy hereunder will operate as a waiver thereof; nor will any single or partial exercise of any right or remedy hereunder preclude any exercise of any other right or remedy. This Guaranty may not be amended or modified except by written agreement of the Guarantor and the Beneficiary.

(b) All notices in connection with this Guaranty shall be in writing, shall be deemed given and shall become effective when delivered by hand or courier service or received by telex, telecopier, telegram, cable or registered or certified first-class mail, postage prepaid, addressed as follows: if to the Guarantor, at 120 North Robertson Blvd., Los Angeles, California 90048; if to the Beneficiary, addressed to 550 South Hope Street, Suite 1825, Los Angeles, CA 90071, or at such other addresses which either of the foregoing shall from time to time designate in writing.

(c) The terms of this Guaranty shall be binding upon the Guarantor and its successors and assigns and shall inure to the benefit of, and be enforceable by, the Beneficiary and its successors and assigns.

(d) This Guaranty shall be construed in accordance with and governed by the internal laws of the State of New York.

(e) If any term of this Guaranty and any other application thereof shall be invalid or unenforceable, the remainder of this Guaranty and any other application of such terms shall not be affected thereby.

(f) Each of the parties hereto (i) hereby irrevocably submits to the non-exclusive jurisdiction of the Supreme Court of the State of New York, New York County (without prejudice to the right of any party to remove to the United States District Court for the Southern District of New York) and to the non-exclusive jurisdiction of the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Guaranty or the subject matter hereof or any of the transactions contemplated hereby or thereby brought by either of the parties hereto or their successors or assigns, (ii) hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such Federal court, (iii) hereby waives any right it may have to trial by jury in respect of any litigation based on, arising out of, under or in connection with this Guaranty, and (iv) to the extent permitted by applicable law, hereby irrevocably 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 subject to the jurisdiction of the above-named courts, 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 Guaranty or the subject matter hereof may not be enforced in or by such court. A final judgment obtained in respect of any action, suit or proceeding referred to in this Section 4 shall be conclusive and may be enforced in other jurisdictions by suit or judgment or in any manner as provided by applicable law. Each of the parties hereto hereby consents to service of process by registered mail, Federal Express, DHL or similar courier at the address to which notices to it are to be given, it being agreed that service in such manner shall constitute valid service upon such party or its respective successors or assigns in connection with any such action or proceeding only; provided, however, that nothing in this Section 4 shall affect the right of any of such parties or their respective successors or

assigns to serve legal process in any other manner permitted by applicable law or affect the right of any of such parties or its respective successors or assigns to bring any action or proceeding against any other one of such parties or its respective property in the courts of other jurisdictions.

IN WITNESS WHEREOF, the parties hereto have caused this Guaranty to be duly executed as of the date first set forth herein.

GUARANTOR:
SUTTON HILL ASSOCIATES

By: /s/ James J. Cotter

Name: James J. Cotter
Title: Partner

BENEFICIARY:
CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

LICENSE AGREEMENT

This License Agreement (the "License"), dated as of July 28, 2000 (the "Effective Date"), by and between Sutton Hill Capital, L.L.C., a New York limited liability company, having an office at 120 North Robertson Boulevard, Los Angeles, California 90048, as licensor (together with its successors, legal representatives and assigns, the "Licensor"), and Citadel Cinemas, Inc., a Nevada corporation having an office at 550 South Hope Street, Suite 1825, Los Angeles, CA 90071, as licensee (together with its successors, legal representatives and permitted assigns, the "Licensee").

W I T N E S S E T H

WHEREAS, Licensor owns certain leasehold interests in certain public movie theatres, namely, (i) the Village East Cinemas, located at 181 Second Avenue, New York, New York 10003 (the "Village East Cinemas"), (ii) the Sutton Theatre, located at 205 East 57th Street, New York, New York 10022 (the "Sutton Theatre"), (iii) the Murray Hill Theatre, located at 160 East 34th Street, New York, New York 10016 (the "Murray Hill Theatre"), and (iv) Cinemas 1, 2 and 3, located at 1001 Third Avenue, New York, New York 10022 ("Cinemas 1, 2 and 3"), each of which theatres is hereinafter referred to individually as a "Licensed Theatre" and all of which are collectively hereinafter referred to as the "Licensed Theatres";

WHEREAS, Licensor owns or possesses certain rights, titles and interests in and to certain trademarks, trade names, trade dresses, service marks and other intellectual property used in connection with the presentation, promotion, operation and/or management (hereinafter, collectively referred to as "Operation and/or Management"), of one or more of the Licensed Theatres, each of which intellectual properties is hereinafter referred to individually as a "Licensed Property", and all of which are hereinafter referred to collectively as the "Licensed Properties" and described on the annexed Schedule A, which is hereby incorporated and made part of this License;

WHEREAS, Licensee desires to obtain the right and license from Licensor to use the Licensed Properties in the Territory (as hereinafter defined) in connection with Licensee's Operation and/or Management of the Licensed Theatres in conformity with the terms and conditions of this License and the Lease Agreement executed contemporaneously with this License and effective as of the Effective Date (hereinafter the "Operating Lease"); and

WHEREAS, Licensor is willing to grant such right and license to Licensee on the terms and conditions set forth below;

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants herein contained, and other good and valuable consideration, the receipt and sufficiency of which

are hereby acknowledged, the parties hereto (hereinafter, individually, a "Party" and, collectively, the "Parties") agree as follows:

SECTION 1. DEFINITIONS.

1.1 Defined Terms.

(a) Unless otherwise herein defined or otherwise required by the context, each of the defined terms used herein shall have the meaning set forth in Section 1 of the Operating Lease. In those instances in which the terms and conditions of the Operating Lease are herein incorporated and made part of this License, references to the terms "Tenant", "Landlord" and "Lease" as they appear

in the Operating Lease shall here apply, mutatis mutandis, so as to refer to "Licensee", "Licensor" and "License", respectively, with respect to this License.

(b) "Cinema Assets" means the leasehold interests in the Cinemas 1, 2 and 3, the Murray Hill Theatre, the Sutton Theatre, and the Village East Cinemas.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this License shall refer to this agreement as a whole and not to any particular provision of this License, and section, subsection, paragraph, schedule and exhibit references are to this License unless otherwise specified. Unless otherwise required by the context, the meanings given to the terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. SCOPE OF GRANT.

2.1 Grant.

(a) Licensor hereby grants to Licensee, subject to the terms and conditions of this License, an exclusive, royalty-free license to use in the Territory, in connection with Licensee's Operation and/or Management of the Licensed Theatres, the Licensed Properties owned or used by Licensor in connection with Licensor's Operation and/or Management of the Licensed Theatres as of the Effective Date.

(b) The right and license hereby granted to Licensee apply solely to Licensee's use of the Licensed Properties, solely in connection with the Operation and/or Management of the Licensed Theatres, and solely within the Territory, in accordance with the express terms and conditions of this License.

(c) Notwithstanding the foregoing, Licensee may use the name "City Cinemas" in connection with Licensee's Operation and/or Management of any movie theatre located in the New York metropolitan area (the "Extended Territory"), and, with respect to the use of such

name, the term Licensed Theatres shall include any such theatre located in the Extended Territory.

2.2 Territory.

With respect to each of the Licensed Properties, the "Territory" of Licensee's permitted use of such Licensed Property shall mean as follows:

(a) Trade Names. The Territory of permitted use of each trade name

licensed under this agreement, all composites and variations of such trade names, and all trademarks, service marks and other words, names, symbols, devices and materials that use or incorporate any of such trade names in whole or in substantial part (hereinafter referred to individually as a "Licensed

Trade Name" and collectively as the "Licensed Trade Names"), shall be

exclusively (i) on premises at the specific site of the particular Licensed Theatre designated by such Licensed Trade Name as of the Effective Date of this License (for example, by presentation on the Licensed Theatre's marquee), and (ii) for purposes of advertising, publicity and/or promotion for such Licensed Theatre, the metropolitan area in which such Licensed Theatre is located, namely, the New York City metropolitan area.

(b) Limitations on Certain Other Licensed Properties. To the extent any of

the Licensed Properties other than Licensed Trade Names consist of licensed or contractual rights, the license granted herein is subject to the terms and conditions of the applicable license or contract.

(c) Other Use of Licensed Properties. The foregoing site and territorial

restrictions notwithstanding, Licensee shall have the right to use the Licensed Trade Names and other Licensed Properties anywhere within the United States of America and its territories solely for purposes of (i) identifying or promoting Licensee's business as the licensed operator and/or manager of the Licensed Theatres pursuant to this License, and/or (ii) conducting the Operation and/or Management of the Licensed Theatres at or from Licensee's office(s) in accordance with the terms and conditions of this License, provided, however,

that Licensee shall not use any of the Licensed Trade Names or other Licensed Properties, in whole or in substantial part, as Licensee's corporate, business or trade name, or in any manner as is likely to cause confusion, mistake or deception as to the association or affiliation of Licensor and/or Licensee or the source or sponsorship of either of their businesses, services or goods.

(d) City Cinemas Name. In addition to the foregoing, Licensee may use the

City Cinemas name within the Extended Territory, in connection with any Licensed Theatre within the Territory or Extended Territory, and for purpose of identifying the Licensed Theatres as a group or any of them individually.

SECTION 3. SUBLICENSE AND ASSIGNMENT.

(a) Licensor has granted the License hereunder in reliance upon Licensee's ability and obligation to maintain such high standards as to service, cleanliness, health and sanitation as will preserve and enhance the valuable reputation and goodwill associated with the Licensed Trade Names and other Licensed Properties. Accordingly, neither Licensee nor any principals or owners of any equity interest or security in Licensee shall, without the prior written consent of Licensor in each such instance or in accordance with the conditions of the next sentence of this paragraph, sublicense, sell, assign, transfer, convey, delegate, give away, pledge, mortgage or otherwise encumber, in whole or in part (hereinafter, collectively, effect any "Transfer" or "Lien" of): (i)

this License, or any right, license, interest, duty or obligation of Licensee hereunder; or (ii) all or substantially all of the assets of any of the Licensee's Licensed Theatre establishments. Any such Transfer or Lien without such prior written consent shall be null and void ab initio, unenforceable and of no force or effect; provided, however, that Licensee may effect such Transfer

if such Transfer is to any Person to whom a transfer or assignment of the Operating Lease is made in accordance with the terms of the Operating Lease so long as the transferee of such Transfer shall have agreed for the benefit of Licensor, in a duly executed and enforceable writing, to be bound by the terms of this License and all of the promises and obligations of Licensee hereunder with respect to the Licensed Properties so transferred from and after the date of the Transfer; and provided, further, that Licensee may effect any such Lien

in connection with a mortgage or other encumbrance on the leasehold interest of the Tenant under the Operating Lease as is permitted pursuant to the terms thereof. Licensor shall be expressly named as an intended beneficiary of each such written assignment agreement and Licensee shall deliver Licensor a copy of each such assignment within ten (10) days of the execution thereof.

(b) Licensee shall notify Licensor in writing of any proposed Transfer and/or Lien before the proposed transaction or event is to take place, and shall provide such information and documentation relating to the proposed Transfer and/or Lien as Licensor may reasonably require. Licensee shall deliver to Licensor a conformed copy of each such agreement of Transfer or Lien within thirty (30) days of the execution thereof.

(c) No sublicense, assignment or other Transfer or Lien by Licensee shall relieve Licensee of its obligations hereunder. Licensor's consent to any such Transfer or Lien shall not constitute a waiver of any claims it may have against the Licensee or other transferring party, nor shall it be deemed a waiver of Licensor's right to demand exact compliance with any of the terms of this License by the Licensee, transferor or transferee.

(d) Any attempted or actual assignment, sublicense or other Transfer or Lien not in full compliance with this Section 3 shall be null and void and shall constitute a material breach of, and Event of Default under, this License, for which Licensor may immediately terminate the License and the right and license granted hereunder.

(e) Neither this Section 3 nor any provision of this License shall, or shall be construed to, prohibit or restrict Licensor's right or power to Transfer, or grant a Lien on, this License in whole or in part, subject, however, to the rights of Licensee pursuant to Section 9 hereof.

(f) Licensor does not, by the terms of this License or otherwise, require Licensee to develop, adopt or implement any business, sales, operating or marketing plan, or assume any right or power to control, manage or direct the day-to-day operations of Licensee's business, the control and conduct of which shall remain within the sole and exclusive discretion of Licensee. Accordingly, no sublicensing of this License or any of the rights or licenses granted hereunder shall be made by Licensee to any potential sublicensee, under any terms, in any circumstance, or in any jurisdiction, as may cause Licensor to be deemed a franchisor or as may cause Licensor to be made subject to any special duty, obligation or liability prescribed by any law, regulation or authority governing franchises, dealerships or "business opportunities" in any respect.

Licensee shall nevertheless at all times comply with all applicable laws, regulations or authorities governing franchises, dealerships and "business opportunities", if any, including, but not limited to, all disclosure and -----
registration requirements thereof.

SECTION 4. TERM.

(a) Unless terminated earlier pursuant to the terms hereof, the "Initial Term" of this License and of the right and license granted hereunder shall be -----

coterminous with the Initial Term of the Operating Lease as set forth in Section 6 thereof. Accordingly, the Initial Term of this License shall commence on the Effective Date and shall continue for one hundred twenty (120) calendar months, unless the Operating Lease or this License is terminated earlier pursuant to its express provisions.

(b) In the event that the Initial Term of the Operating Lease shall have expired and the Operating Lease or this License shall not thereupon or earlier have been terminated, and said Operating Lease is renewed pursuant to the terms of Section 12 thereof, the "Renewal Term" of this License and of the right and -----

license granted hereunder shall be coterminous with the Renewal Term of the Operating Lease as set forth in Section 12 thereof. Accordingly, such Renewal Term, if any, shall commence upon the day following the expiration day of the Initial Term and shall continue for one hundred twenty (120) calendar months, unless the Operating Lease or this License is earlier terminated pursuant to its express provisions.

SECTION 5. LICENSEE'S ACCEPTANCE OF RIGHTS; ACKNOWLEDGMENT OF LICENSOR'S OWNERSHIP

(a) Licensee hereby accepts the exclusive right and license in and to the Licensed Properties granted by this License and agrees to exercise such right and license in full

compliance with all Legal Requirements and the material terms and conditions of the Operating Lease and this License.

(b) Licensee acknowledges and agrees: that, as between Licensor and Licensee, Licensor's ownership of all right, title and interest in and to the Licensed Properties (including, without limitation, all goodwill associated therewith and registration rights therein) is valid and subsisting, and is and shall remain vested solely in Licensor, subject only to the right and license granted to Licensee hereunder or under such written amendment hereto or other written license agreement as may hereafter be entered into between Licensor and Licensee; that the right and license granted hereunder shall not create in Licensee any ownership rights in or to any of the Licensed Properties but only a license to the use thereof in the defined Territory during the term of this License in accordance with the terms and conditions hereof; that all use of the Licensed Properties by or on behalf of Licensee, and all goodwill arising thereunder, shall inure solely to the benefit of Licensor unless and until Licensee acquires the Licensed Properties in accordance with Section 9 hereof; and that neither this License nor any provision hereof shall be construed as an assignment by Licensor of any right, title or interest in or to any of the Licensed Properties, it being understood and agreed by the Parties that all right, title or interest in and to the Licensed Properties are expressly reserved by Licensor except for the limited rights being licensed hereunder.

(c) Licensee shall not at any time, during the term of this License or thereafter, anywhere in the world directly or indirectly challenge, dispute, impugn or impair the validity, or Licensor's ownership or registration, of any of the Licensed Properties or of any right, title or interest of Licensor therein.

SECTION 6. USE OF THE LICENSED PROPERTIES; QUALITY CONTROL

(a) Licensee recognizes and acknowledges that it is of paramount importance to Licensor that the high quality of the image, reputation and goodwill associated with Licensor, the Licensed Theatres, the Licensed Trade Names and other Licensed Properties be protected and maintained at all times, and that Licensee must, therefore, maintain such quality in the Licensed Properties and Licensed Theatres. Accordingly, Licensee agrees that such use and presentation of the Licensed Properties as Licensee may make in connection with the Licensed Theatres shall be consistent with the foregoing standards.

(b) Licensee shall affix to, or display in connection with, all stationery, literature, advertising and promotional materials, signage, packaging, labels, trade dress, supplies, equipment, facilities, and other goods, products and materials that embody or bear any of the Licensed Properties such clear and conspicuous notices of Licensor's proprietary rights as may be required fully to preserve and protect Licensor's rights in the Licensed Properties and to comply with all Legal Requirements relating thereto. By way of illustration, and not limitation, such notices and legends shall, where so required or appropriate to protect Licensor's rights and

interests, include the symbol "7" or legend "Registered U.S. Trademark" with

respect to such of the Licensed Properties, if any, as are comprised of
registered trademarks.

(c) Licensee shall, within ten (10) Business Days of any written request of Licensor, provide Licensor with representative samples of all stationery, literature, advertising and promotional materials, signage, packaging, labels, trade dress, supplies, equipment and other goods, products and materials that Licensee uses, or anticipates within a reasonable period following the date of such request to use, in connection with any Licensed Trade Name or any other Licensed Property. If Licensor finds any of said, or other, uses by Licensee of the Licensed Properties objectionable, by reason of the nonconforming quality of Licensee's goods, services or facilities, manner of use of the Licensed Properties, or otherwise, notice of objection citing specifics shall be given to Licensee within ten (10) Business Days after Licensor's receipt of the samples provided by Licensee in accordance with this Paragraph 6(c). In response to any such objection, Licensee shall either advise Licensor of the steps Licensee intends to take to alleviate Licensor's concerns, in which case, absent additional objection from Licensor, Licensee shall with reasonable diligence implement such steps, or shall advise Licensor that Licensee does not agree with Licensor's objections, in which event the Parties shall promptly meet and confer to attempt to resolve their differences.

(d) Licensee agrees that upon the termination or expiration of the Initial Term or Renewal Term of this License, for any reason whatsoever, Licensee shall, except in the event Licensee is assigned Licensor's right, title and interest in the Licensed Properties pursuant to Section 9 hereof or as may be otherwise expressly herein permitted, forthwith discontinue the use of the Licensed Properties, and thereafter shall no longer use, or have any right or license to use, any of the Licensed Properties or any means of identification of source, affiliation, association or sponsorship used by Licensor, or by any Affiliate of Licensor, whether in any trademark, trade name, service mark, trade dress or otherwise, or whether alone or in combination with any other word, name, symbol or device.

SECTION 7. DEFAULTS AND REMEDIES FOR DEFAULT.

7.1 Events of Default and Remedies. -----

With respect to each Event of Default, the applicable cure period shall be as described below but, if a cure period is not specifically mentioned, it shall be thirty (30) days; provided, however, that if Licensee's default is such that

remedy or cure may be effected, but cannot reasonably be completed within said thirty (30) day period, then Licensee shall commence to diligently and continuously take all reasonable steps to effect such remedy or cure of such Event of Default within said thirty (30) day period and shall complete the rendering of such remedy or cure promptly thereafter; provided, further, that,

in connection with the Events of Default listed in clauses (a) and (b) no notice of default or time to cure shall be required or available. In some cases, as identified below, no cure period is allowed and no notice may be required. If any

applicable law or rule requires a longer notice period or a longer cure period than that provided herein, then the period required under the law or rule shall be substituted for the requirements herein. The following shall constitute Events of Default hereunder:

(a) The occurrence of any Event of Default under the Operating Lease that is not cured within the applicable cure period (if any) thereunder.

(b) Licensee shall cause or permit any Lien to arise against, or undertakes any Transfer of, any of the Licensed Properties, this License or any right or license granted hereunder, other than as is permitted hereunder or under the Operating Lease.

(c) Licensee shall continue to be in breach of any other of the material terms or conditions of this Agreement.

7.2 Equitable and Other Relief.

(a) If an Event of Default shall arise under this License and Licensee shall fail to cure the default after any required notice and within the applicable cure period (if any), Licensor may, at its option and without prejudice to any other rights or remedies provided for hereunder or by law, terminate this License by written notice or otherwise.

(b) Licensee acknowledges that, in the event of a breach or threatened breach by Licensee of its obligations under this License, Licensor is likely to suffer irreparable injury for which there is no adequate remedy at law and that Licensor, therefore, shall be entitled to apply for and receive a temporary restraining order, preliminary injunction, permanent injunction and such other equitable or injunctive relief as may be available to restrain Licensee from any breach or threatened breach of any term or condition hereof, without any requirement for the posting of a bond or other security. The prevailing Party in any such proceeding shall be entitled to reimbursement from the other Party of any expenses (including, without limitation, reasonable attorney's fees) incurred in connection with such proceeding.

7.3 Automatic Termination. This License, and all right and license

granted hereunder, shall automatically terminate immediately upon and simultaneously with the expiration or termination of the Operating Lease for any reason.

7.4 Effect of Termination or Expiration.

(a) Upon and after the expiration or termination of this License, except as provided in Section 9 hereof, Licensee's right to use the Licensed Properties shall terminate immediately and all right and license granted to Licensee hereunder shall forthwith revert to Licensor. Accordingly, upon and after such expiration or termination, Licensee shall not (i) reproduce, prepare derivative works based upon, distribute copies of, or publicly perform or display, any

copyrighted work encompassed by the Licensed Properties, (ii) use any of the Licensed Trade Names, or any trade name, trademark, service mark or trade dress encompassed by, or confusingly similar to any of those encompassed by, the Licensed Properties, or (iii) identify itself as a licensee of Licensor or publicly identify itself as a former licensee of Licensor.

(b) Expiration or earlier termination of this License for any reason will not release either Party from any obligation or liability that exists as of the date of expiration or termination (or which may thereafter come into being) as the result of any breach or other act or omission occurring prior to expiration or termination.

(c) Upon termination or expiration of this License, Licensor shall purchase all usable paper goods, containers, printed menus and point of sale materials embodying or bearing any of the Licensed Trade Names or other Licensed Properties at Licensee's cost.

(d) In the event Licensee has changed the name of any of the Licensed Properties existing on the Effective Date, Licensee agrees that, immediately upon the termination or expiration of this License, it shall at its sole cost and expense make such removals or changes in signage and other presentation of the Licensed Theatres as Licensor may reasonably request to reflect the names of the Licensed Theatres as of the date hereof.

7.5 Remedies Nonexclusive.

No remedy referred to in this Section 7 is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to in this License or otherwise available to Licensor at law, in equity or otherwise, and the exercise in whole or in part by Licensor of any one or more of such remedies shall not preclude the simultaneous or later exercise by Licensor of any or all such other remedies. No waiver by Licensor of any Event of Default hereunder shall in any way be, or be construed to be, a waiver of any other, future or subsequent Event of Default, whether similar or dissimilar to such waived Event of Default.

SECTION 8. INFRINGEMENT AND DILUTION.

(a) In the event that either Party shall receive any information to the effect that any third party is, or is suspected of, infringing, diluting or misappropriating any of the Licensed Properties, or has initiated any claim of, or suit alleging, any such infringement, dilution or misappropriation, the Party in receipt of such information shall promptly give written notice thereof to the other Party.

(b) In the event of such infringement, dilution or misappropriation of any of the Licensed Properties, the decision as to whether to institute or maintain a legal action or proceeding shall rest in the sole discretion of Licensor. Licensor shall have sixty (60) days from the receipt of written notice pursuant to Section 8(a) hereof to commence and control the prosecution of such action or proceeding, in its own name, by and through its own counsel and at

its own cost and expense (and/or, if necessary, in the name of Licensee), to secure and protect Licensor's rights in the Licensed Properties. In reaching any such decision, Licensor shall give reasonable consideration to the needs of Licensee for protection in its use of the Licensed Properties and Licensee shall have the right to participate in such action or proceeding by and through Licensee's own counsel and at its own cost and expense. If Licensor does not commence such action or proceeding within the specified sixty (60) day period, Licensee shall, subject to applicable law, have the right, but not the obligation, to commence such action or proceeding in its own name (and/or, if necessary, in the name of Licensor), by and through Licensee's own counsel and at its own cost and expense, to secure and protect the right and license herein granted and to recover damages for the infringement or impairment thereof.

(c) Licensee and Licensor agree to cooperate, at no expense to the other, in any such action or proceeding brought pursuant to Section 8(b) hereof, and to provide any needed assistance to the other Party in connection therewith. The foregoing provisions notwithstanding, the Parties may agree in writing to share the costs of and recoveries from any such action or proceeding as may hereafter arise.

SECTION 90 OPTION AND ASSIGNMENT.

(a) In the event that Licensee exercises its purchase option pursuant to Section 12 of the Operating Lease, and does, in fact, purchase and acquire all of the Cinema Assets from Licensor, contemporaneously with the closing of such purchase and acquisition of the Cinema Assets in accordance with the terms of the Operating Lease, Licensor shall, without separate consideration for the transfer provided herein, assign to Licensee all of Licensor's right, title and interest in and to the Licensed Properties, together with the goodwill of the business, or portion thereof, which is symbolized by the Licensed Properties and pertains thereto.

(b) As soon as practicable after the closing date of Licensee's purchase and acquisition of the Cinema Assets, Licensor shall execute and deliver, or cause to be executed and delivered, to Licensee all assignments, schedules and other appropriate documentation, and take such actions as are reasonable and necessary, to effectuate, validate and, where applicable, record, the assignment, transfer and conveyance to Licensee of the Licensed Properties.

SECTION 10. INDEMNIFICATION.

(a) Licensor assumes no liability to Licensee or to any third parties with respect to Licensee's use of any of the Licensed Properties, including, without limitation, any liability for or in connection with the formulation, design, manufacture, preparation, reproduction, transfer, distribution, shipment, use, sale, offering for sale, advertising, promotion, display, performance or provision of any works, inventions, discoveries, goods or services by, for, or on behalf of, Licensee with or without use of any of the Licensed Properties.

(b) Licensee shall, and hereby does, indemnify, defend, protect and hold harmless Licensor and the other Indemnified Persons in accordance with, and to the full extent of, the obligations undertaken by the Tenant pursuant to terms and conditions of Section 11 of the Operating Lease, which are hereby incorporated and made part of this License.

SECTION 11. TAXES.

Licensee shall pay when due all taxes levied or assessed for or in connection with any Licensed Property licensed under this License, or in connection with amounts paid or received under this License, including without limitation any sales, use or other ad valorem taxes (other than any tax that is measured by or related to the net income of Licensor or to its corporate status in a state). If any such tax shall be paid by Licensor, Licensee shall promptly reimburse Licensor the amount paid. In the event of any bona fide dispute as to the liability for a tax assessed against Licensee, Licensee may contest the validity or the amount of the tax in accordance with procedures of the taxing authority. Licensee shall not permit a tax sale or seizure against any Licensed Theatre or the equipment or facilities thereof.

SECTION 12. NOTICES AND REQUESTS.

Any notices, offers, acceptances, approvals, waivers, requests, demands and other communications required or permitted hereunder shall be in accordance with the terms and conditions of Section 25 of the Operating Lease, which are hereby incorporated, mutatis mutandis, and made part of this License.

SECTION 130 INDEPENDENT CONTRACTORS.

(a) The relationship between Licensor and Licensee is that of independent contractors. Neither Party is or shall be the agent, partner, joint venturer, joint employer or employee of the other for any purpose whatsoever, and no fiduciary relationship between the Parties does or shall exist. Neither Party has or shall have any power or authority to make or give any promise, warranty or representation, to execute any contract or otherwise create, issue or assume any liability, obligation or commitment in the name of or on behalf of the other Party, except to the extent and for the specific purpose, if any, as may hereafter be specifically authorized in writing by the other Party. Neither Party shall have the right or power to bind or obligate the other Party with respect to any third party in any way, nor shall either Party represent that it has any right or power to do so. Nothing contained in this License shall be construed so as to create a partnership or joint venture, or agency, employment, joint employment, fiduciary, franchise, dealership or "business opportunity" relationship.

SECTION 140 GOVERNING LAW; JURISDICTION.

The choice of law, jurisdiction, venue and other provisions set forth in Section 28(d) of the Operating Lease are hereby incorporated, mutatis mutandis, and made part of this License, as follows:

THIS LICENSE HAS BEEN EXECUTED AND DELIVERED IN THE STATE OF NEW YORK. LICENSEE AND LICENSOR AGREE THAT, TO THE MAXIMUM EXTENT PERMITTED BY THE LAW OF THE STATE OF NEW YORK, THIS LICENSE, AND THE RIGHTS AND DUTIES OF LICENSEE AND LICENSOR HEREUNDER, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK (INCLUDING, WITHOUT LIMITATION, SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW) IN ALL RESPECTS, INCLUDING, WITHOUT LIMITATION, IN RESPECT OF ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE. LICENSEE HEREBY IRREVOCABLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND THE SUPREME COURT OF THE STATE OF NEW YORK IN THE COUNTY OF NEW YORK IN ANY ACTION, SUIT OR PROCEEDING BROUGHT AGAINST IT AND RELATED TO OR IN CONNECTION WITH THIS LICENSE OR THE TRANSACTIONS CONTEMPLATED HEREBY, AND TO THE EXTENT PERMITTED BY APPLICABLE LAW, LICENSEE 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 LICENSE OR ANY DOCUMENT OR ANY INSTRUMENT REFERRED TO HEREIN OR THE SUBJECT MATTER HEREOF MAY NOT BE LITIGATED IN OR BY SUCH COURT. THIS SUBMISSION TO JURISDICTION IS NONEXCLUSIVE AND DOES NOT PRECLUDE LICENSOR FROM OBTAINING JURISDICTION OVER LICENSEE IN ANY COURT OTHERWISE HAVING JURISDICTION. TO THE EXTENT PERMITTED BY APPLICABLE LAW, LICENSEE 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. LICENSEE AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY CERTIFIED OR REGISTERED MAIL TO THE ADDRESS FOR NOTICES SET FORTH IN THE OPERATING LEASE AND INCORPORATED BY REFERENCE HEREIN, OR BY ANY METHOD AUTHORIZED BY THE LAWS OF NEW YORK. THE LICENSOR AND LICENSEE EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER IN TORT OR CONTRACT OR OTHERWISE) IN ANY WAY RELATED TO THIS LICENSE OR THE TRANSACTIONS CONTEMPLATED HEREBY. LICENSOR AND LICENSEE ACKNOWLEDGE THAT THE PROVISIONS OF THIS SECTION 14 HAVE BEEN

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

SECITON 150 WAIVERS.

Any waiver of any right or remedy with respect to any failure of the Licensor or the Licensee to comply with any agreement, covenant or condition of this License must be made in a writing signed by the Party to be charged with such waiver. The failure of Licensor to exercise any right or option given to it under this License, or to insist upon strict compliance by Licensee with the terms and conditions of this License, shall not constitute a waiver of, or estoppel with respect to, any terms or conditions of this License with respect to any other or subsequent breach, nor a waiver by or estoppel of Licensor with respect to its right at any time thereafter to require exact and strict compliance with the terms and conditions of this License.

SECTION 160 REPRESENTATIONS, WARRANTIES AND COVENANTS

16.1 Representations and Warranties of Licensor.

Licensor represents and warrants to Licensee as follows:

(a) To Licensor's knowledge, information and belief, Licensee's use of the Licensed Properties in connection with the Operation and/or Management of the Licensed Theatres will not infringe any third party's intellectual property rights when used in accordance with the terms and conditions of this License.

(b) As of the Effective Date hereof, there are no infringement orders, suits or claims pending or threatened in writing against Licensor that relate to any of the Licensed Properties.

(c) To Licensor's knowledge, Licensor has good title to the Licensed Properties, free and clear of all Liens. Licensor has not received written notice of any adverse claim with respect to Licensor's use or ownership of any Licensed Property. Schedule A sets forth the Licensed Properties which are

registered trademarks, and the registration for each such registered trademark is held in the name of Licensor. Licensor has the right to grant to Licensee the right and license granted to Licensee pursuant to Section 2 of this License without obtaining the consent of any other person or entity; Licensor has not entered into any agreements, Transfers, Liens or encumbrances inconsistent with Licensee's use of the Licensed Properties in connection with the Operation and/or Management of the Licensed Theatres in accordance with the terms and conditions of this License.

(d) LICENSOR EXPRESSLY DISCLAIMS ANY AND ALL OTHER WARRANTIES ARISING OUT OF, RELATING TO OR IN CONNECTION WITH THE LICENSED PROPERTIES, WHETHER EXPRESS OR IMPLIED. LICENSEE HAS

DETERMINED TO USE THE LICENSED PROPERTIES IN CONNECTION WITH THE OPERATION AND/OR MANAGEMENT OF THE LICENSED THEATRES ON THE BASIS OF ITS OWN JUDGMENT. EXCEPT AS EXPRESSLY SET FORTH HEREIN OR IN THE OPERATING LEASE, NEITHER THE LICENSOR NOR ANY AFFILIATE, NOR ANYONE ACTING ON BEHALF OF ANY OF THEM, MAKES ANY REPRESENTATION OR WARRANTY OF ANY KIND WHATSOEVER, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, AS TO THE SAFETY, TITLE, CONDITION, QUALITY, QUANTITY, FITNESS FOR USE, MERCHANTABILITY, CONFORMITY TO SPECIFICATION, OR ANY OTHER CHARACTERISTIC, OF ANY LICENSED PROPERTY, OR ANY GOOD, SERVICE, APPARATUS, FACILITY, MATERIAL OR OTHER MATTER THAT BEARS OR EMBODIES ANY LICENSED PROPERTY; OR AS TO WHETHER ANY LICENSED PROPERTY OR THE OWNERSHIP, USE, OCCUPANCY OR POSSESSION OF THE LICENSED PROPERTY OR ANY GOOD, SERVICE, APPARATUS, FACILITY, MATERIAL OR OTHER MATTER THAT BEARS OR EMBODIES ANY LICENSED PROPERTY, COMPLIES WITH ANY LAWS, RULES, REGULATIONS OR REQUIREMENTS OF ANY KIND.

16.2 Mutual Representations and Warranties.

(a) Neither the entry into, nor any provision, exercise or enforcement of, this License shall create or effect any license or other transfer of any right, title, interest, duty or other subject matter that may not lawfully be licensed or transferred without the consent of a third party, unless such consent shall have been given. Licensor and Licensee each hereby warrant and represent that, to their knowledge, no such consent is required to enter into or exercise this License.

(b) Licensor and Licensee each hereby warrant and represent that it has all necessary power and authority to enter into this License and to perform its obligations hereunder, the execution of this License by it and the performance of its obligations hereunder have been duly authorized, and this License Agreement constitutes a legal, valid and binding obligation of such Party, enforceable against it in accordance with its terms.

170 MISCELLANEOUS.

(a) The Introduction shall be considered a part of this License. To the extent, if any, that any provision of this License conflicts with any term or condition of the Operating Lease, the respective agreements shall be construed cy pres so, as near as possible, to effect the Parties' contractual intent while at the same time preserving Licensor's entire right, title and interest in and to the Licensed Properties.

(b) All agreements, indemnities, representations and warranties set forth in this License shall survive the expiration or other termination hereof, provided that such survival shall

not be construed to extend the term of any right or license granted to Licensee hereunder beyond the expiration or termination of this License.

(c) This License shall inure to the benefit of and be binding upon the Parties and their permitted successors and assigns.

(d) Each of the undersigned individuals represents and warrants that he or she is duly authorized and has the full power and authority: (i) to enter into this License on behalf of the undersigned Party on behalf of which that individual purports to execute this License; and (ii) to bind said undersigned Party in any dealings with the other Parties to this License; and (iii) to direct any action necessary to ensure said undersigned Party's compliance with this License.

IN WITNESS WHEREOF, the Parties have caused this License to be executed and delivered by their duly authorized officers as of the day and year first above written.

Licensor:
SUTTON HILL CAPITAL, L.L.C.

Licensee:
CITADEL CINEMAS, INC.

By: /s/ James J. Cotter

Name: James J. Cotter
Title: Operating Manager

By: /s/ Andrzej Matczynski

Name: Andrzej Matczynski
Title: Chief Financial Officer

SCHEDULE A

LICENSED PROPERTIES

City Cinemas
Murray Hill Theatre
Cinemas I, II, and III
Village East Theatre
Sutton Theatre

ADMINISTRATIVE SERVICES AGREEMENT

ADMINISTRATIVE SERVICES AGREEMENT (this "Agreement"), dated as of July 28, 2000, between Citadel Cinemas, Inc., a Nevada corporation (the "Company"), and City Cinemas Corporation, a New York corporation (the "Administrator").

W I T N E S S E T H

WHEREAS, the Company and Sutton Hill Capital, L.L.C., a New York limited liability company and an affiliate of the Administrator ("Sutton Hill Capital"), have entered into a certain lease agreement, dated as of the date hereof (as the same may be amended, restated, modified or supplemented from time to time, the "Lease Agreement"), pursuant to which the Company has leased certain movie theatres listed on Exhibit A attached hereto (the "Leased Theatres") from Sutton Hill Capital;

WHEREAS, the Company and Sutton Hill Capital have entered into a Submanagement Agreement, dated as of the date hereof (as the same may be amended, restated, modified or supplemented from time to time, the "Submanagement Agreement"), pursuant to which Citadel Cinemas has agreed to submanage the theatre commonly known as the 86th Street Theatre which is currently managed by Sutton Hill Capital;

WHEREAS, the Company and the Administrator have entered into certain assignment and assumption agreements each dated as of the date hereof (collectively referred to as the "Assignment and Assumption Agreements"), pursuant to which the Company has assumed all of the obligations of the Administrator from and after the date hereof under the management agreements with respect to the theatres listed on Exhibit B attached hereto (collectively referred to as the "Managed Theatres");

WHEREAS, the Company and the Administrator have entered into a Letter Agreement, dated as of the date hereof (as the same may be amended, restated, modified, or supplemented from time to time, the "Letter Agreement"), pursuant to which the Company has agreed to assume all of the obligations from and after the date hereof of the Administrator with respect to the employees listed on Exhibit B attached thereto;

WHEREAS, as part of the consideration for the Company entering into the Lease Agreement, the Submanagement Agreement, the Assignment and Assumption Agreements and the Letter Agreement, the Company has requested that the Administrator, an affiliate of Sutton Hill Capital, provide certain bookkeeping services for the Company for a period not to exceed two years from the date hereof; and

WHEREAS, the Administrator is willing to provide such services as hereinafter described on the terms and conditions herein set forth;

NOW, THEREFORE, the parties hereto, intending to be legally bound and in consideration of the premises and the mutual covenants herein contained, agree as follows:

Intentionally deleted.

3. Bookkeeping Services. The Administrator hereby agrees to perform the

following services on behalf of the Company and its affiliates (including its parent Citadel Holding Corporation, a Nevada corporation ("Citadel")):

(a) maintain books of account based upon the Administrator's ordinary accounting practices at its offices in Los Angeles, California, with respect to the theatres listed on Exhibits A and B hereto (hereinafter collectively referred to as the "Designated Theatres");

(b) make available to properly authorized representatives and agents of the Company said books of account during all reasonable business hours upon reasonable written notice;

(c) furnish the Company with a trial balance, a balance sheet and a monthly profit and loss statement in a form normally and customarily used by the Administrator and consistent with those currently provided by the Administrator within fourteen (14) days after the close of each month. The profit and loss statement shall be in a form which shall show all receipts and expenses of each Designated Theatre for the preceding month;

(d) furnish the Company with preliminary weekly reports of gross income within a reasonable period after the close of each week;

(e) retain all statements and invoices for the expenses of the Designated Theatres which the Administrator receives from the Company for a period of at least three (3) years and make available such statements to the Company and its agents during all reasonable business hours upon reasonable written notice;

(f) as soon as practicable, but in any event within forty five (45) days of the end of each fiscal year, prepare and furnish to the Company a trial balance, a balance sheet, a statement of cash flows and a profit and loss statement based upon generally accepted accounting principles consistently applied. The profit and loss statement shall show the gross income and actual expenses of each Designated Theatre for the immediately preceding fiscal year. The Administrator agrees to cooperate with the Company's and Citadel's independent public accountants in the preparation of their audited financial statements.

(g) provide similar information quarterly within twenty-five (25) days after the end of each of the first three fiscal quarters of each fiscal year;

(h) deliver such information as may be necessary for the Company to file in a timely manner such income, franchise, payroll (if the Administrator is providing payroll services pursuant to clause (i) below) or other tax returns of the Company as the Company shall determine is required to be filed by applicable law;

(i) [omitted]

(j) prepare and deliver to the Company for signature checks for payment of all expenses with respect to the operation of the Designated Theatres as shall have been approved for payment by the Company, such checks to be drawn on such bank account or accounts as the Company may designate from time to time (and the Company shall provide to the Administrator a supply of checks on such account or accounts for this purpose); and

(k) cooperate with and assist the Company's and Citadel's auditors in connection with the audit of the Company to be performed by such auditors at the end of each fiscal year of the Company occurring after the date hereof and at least three (3) copies of the documents presented to the auditors shall be furnished to the Company as soon as available to permit Citadel to meet any public reporting requirements as may be applicable to it, and in no event later than forty-five (45) days following such fiscal year of the Company.

The Administrator may delegate any or all of such duties to its affiliate Pacific Theatres, Inc. (the "Delegee").

Term. This Agreement shall commence on the date hereof and shall

terminate upon the earlier to occur of (i) the twenty four month anniversary of the date hereof or (ii) the exercise of the Company's right to terminate this Agreement.

The Administrator's Liability; Indemnification.

(a) Neither the Administrator, the Delegee, nor any of their directors, officers, employees or affiliates shall be liable for any loss, liability, claim, damage, penalty, judgment or expense arising out of their performance of, or failure to perform, any services pursuant to this Agreement, except in the case of the gross negligence or willful misconduct of the Administrator, the Delegee or any of their directors, officers, employees or affiliates, and none of the Administrator, the Delegee, nor any of their directors, officers, employees or affiliates shall be liable or responsible for any action of the Company or its affiliates, employees, directors, officers or employees.

(b) The Company shall indemnify and hold harmless the Administrator, the Delegee, and their directors, officers, employees and affiliates from and against any loss, liability, claim, damage, penalty, judgment or expense (including reasonable attorneys'

fees and expenses) of any nature arising out of the performance or failure to perform any services pursuant to this Agreement, except in the case of the gross negligence or willful misconduct of the persons indemnified hereunder.

(c) The Administrator shall indemnify and hold harmless the Company and the directors, officers, employees and affiliates of the Company from and against any loss, liability, claim, damages, penalty, judgment or expense (including reasonable attorneys' fees and expenses) of any nature arising out of the gross negligence or willful misconduct of the Administrator or the Delegee in the performance of its obligations hereunder.

(d) The obligations of the parties under this Section 4 shall survive any termination of this Agreement, in whole or in part. Neither party shall be liable for consequential, punitive or special damages hereunder, whether claimed by the other party hereto or any other person or entity.

Obligation to Supply Information. The Company shall prepare and

supply the Administrator of the Delegee with such information as the Administrator or the Delegee may from time to time reasonably request in connection with the performance of its obligations hereunder.

[Omitted]

Out-of-Pocket Expenses. The Administrator shall be entitled to

recover from the Company all reasonable out-of-pocket expenses actually incurred by the Administrator or the Delegee in connection with performing its obligations hereunder upon the presentation of an invoice and reasonable documentation for the expenses incurred. Notwithstanding anything contained in the foregoing to the contrary, the Administrator and the Delegee may not make any expenditures in excess of \$15,000 without the consent of the Company.

Reliance on Information Obtained for or Supplied by the Company and

Third Parties. The Company recognizes that the accuracy and completeness of the ----- records maintained and the information supplied by or on behalf of the Administrator hereunder are, to a large degree, dependent upon the accuracy and completeness of the information obtained from the Company and other third parties, including, without limitation, the Company and its affiliates, and the Administrator shall not be responsible for any inaccuracy in the information so obtained (including invoices received by the Administrator) or for any inaccuracy in the records maintained by or on behalf of the Administrator for the Company or any of its affiliates hereunder which may result therefrom.

Notices. All notices required under the terms and provisions hereof

shall be in writing, either delivered by hand, by mail (postage prepaid), or by telex, telecopier or telegram, and any such notice shall be effective when received at the address specified below:

If to the Company:
Citadel Cinemas, Inc.
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: President

If to the Administrator:
City Cinemas Corporation
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: General Counsel

or if to either of the foregoing parties, or their successors, at such other address as such party or successors may designate from time to time by notice duly given to the other in accordance with the terms of this Section 9.

4. Entire Agreement. This Agreement constitutes the entire agreement

between the parties hereto with respect to the matters covered hereby and supersedes all prior agreements and understandings between the parties.

Amendment; Successors; Counterparts.

(a) The terms of this Agreement shall not be waived, altered, modified, amended or supplemented in any manner whatsoever except by written instrument signed by the parties hereto.

(b) This Agreement shall be binding upon the parties hereto and their respective successors and shall inure to the benefit of the parties hereto and their respective successors.

(c) This Agreement may be executed in several counterparts, each of which shall be deemed an original hereof.

5. Captions. The captions in this Agreement are for convenience of

reference only and shall not define or limit any of the terms or provisions hereof.

[The Remainder of This Page Intentionally Left Blank]

6. Binding Effect. This Agreement shall become effective when it shall

have been executed by the Company and the Administrator and thereafter shall be
binding upon and inure to the benefit of the parties hereto.

7. Assignment. This Agreement shall not be assigned by the Company or

the Administrator without the prior written consent of the other, which consent
can be withheld or denied in the sole and absolute discretion of the party whose
consent is requested.

Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN

ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK.

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.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be
executed as of the day and year first above written.

CITADEL CINEMAS, INC.

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

CITY CINEMAS CORPORATION

By: /s/ James D. Vandever

Name: James D. Vandever
Title: Secretary

EXHIBIT A

LEASED THEATRES

1. The Village East Cinemas located at 181 Second Avenue, New York, New York 10003.
2. The Sutton Theatre located at 205 East 57th Street, New York, New York 10022.
3. The Murray Hill Theatre located at 160 East 34th Street, New York, New York 10016.
4. Cinemas 1, 2 and 3 located at 1001 Third Avenue, New York, New York 10022.

EXHIBIT B

MANAGED THEATRES

1. 86th Street Quad Theatre located at 210 East 86th Street, New York, New York 10028.
2. Eastside Playhouse located at 950 Third Avenue, New York, New York 10022.
3. Gotham Theatre located at 969 Third, New York, New York 10022.
4. The Angelika Film Center - New York, New York.
5. The Angelika Film Center & Cafe - Houston, Texas.
6. The St. Anthony Main - Minneapolis, Minnesota.
7. The Village East Cinemas located at 181 Second Avenue, New York, New York 10003.
8. The Sutton Theatre located at 205 East 57th Street, New York, New York 10022.
9. The Murray Hill Theatre located at 160 East 34th Street, New York, New York 10016.
10. Cinemas 1, 2 and 3 located at 1001 Third Avenue, New York, New York 10022.

SUBMANAGEMENT AGREEMENT

THIS SUBMANAGEMENT AGREEMENT (the "Agreement") is made and entered into as of the 28th day of July, 2000, by and between City Cinemas Corporation., a New York corporation ("Manager"), and Citadel Cinemas, Inc., a Nevada corporation ("Submanager").

RECITALS

A. EastSide Exhibition Corp. ("Owner") is the current lessee under the lease, dated as of February 20, 1998, between East 86th Street Corp., as owner ("Landlord"), and Owner, as Tenant (including any extension, replacement or modification thereof, or supplement or amendment thereto, the "Lease"), of the premises commonly known as the 86th Street Theatre (the "Theatre") located at 210 East 86th Street, New York, New York 10028;

B. Pursuant to a certain management agreement, dated as of May 19, 1999, a copy of which is attached hereto as Exhibit A (including any extension, replacement or modification thereof, or supplement or amendment thereto, the "Management Agreement"), Owner engaged the Manager ("City Cinemas") to manage the Theatre;

C. Submanager is experienced in operating and managing motion picture theatres and buying and booking films; and

D. Manager desires to engage Submanager to submanage the Theatre, and Submanager desires to submanage the Theatre, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the above stated premises, the mutual covenants and agreements contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Manager and Submanager agree as follows:

AGREEMENT

2 TERM.

The term of this Agreement shall commence on the date hereof and terminate on the earlier of May 31, 2009 or the expiration of the Lease (or, if earlier, the expiration of the Operating Lease (as defined below) other than as a result of the exercise of the purchase option provided for therein), unless sooner terminated in accordance with the terms herein; provided, however, if the Management Agreement is extended, the date of May 31, 2009 in this sentence shall be deemed deleted and replaced with the date of May 31, 2010. Manager shall use commercially reasonable efforts to extend the term of the Management Agreement in accordance with the terms thereof so that the term hereof extends until May 31, 2010.

3 POWERS OF SUBMANAGER.

a Grant and Delegation. Manager hereby grants and delegates to

Submanager the following authority, powers and duties:

i. Buying and Booking. To buy and book all motion picture films for

the Theatre; provided that, prior to paying an advance or a guarantee for any film, in excess of \$20,000, Submanager shall first obtain Manager's consent to the amount, film and release date, which consent shall not be unreasonably withheld or delayed; provided, further, that Submanager recognizes that Manager, prior to responding to Submanager's request for consent as herein provided, must first obtain consent from Owner pursuant to the Management Agreement;

ii. Maintenance and Repair. To maintain or cause to be maintained the

Theatre; to make or cause to be made and supervise minor repairs; to purchase supplies required for the operation and maintenance of the Theatre, and pay all bills therefor, and to report to Manager any conditions in the Theatre requiring the attention of Manager; provided that Submanager shall not make any expenditures for maintenance and repairs in excess of \$6,000 for any one item or \$17,500 in any one month without first obtaining Manager's approval, except for emergency repairs if, in the opinion of Submanager, such repairs are necessary to protect the Theatre or its patrons or personnel; provided, further, that Submanager recognizes that Manager, prior to responding to Submanager's request for consent as herein provided, must first obtain consent from Owner pursuant to the Management Agreement;

iii. Employees. To provide personnel, in such reasonable numbers as

shall be required for the proper operation and maintenance of the Theatre and to supervise, direct and discharge all such personnel; all such personnel are the employees of Submanager and not of Manager or Owner;

iv. Utilities and Service Contracts. To make arrangements for

electricity, gas, fuel, water and telephone service and any and all necessary contracts for landscaping, security, elevator maintenance, window cleaning, trash and rubbish hauling, pest control, HVAC and similar services;

v. Taxes. To promptly send to Manager, upon receipt, all notices of

assessment or reassessment and tax bills affecting the Theatre; provided that Owner will be responsible for the appeal or payment of any and all real and personal property taxes and assessments. In no event shall Submanager have any obligation for the payment of any income and/or estate or other taxes of Manager or Owner;

vi. Licenses and Permits. To acquire and keep in force all licenses

and permits required for the operation of the Theatre as a motion picture theatre with concession and merchandising facilities and operations and such uses incidental or accessory thereto;

vii. Insurance. To obtain for the benefit of Manager, the Landlord,

Owner and such mortgagees of any of the foregoing parties of which Submanager shall have been given written notice the following insurance, and to cooperate with the insurance carriers under such policies to make, administer and settle any claims thereunder:

1 Comprehensive general liability insurance (including bodily injury and property damage) in an amount not less than a combined single limit of Five Million Dollars (\$5,000,000), or such greater amount as may be required to be maintained under the Lease;

2 Property damage insurance covering the Theatre and all improvements and property, providing "all risk" protection coverage;

3 Workers' compensation insurance in accordance with and as required under the laws of the State of New York; and

4 Such other insurance or insurance set forth herein at higher limits as may be required to be carried by Owner under the terms of the Lease or otherwise reasonably agreed upon by Manager and Submanager from time to time.

Submanager shall also be named as an insured under any policy carried under this subparagraph (g); at Submanager's option, Submanager may fulfill its obligations hereunder by naming Manager, Owner, and Landlord as an additional insured(s) under any applicable blanket insurance policy Submanager may carry, and charge Manager hereunder the pro rata share of such coverage allocable to the Theatre. Notwithstanding anything to the contrary contained herein, Submanger must maintain any and all insurance that is required to be maintained by Owner under the Lease and name any party required to be named thereunder as an additional insured;

viii. Advertising. To advertise the films to be exhibited in the Theatre

in such manner as is customary in the industry. Submanager may combine such advertisement of films to be exhibited in other theatres owned or operated by Submanager or any affiliate; provided, however, that only the prorated cost of such advertisement properly allocable to the Theatre shall be charged as expenses of the Theatre;

ix. Concessions. To purchase inventory and supplies;

x. Supervision. To supervise the general operation of the Theatre;

and

xi. Payment of Operating Expenses. To incur and pay or cause to be

paid, out of Gross Income and any operating reserve which may be established all normal and proper operating expenses of the Theatre (except mortgage payments, if any, which shall be paid directly by the party liable thereon) incurred or authorized by Submanager in the performance of the duties required to be performed by Submanager under this Agreement. All such expenses incurred by Submanager, including, without limitation, (i) rental under the Lease; (ii) the prorated cost of labor (including without limitation the prorated cost of fringe benefits, withholdings, payroll accounting and overhead in connection with such labor) employed by Submanager and of the equipment of Submanager used in connection with and while engaged in the operation, maintenance and repair of the Theatre; and (iii) the cost of the items and services described in subparts (a) to (i), above, shall be charged as expenses of the Theatre. Notwithstanding the foregoing, the following expenses incurred by Submanager under this Agreement shall not be paid out of Gross Income or the operating reserve, they being deemed expenses not properly allocable to the Theatre, but rather deemed expenses of Submanager for which Submanager is compensated by the Management Fee: (i) expenses for offsite office, administrative, and consulting personnel, and (ii) direct or indirect overhead and administrative expenses.

b Owner's Consent. In any instance when consent of Owner is

required, Manager shall seek such consent, by providing Owner a copy of the material provided by Submanager and shall advise Submanager of Owner's response. Submanager acknowledges that notwithstanding anything to the contrary contained herein, Manager shall not be liable hereunder for acts of Owner in conditioning, delaying or refusing such consent.

c Reservation. All powers not expressly granted to Submanager by

this Agreement are reserved by Manager to the extent transferred to Manager under the Management Agreement, or to Owner to the extent not so transferred to Manager thereunder.

4 DUTIES OF SUBMANAGER.

a Management. Submanager agrees to use reasonable efforts in the

exercise of the powers conferred and assumed in Section 2.1 hereof and in the operation, management and maintenance of the Theatre in accordance with this Agreement.

b Accounting.

i. Submanager shall maintain books of account based upon its ordinary accounting practices at its offices with respect to the Theatre. Said books of account shall be available to properly authorized representatives and agents of Manager during all reasonable business hours upon reasonable notice. Submanager shall furnish Manager with a monthly profit and loss statement in a form normally and customarily used by Submanager, which form shall show all receipts and estimated expenses of the Theatre for the preceding month, and shall furnish Manager with weekly reports of "Gross Income" (as hereinafter defined) within five (5) business days after the close of each theatre week. Submanager shall prepare and furnish, or cause to be prepared and furnished, Manager and Landlord such statements with respect to the operation of the Theatre as required under the Lease. Submanager shall retain all original statements and invoices for the expenses of the Theatre for a period of at least two (2) years and such statements shall be available to Manager during all reasonable business hours upon reasonable notice. Submanager shall make such records available to authorized representatives of Owner if Owner so requests.

ii. Within fifty (50) days of the end of each calendar year, Submanager shall prepare and furnish to Manager a profit and loss statement based upon Submanager's ordinary accounting practices which shall show the Gross Income and actual expenses of the Theatre for the immediately preceding calendar year.

c Bank Account.

- i. Manager shall cause a bank account or bank accounts (hereinafter collectively referred to as the "Bank Account") to be opened and maintained separately and apart from all other bank accounts of Manager and Submanager for the sole purpose of handling transactions under this Agreement. Alternatively, as Manager and Submanager may elect from time to time, the Bank Account described herein shall mean the Bank Account opened pursuant to the Management Agreement. The parties hereto may designate from time to time which account is the Bank Account for purposes hereof. All receipts from the operation of the Theatre shall be deposited in the Bank Account, and all payments of costs, expenses and charges to be made by Submanager under this Agreement (including the remuneration to be paid Submanager as hereinafter provided) shall be paid out of the Bank Account. In the event the balance in the Bank Account is insufficient to enable Submanager to meet the obligations incurred or accrued pursuant to the provisions of this Agreement as they mature, Manager, within three (3) days following receipt of a request from Submanager, shall furnish such notice of Submanager's need for additional funds to Owner as Submanager may reasonably require in order to enable Submanager to meet said obligations as they mature. Upon the receipt of any such requested funds from Owner, Manager shall remit such funds to Submanager. Notwithstanding anything to the contrary contained herein, Manager shall have no obligation to advance any sums to Submanager other than those received by Owner pursuant to the preceding sentence. Submanager shall have the right, but shall not be obligated, to advance on behalf of Owner, upon the failure of Owner to timely provide such sums to Manager pursuant to the Management Agreement, the amounts which Submanager requires for such purposes. Submanager is hereby authorized at any time, in the event of such advances by it, to withdraw from the Bank Account, after three (3) days notice to Manager, sufficient sums to repay itself with interest thereon at the fluctuating rate equal to the discount rate announced from time to time by the Federal Reserve Bank of New York, plus 400 basis points, or the maximum amount allowed by law, whichever is less.
- ii. All withdrawals from the Bank Account shall be made by checks signed by the authorized signatories of Submanager, and Submanager will furnish to Manager, within forty (40) days following the expiration of each month, a statement of the receipts and expenses of the operation of the Theatre during such month.
- iii. Within forty (40) days following the expiration of each month, Submanager shall remit to Manager, from the Bank Account, the excess of moneys which were on deposit therein at the expiration of such month after deducting the amount required to make the payments herein provided to be paid by or to Submanager during such month and reasonable reserves for anticipated expenses.

d Notices and Documents. Submanager shall advise Manager promptly of

the service upon Submanager of any summons, subpoena, or other like legal document, including any notices, letters or other communications setting out or claiming an actual or alleged potential liability of Manager, Owner, Landlord or the Theatre (including all notices from any landlords), and will reasonably cooperate with Manager in connection with any legal or arbitration proceeding arising in connection with the Theatre, or its operation. Submanager shall also notify Manager promptly of (i) any notice of violation or claimed violation of any governmental requirement; (ii) any material damage to the Theatre; and (iii) any actual or alleged personal injury or property damage occurring to or formally claimed by any landlord, third party or employee on or with respect to the Theatre.

5 TERMINATION.

a Default by Submanager. In the event of a breach of the provisions

of this Agreement by Submanager, Manager shall have the right to give to Submanager twenty five (25) days' written notice to cure such breach, and in the event of the failure of Submanager to do so within such period, Manager shall have the right to thereafter terminate this Agreement upon at least twenty five (25) days' written notice of such election to terminate, such termination to be effective following the expiration of such second twenty-five day notice; provided that, if the breach is of such nature that it cannot be cured within such twenty five (25) day period, this Agreement shall not be terminable on account of such breach so long as, within such twenty five (25) day period, Submanager shall have commenced to cure such breach and shall thereafter diligently prosecute the cure thereof.

b Default by Manager. In the event of any failure by Owner to

supply any funds required under the Management Agreement, Submanager shall have the right to fund any deficiency and, if Submanager does so fund, Manager agrees not to terminate the Management Agreement based on Owner's failure to fund; or Submanager can elect to terminate hereunder, in which event Manager can respond to Owner's breach under the Management Agreement in Manager's sole discretion. In the event of any other breach of the provisions of this Agreement by Manager or of the Management Agreement by Owner, Submanager shall have the right to give to Manager twenty five (25) days' written notice to cure, or, as the case may be, to demand that Owner cure, such breach, and in the event of the failure of Manager or Owner, as the case may be, to do so within such period, Submanager shall have the right to thereafter terminate this Agreement upon an additional twenty five (25) days written notice of such election to terminate, such termination to be effective following the expiration of such second twenty-five day notice; provided that, if the breach is of such nature that it cannot be cured within such twenty five (25) day period, this Agreement shall not be terminable on account of such breach so long as, within such twenty five (25) day period, Manager or Owner, as the case may be, shall have commenced to cure such breach and shall thereafter diligently prosecute the cure thereof. Submanager will accept Manager's cure of a default by Owner.

c Default under Lease Agreement. Submanager, as tenant, and Sutton

Hill Capital, L.L.C., an affiliate of Manager, as landlord, have entered into a certain lease agreement, dated as of the date hereof (the "Operating Lease"), relating to certain other theatre properties. Submanager and Manager agree that the occurrence of an Event of Default under the Operating Lease shall constitute a default by Submanager of this Agreement and that, upon termination of the Operating Lease for any reason, this Agreement shall automatically terminate without notice or demand.

d Effect of Termination on Booking. Notwithstanding the term

provided for in Section 1 or the giving of any earlier notice of termination pursuant to any of Section 4.1, 4.2 or 4.3 above, Submanager shall during the entire term of this Agreement continue to use its reasonable efforts to book films for exhibition in the Theatre in accordance with reasonable industry standards, even though such films may have exhibition dates after the termination of this Agreement. Manager shall and shall cause Owner to honor all such booking commitments for the Theatre made prior to the termination of this Agreement, notwithstanding that such bookings may be for the period after the effective date of termination of this Agreement.

e Delivery of Records; Final Accounting. Upon termination,

Submanager shall (i) deliver to Manager all books, records and the like maintained solely in connection with the operation and management of the Theatre; (ii) render a final accounting to Manager within eighty (80) days after termination, reflecting the balance of income and expenses of the Theatre, as of the date of termination; and (iii) deliver to Manager the balance of the Bank Account.

f Right of Termination on Other Remedies. The right to terminate

provided under this Section 4 shall be in addition to, and not in lieu of, any other rights or remedies which the parties may have under this Agreement, at law or in equity, including, without limitation, the right to receive specific performance and/or to obtain damages. Notwithstanding anything contained herein to the contrary, if the Purchased Assets (as hereinafter defined) are sold, transferred or otherwise conveyed, this Agreement shall terminate as to all future obligations of Manager and Submanager; provided, however, that this Agreement shall not so terminate if such sale, transfer or other conveyance shall occur prior to the end of the term hereof and Submanager shall not have received the notice under Section 8.1 hereof of the right to exercise its first refusal option therein set forth.

6 COMPENSATION TO SUBMANAGER.

a Gross Income Defined. For the purposes of this Agreement, the term

"Gross Income" shall mean: (i) all monies received for admission to the Theatre, exclusive of admission" taxes or other taxes required by law to be collected from the patron at the time of the sale of the tickets at the box office or other place where admissions are sold, and exclusive of all bona fide refunds made to patrons; (ii) all monies received from sales of food, beverages and merchandise at the Theatre, exclusive of sales tax required by law to be paid or collected in connection with such sales; (iii) the gross amount received (less any applicable taxes) from the use of the Theatre in its entirety by a third party for the exhibition of films (i.e., a "four wall deal") or for theatrical

performances, lectures, concerts or the like where the party using the Theatre is entitled to retain the receipts from admissions to such event and pays a flat fee or percentage of receipts for such use; (iv) the receipts from vending machines at the Theatre; (v) parking receipts; and (vi) all other monies received from the operation of the Theatre (including, without limitation, advertising rebates, commissions, and shrinkage). Admission prices and classifications shall be determined by Submanager, subject to the approval of Manager prior to any change, which approval shall not be unreasonably withheld or delayed; provided, further, that Submanager recognizes that Manager, prior to responding to Submanager's request for consent as herein provided, must first obtain consent from Owner pursuant to the Management Agreement.

b Management Fee. As compensation to Submanager for the full and

faithful performance of its duties under this Agreement, Manager shall pay Submanager a "Management Fee," as hereinafter defined. As used herein, the term "Management Fee" shall be an amount equal to six percent (6%) of the Gross Income of the Theatre collected during the term hereof.

c Payment of Management Fee. The Management Fee shall be determined

and payable weekly. Submanager shall be permitted and is hereby authorized to deduct weekly its fees, described above, from the Gross Income of the Theatre and to withdraw and pay itself the same out of the Bank Account.

d Grant of Security Interest. As security for the performance by

Manager of its obligations under this Agreement, Manager hereby grants to Submanager a security interest in and to Manager's interest in the Bank Account and agrees to execute and deliver and, where appropriate, acknowledge any such financing statements or other documents as Submanager may request in order to evidence and perfect this grant of security interest. Submanager shall have all of the rights of a secured creditor under the New York Uniform Commercial Code, as the same may be amended from time to time. Such rights and remedies shall, however, be in addition to, and not in lieu of, the rights and/or remedies which Submanager may have at law, in equity or under this Agreement, all such remedies being cumulative and not exclusive in nature.

7 ACKNOWLEDGMENT AND OBLIGATIONS OF MANAGER.

a Operations of Other Theatres by Submanager. Manager specifically

acknowledges that Submanager and its affiliates own and operate other theatres in the same area in which the Theatre is located, which are in direct competition with the Theatre, and nothing herein contained shall in any way affect the right of Submanager and its affiliates now or in the future to own, operate, or manage, or book and buy for other theatres for their own account or for the account of others or to expand or contract their operations.

b Limitation on Damages. Manager acknowledges and agrees that in no event

shall Submanager be liable, under Sections 4.5 and 7 or at law or otherwise, for punitive damages, consequential damages or any other damages which are not compensatory damages. Submanager acknowledges and agrees that in no event shall Manager be liable, under Section 7 or at law or otherwise, for punitive damages, consequential damages or any other damages which are not compensatory damages.

c Right to Cure Defaults under the Management Agreement. Submanager shall

have the right, but not the obligation, to cure any defaults by Manager in the performance of its obligations under the Management Agreement. Manager shall promptly deliver to Submanager any notices of default that Manager receives from Owner under the Management Agreement.

8 INDEMNIFICATION.

a Indemnification by Submanager. To the extent not covered by insurance

policies to be obtained in accordance with the provisions of Subparagraph 2.1(g) hereof, Submanager shall defend, indemnify and hold Manager, Owner and, to the extent required from Owner pursuant to the Lease with respect to matters for which the indemnity of Submanager in favor of Owner is provided herein, Landlord harmless from and against any and all claims, demands, causes of action, loss and liability to third parties (including all costs and reasonable attorneys' fees) arising out of or resulting from (i) damage to property, or injury to, or death of, persons (including the property and person of the parties hereto, and their agents, subcontractors and employees) occasioned by or in connection with the willful or grossly negligent acts of Submanager or Submanager's agents, employees or subcontractors; (ii) breach by Submanager (or Submanager's agents, employees, or subcontractors) of any of its duties or obligations under this Agreement (except that Submanager shall have no liability for (a) failure to take any action under this Agreement that requires Manager's or Owner's prior approval or authorization if Submanager notified Manager that such action is necessary and Manager has refused or failed to authorize, or failed to have obtained Owner's consent to authorize, Submanager to take the same or (b) any action taken in good faith by Submanager under this Agreement with Manager's written consent); or (iii) actions taken by Submanager outside the scope of this Agreement.

b Indemnification by Manager. To the extent not covered by insurance

policies to be obtained in accordance with the provisions of Subparagraph 2.1(g) hereof, Manager shall defend, indemnify and hold Submanager harmless from and against any and all claims, demands, causes of action, loss and liability to third parties (including all costs and reasonable attorneys' fees) arising out of or resulting from (i) damage to property, or injury to, or death of, persons (including the property and person of the parties hereto, and their agents, subcontractors and employees) occasioned by or in connection with the willful or grossly negligent acts of Manager or Manager's agents, employees or subcontractors (including the failure to timely authorize any action under this Agreement that requires Manager's prior approval or authorization if Submanager has notified Manager that the same is necessary except that Manager is not liable for Owner's inaction or refusal to grant consent); (ii) breach by Manager (or Manager's agents, employees, or subcontractors) of any of its duties or obligations under this Agreement; and (iii) any act or action by Submanager pursuant to this Agreement taken in good faith with Manager's prior written consent as to the act or action in question.

9 RIGHT OF FIRST REFUSAL.

a Grant of Right. So long as Submanager is not in breach of any of its

obligations hereunder, at any time and from time to time prior to the end of the term hereof (at which point the rights hereinafter described shall terminate), in the event Owner receives a bona fide written offer from an unaffiliated third party and not in a foreclosure proceeding brought by Townhouse Cinemas Corporation ("Townhouse") or a successor thereto to purchase all or any part of Owner's interest in the buildings and other improvements (including, without limitation, the attachments, appliances, equipment, machinery and other affixed property which would constitute "fixtures" under Section 9-313(1)(a) of the Uniform Commercial Code) now or hereafter located on the Theatre and all of Owner's right, title and interest in, to and under the Lease or all or substantially all of the equity interest in Owner, whether direct or indirect, subject to whatever right, title or interest any third party (including lenders to or partners or shareholders of Owner or Owner's Affiliates involved in the Theatre) may have therein (the "Purchased Assets"), which Owner is willing to accept in its sole and absolute discretion, and delivers to Manager the term sheet for the acquisition of the Purchased Assets (the "Term Sheet"), Manager shall notify Submanager within 5 days of receipt of such Term Sheet and provide Submanager with a copy thereof. If Submanager elects to exercise its right of first refusal pursuant to the terms herein, Submanager must give Manager within twenty (20) days of Submanager's receipt of the Term Sheet an irrevocable offer to acquire the Purchased Assets on substantially identical terms as those set forth in the Term Sheet. In order to be effective, Submanager's notice that it wishes to exercise its right of first refusal with respect to the Purchased Assets shall be accompanied by a check for 10% of the price thereof, to be used by Manager as a downpayment for the Purchased Assets and to be held in escrow by Owner's attorney. If Submanager shall so exercise its rights hereunder, Manager and Submanager shall promptly and in good faith seek to agree upon and execute definitive documentation for such purchase within 10 days of Submanager's delivery of its irrevocable offer, which documentation shall reflect (a) the respective obligations of the parties hereto with respect to powers and duties of Submanager hereunder and (b) the fact that the Purchased Assets will be conveyed pursuant to documentation to be agreed upon and executed by Owner and Manager. At the closing of the transfer of the Purchased Assets, Manager shall instruct Owner to deliver title as Submanager shall direct, provided Submanager complies with its obligation pursuant to its offer to acquire the Purchased Assets as aforesaid. If Submanager elects not to close on the Purchased Assets in substantial conformity with the terms set forth in such documentation, or if Submanager shall in bad faith fail to execute such documentation, Submanager shall have no further rights pursuant to this paragraph with respect to the Purchased Assets and Owner shall be entitled to retain the 10% deposit as liquidated damages. If Submanager shall fail to give notice to Manager that it wishes to exercise its right of first refusal within such twenty (20) day period and either (i) Owner sells the Purchased Assets or (ii) Manager elects to exercise any rights it may have and acquires the Purchased Assets, Submanager's rights pursuant to this Section 8.1 shall be void and of no further force and effect. If the Purchased Assets are not sold in substantial conformity with the offer described in the Term Sheet (including at a price not less than 90% of the price described therein), Submanager's right of first refusal hereunder shall continue in effect.

10 GENERAL PROVISIONS.

a Counterparts. This Agreement may be executed in counterparts, each

of which shall be deemed an original, but all of which, taken together, shall constitute one and the same instrument.

b Entire Agreement.

This Agreement contains the entire agreement between the parties respecting the subject matter of this Agreement and supersedes all prior understanding and agreements, whether oral or in writing, between the parties respecting the subject matter of this Agreement.

c Legal Advice; Neutral Interpretation. Each party has received

independent legal advice from its attorneys with respect to the advisability of executing this Agreement and the meaning of the provisions hereof. The provisions of this Agreement shall be construed as to their fair meaning, and not for or against any party based upon any attribution to such party as the source of the language in question.

d CHOICE OF LAW; WAIVER OF JURY TRIAL. THIS AGREEMENT SHALL BE

GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, APPLICABLE TO CONTRACTS ENTIRELY PERFORMED AND MADE IN NEW YORK. EACH OF THE MANAGER AND SUBMANAGER WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED TO OR ARISING OUT OF THE ENGAGEMENT OF THE SUBMANAGER PURSUANT TO, OR THE PERFORMANCE BY THE SUBMANAGER OF THE SERVICES CONTEMPLATED BY, THIS AGREEMENT.

e Severability. If any term, covenant, condition or provision of this

Agreement, or the application thereof to any person or circumstance, shall to any extent be held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, covenants, conditions or provisions of this Agreement, or the application thereof to any person or circumstance, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby.

f Waiver of Covenants, Conditions or Remedies. The waiver by one

party of the performance of any covenant or condition under this Agreement shall not invalidate this Agreement nor shall it be considered a waiver by it of any other covenant or condition under this Agreement. The waiver by either or both parties of the time for performing any act under this Agreement shall not constitute a waiver of the time for performing any other act or an identical act required to be performed at a later time. The exercise of any remedy provided in this Agreement shall not be a waiver of any consistent remedy provided by law, and the provision in this Agreement for any remedy shall not exclude other consistent remedies unless they are expressly excluded.

g Exhibits. All exhibits to which reference is made in this Agreement

are deemed incorporated in this Agreement.

h Amendment. This Agreement may be amended only by the written

agreement of Manager and Submanager. All amendments, changes, revisions and discharges of this Agreement, in whole or in part, and from time to time, shall be binding upon the parties despite any lack of legal consideration, so long as the same shall be in writing and executed by the parties hereto.

i Relationship of Parties. The parties agree that their relationship

is that of Manager and Submanager, and that nothing contained herein shall constitute either party as employee or legal representative of the other for any purpose whatsoever, nor shall this Agreement be deemed to create any form of business organization, joint venture or partnership between the parties hereto or as giving Submanager any type of property interest in the Theatre, nor is either party granted any right or authority to assume or create any obligation or responsibility on behalf of the other party, except as otherwise provided herein, nor shall either party be in any way liable to third parties for any debt of the other.

j No Third Party Benefit. This Agreement is intended to benefit only

the parties hereto and no other person or entity has or shall acquire any rights hereunder.

k Time of the Essence. Time shall be of the essence as to all dates

and times of performance contained herein.

l Further Acts. Each party agrees to perform any further acts and to

execute, acknowledge and deliver any documents which may be reasonably necessary to carry out the provisions of this Agreement.

m Successors and Assigns. This Agreement shall be binding upon and

shall inure to the benefit of the successors and assigns of the parties to this Agreement.

n Manner of Giving Notice. All notices and demands which either party

is required or desires to give to the other shall be given in writing by personal delivery or by express courier service or by certified mail, return receipt requested, to the address set forth below for the respective party, provided that if any party gives notice of a change of name or address, notices to that party shall thereafter be given as demanded in that notice. All notices and demands given by personal delivery or by express courier service shall be effective on the date of delivery; all notices and demands given by mail as set forth above shall be effective on the fourth business day after mailing.

To Manager:

City Cinemas Corporation
120 North Robertson Blvd
.Los Angeles, CA 90048

With copies to:

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, NY 10166
Attention: Howard Peskoe

To Submanager:

Citadel Cinemas, Inc.
550 South Hope Street Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548
Attention: President

With copies to:

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, New York 10168
Attention: Michael Margulis

o No Recourse. No recourse for any claim based hereon or otherwise in

respect hereof shall be had against any direct or indirect member of the Manager or any incorporator, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect member, it being understood that the Manager is a limited liability company. Nothing contained in this Section 9.15 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 Manager or its assets, or any other Person expressly undertaking obligations in connection with the undertaking contemplated hereby.

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

MANAGER:

City Cinemas Corporation,
a New York corporation

SUBMANAGER:

Citadel Cinemas, Inc.,
a Nevada corporation

By: /s/ James D. Vandever

Name: James D. Vandever
Title: Secretary

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

CITADEL STANDBY CREDIT FACILITY

Dated as of July 28, 2000

between

SUTTON HILL CAPITAL, L.L.C.,

as Borrower

and

CITADEL HOLDING CORPORATION,

as Lender

TABLE OF CONTENTS

	Page	

ARTICLE I	DEFINED TERMS.....	1
1.1	Definitions.....	1
1.2	Accounting and Other Terms.....	10
1.3	Certain Matters of Construction.....	10
ARTICLE II	CREDIT FACILITY.....	11
2.1	The Commitment.....	11
2.2	Manner of Borrowing.....	11
2.3	Repayment of Principal.....	12
2.4	Payment of Interest.....	12
2.5	Voluntary Prepayment.....	12
2.6	Mandatory Prepayment.....	13
2.7	Note.....	14
2.8	Other Indebtedness.....	14
ARTICLE III	PAYMENTS; REDUCTION OF COMMITMENT; EXTENSION.....	14
3.1	Manner of Payments.....	14
3.2	Extension of Payments.....	14
3.3	Computation of Interest.....	15
3.4	Reduction of Commitment.....	15
ARTICLE IV	CONDITIONS OF LENDING.....	15
4.1	Initial Conditions.....	15
4.2	Continuing Conditions.....	17
4.3	No Waiver of Conditions.....	18
ARTICLE V	REPRESENTATIONS AND WARRANTIES.....	18
5.1	Status.....	18
5.2	Litigation.....	19
5.3	Compliance with Other Instruments.....	19
5.4	Binding Agreement.....	19
5.5	Authorizations.....	20
5.6	Regulation.....	20
5.7	Title to Property; Liens.....	20
5.8	Taxes.....	20
5.9	Pension Plans.....	20
5.10	Collateral.....	20
5.11	Location of Borrower.....	21
5.12	Investment Company Act.....	21
5.13	Membership Interests; Management.....	21

5.14	Brokerage Fees, etc.....	21
5.15	Financial Statements.....	21
5.16	Name.....	21
5.17	Indebtedness; Other Agreements.....	21
5.18	No Subsidiaries.....	21
ARTICLE VI	AFFIRMATIVE COVENANTS.....	22
6.1	Payment of Taxes.....	22
6.2	Preservation of Existence.....	22
6.3	Compliance with Laws.....	22
6.4	Keeping of Books and Records; Inspection.....	22
6.5	Notice of Certain Events.....	22
6.6	Financial Statements and Other Information.....	23
6.7	Maintenance of Property.....	23
6.8	Use of Proceeds.....	23
6.9	Separate Existence.....	24
ARTICLE VII	NEGATIVE COVENANTS.....	24
7.1	Change in Nature of Business.....	24
7.2	Liens.....	25
7.3	Other Indebtedness.....	26
7.4	Consolidations, Mergers, etc.....	26
7.5	Pension Plans.....	26
7.6	Location of Borrower.....	26
7.7	Sale, Lease, etc.....	26
7.8	Fiscal Year.....	26
7.9	Liquidation, Dissolution, etc.....	26
7.10	Loans.....	26
7.11	Change of Ownership or Management.....	26
7.12	Dividends.....	27
7.13	Prohibition of Amendments or Waivers.....	27
7.14	Subsidiaries.....	27
ARTICLE VIII	TERMS OF SUBORDINATION.....	27
8.1	Subordination of Indebtedness.....	27
ARTICLE IX	EVENTS OF DEFAULT.....	27
9.1	Events of Default.....	27
9.2	Default Remedies.....	32
9.3	Setoff.....	32
9.4	Default Interest.....	32
9.5	Restrictions on Remedies.....	33

ARTICLE X	COLLATERAL.....	33
10.1	Borrower Collateral.....	33
10.2	Equity Collateral.....	33
ARTICLE XI	GENERAL PROVISIONS.....	33
11.1	Modification of Agreement; No Sale of Interest.....	33
11.2	Indulgences Not Waivers.....	33
11.3	Severability.....	33
11.4	Cumulative Rights; No Waiver.....	34
11.5	Execution in Counterparts.....	34
11.6	Notices.....	34
11.7	Entire Agreement.....	35
11.8	Governing Law.....	35
11.9	Waiver of Jury Trial.....	35
11.10	General Waivers.....	36
11.11	Limited Recourse.....	36
11.12	Headings.....	36
11.13	Termination by Borrower.....	36
11.14	Accounting Terms.....	36
11.15	Incorporation.....	37
11.16	Tax Forms.....	37
ARTICLE XII	LENDER COOPERATION.....	37
12.1	Lender Cooperation.....	37

EXHIBITS	
Exhibit A	Form of Note
Exhibit B	Form of Notice of Borrowing
Exhibit C	Opinion of Counsel to the Borrower
Exhibit D	Schedule of Equipment
Exhibit E	Pledge Agreement
Exhibit F	Security Agreement
Exhibit G	Intercreditor Agreement
Exhibit H	Theatre Properties
Exhibit I	Site Leases

SCHEDULES	
Schedule 5.2	Litigation
Schedule 5.17	Indebtedness
Schedule 7.2	Liens

CITADEL STANDBY CREDIT FACILITY

THIS CITADEL STANDBY CREDIT FACILITY, dated as of this 28/th/ day of July, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into by and between CITADEL HOLDING CORPORATION (together with its permitted successors and assigns, the "Lender"), a Nevada corporation with an office at 550 South Hope Street, Suite 1825, Los Angeles, CA 90071, and SUTTON HILL CAPITAL, L.L.C. (together with its permitted successors and assigns, the "Borrower"), a New York limited liability company with its chief executive office and principal place of business at 120 North Robertson Boulevard, Los Angeles, California 90048.

ARTICLE I

DEFINED TERMS

I.1 Definitions. When used in this Agreement, each of the following terms

defined in this Section 1.1 shall have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

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

"Affiliate" shall mean, as to any Person, any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (a) the Borrower and its Affiliates (the "Borrower's Affiliates") shall not include Reading, the Lender, and their respective Subsidiaries; (b) Reading, the Lender, and their respective Subsidiaries, on the one hand, and the Borrower and the Borrower's Affiliates, on the other hand, shall not be considered Affiliates of each other; and (c) none of Nationwide or any of its Affiliates shall be considered an Affiliate of Reading, Lender or any of their respective Subsidiaries or the Borrower or any of its Affiliates.

"Agreement" shall mean this Citadel Standby Credit Facility, as the same may be amended, restated, modified or supplemented from time to time.

"Applicable Law" shall mean all laws, rules and regulations applicable to the Person, conduct, transaction or covenant in question, including (a) all applicable common law and

equitable principles; (b) all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations and orders of governmental bodies; and (c) all orders, judgments and decrees of all courts and arbitrators.

"Assets" shall mean any and all assets or property of any kind, real or

personal, tangible or intangible, now owned or hereafter acquired by the Borrower.

"Bankruptcy Code" shall mean Title 11 of the United States Code, as now

constituted or hereafter amended.

"Board of Governors" shall mean the Board of Governors of the Federal Reserve

Board.

"Borrower" shall have the meaning specified in the preamble to this Agreement.

"Borrower Collateral" shall mean the Equipment and all other assets of the

Borrower except Real Property Interests.

"Business Day" shall mean a day other than (a) a Saturday or a Sunday or (b) a

day on which banks in New York City are permitted, required or authorized by law or executive order to close.

"Capitalized Lease" shall mean, as applied to any Person, any lease of any

property which in accordance with GAAP would be capitalized on that Person's balance sheet as lessee or for which the amount of the asset or liability thereunder, if so capitalized, should be disclosed in a note to such balance sheet.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation, which

is a subsidiary of Lender, and its successors and assigns (including successors or assigns as tenant under the Lease Agreement).

"Closing Date" shall mean the date upon which this Agreement is executed by the

Lender and the Borrower.

"Collateral" shall mean the Equity Collateral and the Borrower Collateral.

"Commitment" shall mean, at any time, the obligation of the Lender to make Loans

pursuant to Section 2.1 hereof in an aggregate principal amount up to twenty eight million Dollars (\$28,000,000) (as the same may be reduced pursuant to Section 2.1, 2.6, 3.4 or 9.2 hereof).

"Commitment Period" shall have the meaning set forth in Section 2.1 hereof.

"Consumer Price Index" shall mean the Consumer Price Index for Urban Wage

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

"Contract" shall mean any contract, agreement, indenture, loan or credit

agreement, receivable sales or financing agreement, capital note, mortgage, security agreement, bond or note (or any guarantee of any of the foregoing).

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

and, in relation to any amount to be advanced or paid hereunder, funds having same day or immediate value.

"Equipment" shall mean all of the Borrower's right, title and interest in and to

all personal property used primarily in connection with the Theatre Properties or otherwise located at the properties listed on Exhibit H attached hereto, including, without limitation, all replacements and subsequent replacements of the foregoing, excluding any supplies and inventory.

"Equity Collateral" shall have the meaning given to that term in the Pledge

Agreement.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 and all

rules and regulations from time to time promulgated thereunder.

"Event of Default" shall mean each of the events set forth in Section 9.1

hereof.

"Fee Option Agreement" shall mean the Fee Option Agreement, dated as of the date

hereof, between FeeSub and the Borrower, as the same may be amended, restated, modified or supplemented from time to time.

"FeeSub" shall mean Citadel Realty, Inc., a Nevada corporation.

"Final Date" shall mean December 1, 2010.

"GAAP" shall mean generally accepted accounting principles in the United States

of America in effect from time to time (except for accounting changes in response to releases of the Financial Accounting Standards Board, or other authoritative releases).

"Improvements" shall mean all buildings and other improvements (including, -----
without limiting the generality of the foregoing, any affixed property which would constitute "fixtures" under Section 9-313(1)(A) of the UCC now or -----
hereafter located on the Theatre Properties.

"Indebtedness" shall mean for any Person, without duplication, (a) all -----
indebtedness or other obligations of such Person for borrowed money and all indebtedness of such Person with respect to any other items (other than income taxes payable, deferred taxes, deferred credits and accounts payable) which would, in accordance with GAAP, be classified as a liability on the balance sheet of such Person, (b) all obligations of such Person to pay the deferred purchase price of property or services, including any such obligations created under or arising out of any conditional sale or other title retention agreement, (c) all obligations of such Person (contingent or otherwise) under reimbursement or similar agreements with respect to the issuance of letters of credit, (d) all indebtedness or other obligations of such Person under or in respect of any swap, cap, collar or other financial hedging arrangement, (e) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c) or (d) above, the payment or collection of which such Person has guaranteed (except by reason of endorsement for collection in the ordinary course of business) or in respect of which such Person is liable, contingently or otherwise, including, without limitation, liable by way of agreement to purchase products or securities, to provide funds for payment, to maintain working capital or other balance sheet conditions or otherwise to assure a creditor against loss, and (f) all indebtedness or other obligations of any other Person of the type specified in clause (a), (b), (c), (d) or (e) above secured by (or for which the holder of such indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or becomes liable for the payment of such indebtedness or obligations.

"Indemnity Guarantee" shall mean the Guaranty, dated the date hereof, entered -----
into among the Indemnity Guarantors, Citadel Cinemas and FeeSub.

"Indemnity Guarantors" shall mean James J. Cotter and Michael R. Forman. -----

"Initial Drawdown Date" shall mean the date that is the seventh (7th) -----
anniversary of the Closing Date.

"Interest Rate" shall mean a rate per annum equal to (a) for the period ending -----
on the day prior to the second anniversary of the Closing Date, 8.25%, and (b) during each contract year (or part thereof) thereafter, the multiplier (as hereinafter defined) for such contract year

multiplied by the Interest Rate as in effect during the prior contract year. For purposes of the foregoing, (i) a "contract year" means each period beginning on the Closing Date or an anniversary thereof and ending on the day prior to the next anniversary thereof, and (ii) the "multiplier" means a fraction, the numerator of which is the Consumer Price Index in effect for the month of March preceding the anniversary date in question and the denominator of which is the Consumer Price Index in effect for the month of March in the prior year, provided that (A) except as provided in the following clause (B), the multiplier for any contract year shall not be greater than 1.06 nor less than 1.03 and (B) the multiplier for the contract year shall be such as would have been in effect had the multiplier for the second contract year been applied to determining the Interest Rate for the second contract year; and provided, further, that in no event shall the Interest Rate exceed the maximum rate permitted by law.

"Insolvency or Liquidation Proceeding" shall mean (a) any insolvency or

bankruptcy case or proceeding (including any case under the Bankruptcy Code), or any receivership, liquidation, reorganization or other similar case or proceeding relative to the Borrower or all or substantially all of its Assets, or (b) any liquidation, dissolution, reorganization or winding up of the Borrower, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy (other than any voluntary liquidation, dissolution, reorganization or winding up), or (c) any assignment of all or substantially all of the Assets of the Borrower for the benefit of creditors or any other marshaling of Assets and liabilities of the Borrower.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated as of

the date hereof, among the Lender, Nationwide, and the Borrower, in the form of Exhibit G hereto, as the same may be amended, restated, modified or supplemented from time to time.

"Lease Agreement" shall mean the lease agreement between the Borrower and

Citadel Cinemas, dated as of the date hereof, as amended, modified and supplemented from time to time.

"Lender" shall mean Citadel Holding Corporation, a Nevada corporation, and its

successors.

"License of Intangibles" shall mean that certain License of Intangibles dated as

of the date hereof between the Borrower and Citadel Cinemas, as the same may be amended, restated, modified or supplemented from time to time.

"Lien" shall mean any security interest, mortgage, pledge, hypothecation,

assignment as collateral, encumbrance, lien (statutory or other), or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the UCC or comparable law of any jurisdiction in respect of any of the foregoing).

"Limited Liability Company Agreement" shall mean the Limited Liability Company Agreement of the Borrower, effective as of April 8, 1999, as amended, modified, supplemented or restated from time to time.

"Loan" shall mean each loan, if any, made by the Lender to the Borrower pursuant to Section 2.1 hereof.

"Mandatory Borrowing or Reduction Notice" shall have the meaning set forth in Section 2.8 hereof.

"Material Adverse Effect" shall mean the effect of any event or condition which, alone or when taken together with other events or conditions occurring or existing concurrently therewith, (a) has a material adverse effect upon the business, operations or financial condition of the Borrower or upon the Collateral (taken as a whole), or the Property (taken as a whole); (b) materially impairs the ability of the Lender to enforce or collect the Obligations in accordance with this Agreement or the other Related Documents; (c) materially impairs the ability of the Lender to realize, in accordance with this Agreement or the other Related Documents or Applicable Law, upon the Equity Collateral or upon any material element or portion of the Borrower Collateral (taken as a whole); or (d) has a material adverse effect on the ability of the Lender to realize on the Indemnity Guarantee, including on the business and financial condition and prospects of Messrs Cotter and Forman.

"Member" shall mean Sutton Hill and its successors and assigns.

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

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

"Nationwide Default" shall mean a "Default" by the Borrower under the Nationwide Agreement, as such term is defined from time to time therein.

"Nationwide Event of Default" shall mean an "Event of Default" by the Borrower under the Nationwide Agreement, as such term is defined from time to time therein.

"Nationwide Indebtedness" shall mean any and all indebtedness, obligations and liabilities of the Borrower from time to time outstanding under the Nationwide Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, premium, interest (including interest

accruing before or after the commencement of any Insolvency or Liquidation Proceeding or interest that would have accrued but for the commencement of such Insolvency or Liquidation Proceeding, to the date of payment, even if the claim for such interest is not allowed pursuant to Applicable Law), fees, indemnities, costs, expenses or otherwise.

"Nationwide Liens" shall mean the Liens on the Collateral which have been or may

from time to time be granted to Nationwide pursuant to the Nationwide Agreement.

"Note" shall mean, collectively, the promissory note if and when issued by the

Borrower payable to the order of the Lender, evidencing the Loans, if any, made by the Lender as provided herein, in the form of Exhibit A hereto, and any promissory note or notes of the Borrower issued in substitution thereof.

"Notice of Borrowing" shall mean an irrevocable notice, in the form of Exhibit B

hereto, given to the Lender by the Borrower pursuant to Section 2.2 hereof.

"Obligations" shall mean any and all indebtedness, debts, obligations, and

liabilities of the Borrower to the Lender from time to time outstanding under the Related Documents to which the Borrower is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on and any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operating Manager" shall mean (a) during the four-year period commencing on the

date hereof, James J. Cotter, so long as he remains active in the business and affairs of the Member, and (b) at any time after such four-year period (or any earlier time when Mr. Cotter is not so active), any Person designated pursuant to the terms of the Limited Liability Company Agreement as the operating manager of the Borrower; provided that there may be more than one Operating Manager of the Borrower from time to time.

"Operational Agreements" shall mean the License of Intangibles, the Sub-

Management Agreement and the Lease Agreement.

"Option Agreement" shall mean the Option to Purchase and Agreement of Purchase

and Sale and Escrow Instructions dated as of August 16, 1985 between Sutton Hill and Nationwide (as successor-in-interest to Sutcin Holding Corp.), as such agreement has been extended by a First Addendum dated as of January 1, 1992, a Second Addendum dated as of July 1, 1996, and a Third Addendum, dated as of the date hereof, in connection with the purchase of fee properties underlying the Sutton and Murray Hill Theatres, as the same may be amended, restated, modified or supplemented from time to time.

"Outstanding" shall mean all Loans made by the Lender pursuant hereto and

not repaid by the Borrower.

"Payment Account" means account designated in writing by the Lender prior

to the making of the Initial Loan and from time to time thereafter as the
"Payment Account" for purposes of this Agreement.

"Payment Date" shall mean the 30th day of each March, June, September and

December, commencing on the first such date following the initial Loan made
hereunder.

"Permitted Liens" shall mean any Lien of a kind specified in Section 7.2 of

this Agreement.

"Person" shall mean any individual, partnership, corporation, joint stock

company, trust (including a business trust), limited liability company,
joint venture, unincorporated organization or other form of business
entity, or a government or agency or political subdivision thereof.

"Pledge Agreement" shall mean the Pledge Agreement, dated as of the date

hereof, between Sutton Hill and the Lender, as the same may be amended,
restated, modified or supplemented from time to time.

"Properly Contested" shall mean (including grammatical alternatives

thereof), (a) in the case of any Indebtedness of the Borrower (including
any Taxes) that is not paid as and when due or payable by reason of the
Borrower's bona fide dispute concerning its liability to pay same or
concerning the amount thereof, (i) such Indebtedness is being contested in
good faith by appropriate proceedings promptly instituted and diligently
conducted; (ii) if the Indebtedness results from, or is determined by the
entry, rendition or issuance against the Borrower or any of its Assets of,
a judgement, writ, order or decree, execution on such judgment, writ, order
or decree is stayed pending a timely appeal or other judicial review; and
(iii) if such contest is abandoned, settled or determined adversely (in
whole or in part) to Borrower, Borrower forthwith pays such Indebtedness
and all penalties, interest and other amounts due in connection therewith
or otherwise causes such judgment, writ, order or decree to be satisfied;
and (b) in the case of any other obligation of Borrower, (i) compliance
with or performance of such obligation is being contested in good faith by
appropriate proceedings promptly instituted and diligently conducted; (ii)
the lack of performance or compliance therewith will not have a Material
Adverse Effect or compliance therewith or performance thereof has been
stayed or permissibly deferred; (iii) there is no material risk of criminal
liability against the Lender; and (iv) if such contest is abandoned,
settled or determined adversely to Borrower, Borrower thereafter promptly
and with reasonable diligence effects such required compliance or
performance.

"Property" shall mean the Borrower's interest in the Site Leases,

Improvements and Equipment.

"Reading" shall mean Reading Entertainment, Inc., a Nevada corporation.

"Real Property Interests" shall mean fee, leasehold and other estates in

real property, real property fixtures and improvements, the rents, income and profits generated or arising from any such estate, fixtures or improvements and any and all other real estate interests, claims and rights a lien or encumbrance on which would be subject to mortgage taxes pursuant to Article 11 of the Tax Law of the State of New York (as from time to time in effect) or replacements thereto.

"Related Documents" shall mean this Agreement, the Note, the Security

Agreement and the Intercreditor Agreement. The term "Related Documents" shall not include any of the foregoing documents to the extent that such document has been terminated in accordance with its terms not due to the occurrence of an event of default thereunder.

"Security Agreement" shall mean the Security Agreement, dated as of the

date hereof, between the Lender and the Borrower, substantially in the form of Exhibit F hereto, as it may be amended, restated, modified or supplemented from time to time.

"Site Leases" shall mean all the site leases listed on Exhibit I attached

hereto.

"Sub-Management Agreement" means the Sub-Management Agreement, dated as of

the date hereof, between the Borrower and Citadel Cinemas, as the same may be amended, restated, modified and supplemented from time to time.

"Subsidiary" of any Person shall mean any corporation, partnership, limited

liability company, joint venture, trust or estate of which (or in which) more than 50% of:

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

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

(c) the beneficial interest of such trust or estate

is at the time directly or indirectly owned by such Person, by such Person and one or more of its Subsidiaries or by one or more of such Person's Subsidiaries.

"Sutton Hill" shall mean Sutton Hill Associates, a California general

partnership, and its successors and assigns.

"Taxes" shall mean any present or future taxes, levies, imposts, duties,

fees, assessments, deductions, withholdings or other charges of whatever
nature, including income, receipts, excise, property, sales, use, transfer,
license, payroll, withholding, social security and franchise taxes now or
hereafter imposed or levied by the United States, or any state, local or
foreign government or by any department, agency or other political
subdivision or taxing authority thereof or therein and all interest,
penalties, additions to tax and similar liabilities with respect thereto,
but excluding, in the case of the Lender, franchise taxes or taxes imposed
on or measured by the net income or overall gross receipts of the Lender.

"Tenant Event" shall mean an event arising from or attributable to an

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

"Termination Date" shall mean the date which is eighteen (18) months

following the Initial Drawdown Date.

"Theatre Properties" shall mean the Borrower's interest in the properties

listed on Exhibit H attached hereto.

"UCC" shall mean the Uniform Commercial Code (or any successor statute) as

adopted and in effect from time to time in the State of New York or, when
the laws of any other state govern the method or manner of the creation,
perfection or enforcement of any security interest in any of the
Collateral, the Uniform Commercial Code (or any successor statute) of such
state.

I.2 Accounting and Other Terms. All accounting terms not specifically

defined herein shall be construed in accordance with GAAP or, as appropriate,
the accounting principles used in preparation of the financial statements
referred to in Section 5.15, and all financial data pursuant to the Agreement
shall be prepared in accordance with such principles. All other terms contained
in this Agreement shall have, when the context so indicates, the meanings
provided for by the UCC to the extent the same are used or defined therein.

I.3 Certain Matters of Construction. All references in this Agreement to

any other agreement or instrument shall include such other agreement or
instrument as the same may be

amended, modified or supplemented from time to time. In the computation of interest and fees payable from a specified date to a later specified date, unless otherwise indicated the word "from" means "from and including" and the words "to" and "until" both mean "to but not including". The terms "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. The section titles, table of contents and list of exhibits appear as a matter of convenience only and shall not affect the interpretation of this Agreement. All references to statutes and related regulations shall include any amendments of same and any successor statutes and regulations; all references to any instruments or agreements, including references to this Agreement or any and all agreements, instruments and documents heretofore, now or hereafter executed by the Borrower in favor of or delivered to the Lender in respect to the transactions contemplated by this Agreement, shall include any and all modifications or amendments thereto and any and all extensions or renewals thereof. The words "including" and "include" mean "including, without limitation".

ARTICLE II

CREDIT FACILITY

II.1 The Commitment. Subject to the terms and conditions of this

Agreement and in reliance on the representations and warranties contained herein, the Lender shall make Loans to the Borrower, from time to time during the period (the "Commitment Period") from the Initial Drawdown Date to and including the date that is one hundred eighty (180) days following the Termination Date (or such later date as is set forth in a written notice from the Lender to the Borrower), in an aggregate principal amount at any one time Outstanding up to but not exceeding the amount of the Commitment, which Loans shall be evidenced by and be repayable in accordance with the terms of the Note and shall be secured by the Collateral. The Lender, in its sole discretion or as provided in Section 2.2(d), may at the request of the Borrower given at any time after the sixth anniversary of the Closing Date make loans earlier than the Initial Drawdown Date. Within the limits of the Commitment, the Borrower may borrow under this Section 2.1 and prepay pursuant to Section 2.6 hereof. Any principal amount repaid, by prepayment or otherwise, may not be reborrowed, and the Commitment shall be reduced by the amount so borrowed and repaid. The sum of the principal amount at any time of all Outstanding Loans made by the Lender pursuant to this Agreement shall not exceed twenty eight million Dollars (\$28,000,000).

II.2 Manner of Borrowing.

(a) The Borrower shall give the Lender (i) for any Loan proposed to be made on or before or within ninety (90) days following the Initial Drawdown Date, a duly completed Notice of Borrowing in the form of Exhibit B attached hereto not later than 3:00 P.M. (New York City time) not less than one hundred twenty (120) days prior to the date designated by the Borrower as the date of advance for such Loan, and (ii) for any Loan proposed to be made any time thereafter, a duly

completed Notice of Borrowing not later than 3:00 P.M. (New York City time) not less than one hundred eighty (180) days prior to the date designated by the Borrower as the date of advance for such Loan. Each Notice of Borrowing shall be irrevocable and binding on the Borrower.

(b) Each such Notice of Borrowing shall specify: (i) the amount of such Loan, which shall be in an aggregate principal amount of at least \$25,000 (or, if the then unused Commitment is less than \$25,000, such lesser amount); and (ii) the date of such borrowing, which shall be a Business Day during the Commitment Period (unless the Lender agrees to make a Loan earlier than the Initial Drawdown Date).

(c) Subject to the terms and conditions of this Agreement, the Lender shall make the amount of each Loan available to the Borrower by transferring the amount thereof on the date of the advance specified by the Borrower to an account designated by the Borrower in the Notice of Borrowing.

(d) At any time and from time to time after the Closing Date, subject to the provisions of this Section 2.2(d), the Lender may give the Borrower a notice (a "Mandatory Borrowing or Reduction Notice") requiring the Borrower to either (i) give a Notice of Borrowing for a Loan in an amount equal to the then unused amount of the Commitment, as provided in Section 2.2(a)(i), or (ii) give a notice under Section 3.4 reducing the Commitment, as of the date of such notice, to the amount of Loans then outstanding. If the Borrower does not give either a Notice of Borrowing or a notice reducing the Commitment, as required by this Section 2.2(d), within 30 days of the date of the Mandatory Borrowing or Reduction Notice, the Borrower shall be deemed to have given on such 30th day a notice as described in Section 2.2(d)(ii).

II.3 Repayment of Principal. The Borrower shall repay the Lender the

aggregate principal amount of the Outstanding Loans on the Final Date (or such earlier date as is required pursuant to Section 2.6) in accordance with the terms of the Note.

II.4 Payment of Interest.

(a) The Borrower shall pay interest on the unpaid principal amount of each Loan, if any, owing to the Lender from the date of such Loan to the date on which such principal amount shall be paid in full, at a rate equal to the Interest Rate, payable quarterly in arrears on each Payment Date.

(b) Regardless of any provision contained in this Agreement or any other Related Document, in no contingency or event whatsoever shall the aggregate of all amounts deemed interest under this Agreement or the Note and charged or collected pursuant to the terms hereof or thereof exceed the highest rate permissible under Applicable Law. It is the intent of the parties hereof to comply with all Applicable Laws relating to interest and usury and, if the Lender shall inadvertently charge or receive interest hereunder in excess of the highest applicable rate, the Lender shall

promptly refund such excess interest to the Borrower and such rate shall automatically be reduced to the maximum rate permitted by Applicable Law.

II.5 Voluntary Prepayment. Subject in each case to the terms of the

Intercreditor Agreement, the Borrower may, on 10 day's prior written notice to Lender, prepay all, but not less than all, of the outstanding Loans. The Borrower may not otherwise prepay any Loan without the consent of the Lender, except as required by this Agreement. Any prepayment must be accompanied by the payment of accrued interest on the amount prepaid to the date of prepayment. Amounts so prepaid shall be applied to the remaining installments due in respect of the Loans in inverse order of maturity.

II.6 Mandatory Prepayment. Subject in each case to the terms of the

Intercreditor Agreement:

(a) If Citadel Cinemas exercises the Purchase Option (as defined in the Lease Agreement), the Borrower shall prepay all Obligations in full on the Purchase Option Closing Date (as defined in the Lease Agreement); provided that, if Citadel Cinemas shall fail or refuse to close, then the Borrower shall have no obligation to prepay as herein set forth; and

(b) If the Borrower shall receive and, pursuant to the terms of the Lease Agreement, be entitled to retain any insurance proceeds resulting from damage to any of its Assets (including proceeds of insurance maintained by Citadel Cinemas), or proceeds resulting from any Taking (as defined in the Lease Agreement) or shall receive a payment pursuant to clause (i) of paragraph (c) of Section 19 of the Lease Agreement, the Borrower shall use the full amount of such sums, after payment of any out-of-pocket expenses incurred by the Borrower in connection therewith, to pay (i) first, any outstanding principal amount of the Nationwide Indebtedness, and (ii) second, any outstanding principal amount of the Indebtedness under this Agreement; provided, however, that, with the prior written approval of Nationwide (which it may elect to grant or withheld in its sole discretion), the Borrower may apply all of such sums to prepay the principal Indebtedness outstanding hereunder until paid in full, in which event all such excess shall be applied in reduction of the principal balance of the Nationwide Indebtedness; provided, further, that, if at the time of the Borrower's receipt of any of the aforesaid sums, there is no amount then outstanding hereunder or less than the full amount has been drawn hereunder, the Borrower shall utilize such sums to prepay other Indebtedness (or distribute such sums to its sole Member for such use) or the Nationwide Indebtedness and, to the extent that such sums are applied in reduction of the principal of such other Indebtedness (or so used by such Member), the Commitment hereunder shall be reduced dollar for dollar.

(c) If the Acquisition Cost (as defined in the Lease Agreement) is reduced by the Acquisition Cost Adjustment (as defined in the Lease Agreement) as a result of the termination of the Sub-Management Agreement, then (i) the Commitment shall be reduced

by an amount equal to the lesser of the Acquisition Cost Adjustment and the unused Commitment and (ii) if the amount of the reduction under Section 2.6(c)(i) is less than the Acquisition Cost Adjustment, then (A) the Borrower, within 30 days after the date the adjustment for the Acquisition Cost Adjustment is made under the Lease Agreement, shall pay an amount equal to the excess of the Acquisition Cost Adjustment over the amount of the reduction in the Commitment under Section 2.6(c)(i) to be applied to (I) first, any outstanding principal amount of the Nationwide Indebtedness, and (II) second, any outstanding principal amount of the Indebtedness under this Agreement; provided, however, that, with the prior written approval of Nationwide (which it may elect to grant or withheld in its sole discretion), the Borrower may apply all of such sums to prepay the principal Indebtedness outstanding hereunder until paid in full, in which event all such excess shall be applied in reduction of the principal balance of the Nationwide Indebtedness, and (B) the Commitment shall be reduced by the amount of Loans as so prepaid.

II.7 Note. The Loans shall be evidenced by a single Note payable to the

order of the Lender. The amount of each Loan and repayment or prepayment of the principal thereof shall be endorsed by the Lender on the schedule annexed to and constituting a part of the Note, provided that the failure to make or any error in making any such endorsement on such schedule shall not limit or extinguish the obligation of the Borrower to repay such Loan. Such endorsements shall be prima facie evidence of the aggregate unpaid principal amount of all Loans made by the Lender.

II.8 Other Indebtedness. Any amount paid by the Lender or an Affiliate of

the Lender to Nationwide under the Intercreditor Agreement, or to any other lender to Borrower under a similar agreement entered into pursuant to the last sentence of Section 7.3, shall be deemed a borrowing by the Borrower and a part of the Loans.

ARTICLE III

PAYMENTS; REDUCTION OF COMMITMENT; EXTENSION

III.1 Manner of Payments. Each payment required to be made by the Borrower

under this Agreement and the Note, if any, shall be made by transferring the amount thereof in immediately available funds in Dollars to the Payment Account, no later than 3:00 P.M. (New York City time) on the date on which such payment shall become due. Each such payment shall be made without set-off or counterclaim; provided that no payment by the Borrower to the Lender pursuant to this Section 3.1 shall be deemed a waiver of any rights the Borrower may have against the Lender. Subject to Section 11.16 hereof, each such payment shall also be made free and clear of, and without deduction for, any taxes, duties, levies, imposts or other charges of a similar nature except as required by law and, in the event that any deduction for any taxes, duties, levies, imposts or other charges shall be so required, the Borrower shall pay such additional amounts as may be necessary so that the net amount

of the payment hereunder, after reduction by the amount of such taxes, duties, levies, imposts or other charges, is equal to the amount that the Borrower was obligated to pay absent the requirement to deduct such taxes, duties, levies, imposts or other charges. Notwithstanding anything to the contrary contained in the foregoing sentence or elsewhere in this Agreement, in no event shall the Borrower be obligated or responsible for taxes on the overall net income or overall gross receipts of the Lender or franchise taxes of the Lender. Any payment received after 3:00 P.M. (New York City time) on any Business Day shall be deemed to have been received on the next following Business Day. All payments received by the Lender shall be applied first to outstanding Obligations other than principal, interest and late charges, then to accrued but unpaid late charges, then to accrued but unpaid interest, and then to unpaid principal.

III.2 Extension of Payments. If any payment by the Borrower under this

Agreement shall become due on a day which is not a Business Day, the due date thereof shall be extended to the next following day which is a Business Day, and such extension shall be taken into account in computing the amount of interest then due and payable hereunder.

III.3 Computation of Interest. Interest on all Loans payable under this

Agreement and the Note shall be computed on the basis of a year of 360 days consisting of 12 months of 30 days each.

III.4 Reduction of Commitment. The Borrower may, upon not less than three

Business Days' irrevocable notice (or such shorter period as is provided in Section 2.2(d)), reduce all but not less than all of the unused Commitment to zero. In addition, if the Borrower shall give a Notice of Borrowing but fails to satisfy the conditions to the Loan requested thereby on the date for making of such Loan, other than as provided in the proviso to Section 4.1(i), the Commitment shall be reduced to an amount of the outstanding Loans, if any, effective as of the date such Loan was to have been made. The Borrower may not otherwise reduce the Commitment. At 5:00 P.M. (New York City time) on the one hundred eightieth (180) day following the Termination Date, unless the Commitment Period is extended pursuant to a written notice delivered to the Borrower by the Lender, the Commitment shall be reduced to zero; provided, however, that the foregoing shall not affect the Borrower's rights with respect to any unfunded advance theretofore requested by the Borrower.

ARTICLE IV

CONDITIONS OF LENDING

IV.1 Initial Conditions. Notwithstanding any other provision of this

Agreement, and without affecting in any manner the rights of the Lender under the other Sections of this Agreement, it is understood and agreed that the Lender will not be obligated to fund the initial Loan unless the Lender has received the following items three (3) Business Days prior to the date of the initial Loan (unless such conditions are waived by the Lender), except with respect to the items described in paragraphs (a), (b), (d), and (g) which shall be delivered on the date hereof:

(a) Standby Credit Facility and Note. A counterpart of this

Agreement and of the Note in the form attached hereto as Exhibit A, duly executed and delivered on behalf of the Borrower (including by way of a telecopied signature page, provided that, in the case of the Note, the original thereof is delivered to the Lender on or before the date of the initial Loan);

(b) Borrower's Certificate. A certificate from the Borrower,

executed on its behalf by an Operating Manager of the Borrower, certifying that attached thereto are true and complete copies of the certificate of formation (certified by the Secretary of State of the State of New York) and the Limited Liability Company Agreement and of partnership authorizations of Sutton Hill, the sole member of the Borrower, authorizing the transactions contemplated hereby and the borrowing of the Loans;

(c) Good Standing Certificates. A certificate from the Secretary

of State of the State of New York certifying that the Borrower is in existence and in good standing in such state;

(d) Legal Opinion. A legal opinion addressed to the Lender from

Whitman Breed Abbott & Morgan LLP, New York counsel to the Borrower, as to the matters set forth in Exhibit C hereto, which opinion the Borrower hereby instructs its counsel to deliver to the Lender for its benefit;

(e) No Default Certificate. A certificate from the Borrower

certifying that to its Actual Knowledge (i) the representations and warranties of the Borrower contained in Article V hereof, which are qualified with respect to materiality, are true and correct, and all such representations or warranties that are not so qualified are true and correct in all material respects with the same force and effect as though made on and as of such date, except to the extent that such representations and warranties expressly relate to an earlier date, and (ii) no Event of Default has occurred and is continuing; provided, however, that no such representation or warranty contained in Article V shall be deemed untrue or incorrect nor shall any such Event of Default be deemed to exist if resulting from a Tenant Event.

(f) Collateral. A counterpart of the Security Agreement, duly

executed and delivered (including, without limitation, by way of a telecopied signature page) on behalf of the Borrower, a counterpart of the Pledge Agreement, duly executed and delivered (including, without limitation, by way of a telecopied signature page) by the Member, and evidence that (i) all filings or other action necessary to perfect the Lender's security interest in the Collateral have been made, and (ii) the Lien perfected by such filings has priority over any other Liens except as otherwise permitted under Section 7.2 hereof;

(g) Authorized Signatures. A certificate of the Borrower as to

the names of the officers or similar officials of the Borrower authorized to sign any documents contemplated by this Agreement and the other Related Documents, together with the true signatures of such officers or

similar officials who will sign such documents. The Lender may conclusively rely on such certificates until the Lender receives a further written certificate of the Borrower canceling or amending the prior certificate and submitting the signature(s) of the officers or similar officials named in such subsequent certificate;

(h) Use of Proceeds. A certificate from the Borrower confirming

that (i) (x) the proceeds of the initial Loan will be used to discharge all of the Borrower's then-existing Indebtedness (other than under the Nationwide Agreement), that all commitments thereunder have been or will be terminated, and that all Liens relating thereto have been released; (y) such Indebtedness has otherwise been satisfied, with all such commitments terminated and Liens released; or (z) the Borrower is no longer obligated, or its assets encumbered, with respect thereto; and (ii) once the conditions of clause (i) are satisfied, Loan proceeds will be used for distribution to Sutton Hill;

(i) UCC, etc., Searches. Reports listing the results of UCC

filing and tax and judgment Lien searches, prepared by one or more firms reasonably satisfactory to the Lender, with respect to the Borrower and each of its Affiliates which at any time in the past 6 years have been tenant under any of the Site Leases and with respect to Sutton Hill, indicating that there are no such filings or Liens affecting the Collateral except for Permitted Liens; provided, however, that the Lender shall withhold from the pending Loan an amount equal to the amount secured by any such filing or 125% of the amount of any such Lien (unless such Lien is a Permitted Lien), which amount shall be deemed made as and thereafter be an outstanding Loan, until such filing or Lien is resolved (promptly after which time any amount of such withheld Loan not used to satisfy the claim relating to such filing or Lien shall be delivered to Borrower) and the balance of the pending Loan shall be advanced if the other conditions thereto are then satisfied;

(j) Intercreditor Agreement. Counterparts of the Intercreditor

Agreement, duly executed and delivered (including, without limitation, by way of a telecopied signature page) on behalf of the Borrower and Nationwide. The Lender agrees to execute and deliver the Intercreditor Agreement, provided the other conditions herein are satisfied; and

(k) Nationwide Agreement. The Nationwide Agreement shall not

have been amended or modified in any respect, other than amendments or modifications which would not have required consent of the Lender under Section 2.10(c) of the Intercreditor Agreement had the Intercreditor Agreement been entered into on the date of this Agreement.

IV.2 Continuing Conditions. The agreement of the Lender to make each

Loan requested to be made by it on any date (including the initial Loan) is subject to the satisfaction of the following conditions precedent:

(a) Notice of Borrowing. The Lender shall have received a duly

completed and executed Notice of Borrowing, as required by Section 2.2 hereof;

(b) Certificate. The Lender shall have received a certificate of

the type described in clause (e) of Section 4.1 hereof, subject to the
same proviso as therein set forth;

(c) Use of Loan Proceeds. The Lender shall receive a certificate

from the Borrower as to Borrower's use of proceeds of the requested
advance of the Loan in accordance with clause (h) of Section 4.1
hereof; and

(d) UCC, etc., Searches. The Lender shall have received an

updated search of the type described in clause (i) of Section 4.1
hereof (and the amount of the Loan shall be reduced, but the balance
thereof made available to the Borrower, as described in the proviso
thereto).

(e) Cotter/Forman Guaranty. If such Loan is being made on or

before the second (2nd) anniversary of the Closing Date as a result of
a Mandatory Borrowing or Reduction Notice and, in such Mandatory
Borrowing Notice, the Lender states that (i) it will obtain all or a
part of the funds for such Loan by the Lender or an Affiliate, or any
of them (such party or party being the "Citadel Borrower"), borrowing
funds from a person or persons other than an Affiliate of the Lender
(the "Third Party Lender") and (ii) it requests delivery of the
guaranty provided for in this Section 4.2(e), the Third Party Lender
shall have received a guaranty by James J. Cotter and Michael R.
Forman, jointly and severally, of the obligations of the Citadel
Borrower to the Third Party Lender, in such form and containing such
terms as such Third Party Lender may reasonably request (and, without
limiting the foregoing, the Lender may assign or grant a security
interest in the Note and the Pledge Agreement and Security Agreement,
or any of them, to any Third Party Lender); provided, that (v) such
guaranty shall be on customary terms for similar guaranties and shall
provide that it shall terminate on, and be of no effect with respect
to any claim made thereon after, the seventh (7th) anniversary of the
Closing Date, (w) Messrs. Cotter and Forman shall not be required to
provide such guaranty unless, simultaneously therewith, the Lender
provides to them an indemnity agreement, in form reasonably
satisfactory to them, pursuant to which the Lender agrees to indemnify
such guarantors against any liability (including reasonable attorneys
fees and other costs) they may incur by reason of such guaranty, (x)
Messrs. Cotter and Forman shall have no obligation to provide any
security or collateral for such guaranty, (y) Messrs. Cotter and
Forman shall have no obligation to provide such guaranty (A) unless
the loan obtained by the Citadel Borrower is obtained solely for the
purpose of providing funds to make Loans under this Agreement or (B)
if any collateral is provided for such loan other than any one or more
of the Note, the Pledge Agreement, the Security Agreement, the Lease
Agreement, the License of Intangibles, those certain management
agreements assigned to the Lender or an Affiliate by the Borrower or
entered into between the Lender or an Affiliate, on the one hand, and
the Borrower or an Affiliate, on the other, the other assets and
contract rights obtained or entered into by the Lender and its
Affiliates in connection with the foregoing, and the other assets,
contract rights, and other intangibles obtained by the Lender

and its Affiliates in connection with the leasing or operation of the Theatre Properties and the management of the theatres managed under the management agreements referred to in this clause (B) and (Z) the Lender shall pay or reimburse Messrs. Cotter and Forman for all reasonable legal fees and other out of pocket expenses incurred by them in connection with such guaranty.

On the date of each Loan, the Borrower shall be deemed to have represented that all of the conditions to the making of such Loan have been satisfied.

IV.3 No Waiver of Conditions. If any one or more of the foregoing

conditions set forth in Section 4.1 or 4.2 hereof are not satisfied at the time when a Loan is to be advanced by the Lender and the Lender nevertheless (whether with or without knowledge of the failure of any such condition to be satisfied) funds the then pending Loan to the Borrower, the making of such Loan shall not operate as a waiver of any such condition.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

In order to induce the Lender to enter into this Agreement and to make the Loans, if any, hereunder, the Borrower hereby represents and warrants to the Lender that the following statements are true and correct as of the Closing Date:

V.1 Status. The Borrower (a) is a duly organized and validly existing

limited liability company in good standing under the laws of the State of New York, (b) is duly licensed or qualified to do business in each other jurisdiction where the failure to be so licensed or qualified could have a Material Adverse Effect, (c) has all requisite power and authority to own or lease its properties and conduct its business as presently conducted and to execute and deliver, and to perform its obligations under, this Agreement and the other Related Documents to which it is (or may become) a party, except where the failure to have such power or authority would not materially impair the ability of the Borrower to perform its obligations under this Agreement and the other Related Documents, and (d) has delivered to the Lender true and complete copies of the Borrower's certificate of formation and Limited Liability Company Agreement, as each is in effect on the Closing Date.

V.2 Litigation. Except as listed in Schedule 5.2, to the Actual

Knowledge of the Borrower, the Borrower has not received written notice of any:

(a) judgment at law or in equity issued by any court, governmental body, agency, commission or other tribunal against the Borrower that (i) questions the validity of this Agreement or any of the other Related Documents to which it is (or may become) a party or the Liens purported to be created thereby and (ii) is not related to any action or inaction of, or any condition or event relating to, the Lender or any of its Affiliates, or

(b) action, suit, proceeding or investigation at law or in equity by or before any court, governmental body, agency, commission or other tribunal pending against, nor, to the Borrower's Actual Knowledge, threatened in writing against, the Borrower by Nationwide or any of its Affiliates or, as of the date of this Agreement, any other Person (other than Lender or any of its Affiliates) that, if adversely determined against the Borrower, could be reasonably expected to question the validity of this Agreement or any of the other Related Documents to which it is (or may become) a party or the Liens purported to be created thereby.

V.3 Compliance with Other Instruments. The execution, delivery and

performance by the Borrower of this Agreement and the other Related Documents to which it is (or may become) a party will not (a) as of the date hereof or the date such other Related Document is executed, conflict with, result in a breach of, or constitute a default under, any terms or provisions of any material Contract to which the Borrower is a party or to which it or any material portion of its Assets is subject (including its interest in the Site Leases and the Option Agreement) or any Applicable Law (provided compliance with such Contract or Applicable Law is not the obligation of Citadel Cinemas or any of its Affiliates under the Operational Agreements), or the Borrower's certificate of formation or Limited Liability Company Agreement or (b) result in, or require the creation or imposition of, any Lien upon or with respect to the Assets except as may be contemplated hereby or by the Related Documents, which, in the case of this clause (b) would have, in the aggregate, a Material Adverse Effect.

V.4 Binding Agreement. The execution, delivery and performance by the

Borrower of this Agreement and the other Related Documents to which the Borrower is (or may become) a party have been duly authorized by all necessary action by or on behalf of the Borrower. This Agreement constitutes, and such other Related Documents, if and when executed and delivered by or on behalf of the Borrower, will constitute, legal, valid and binding obligations of the Borrower, enforceable according to their terms, subject, as to enforceability, to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law).

V.5 Authorizations. To the Borrower's Actual Knowledge, all

authorizations, consents, approvals, registrations, filings, exemptions and licenses with or from any governmental or regulatory authorities which are necessary for the borrowings hereunder, for the execution and delivery by the Borrower of this Agreement or any other Related Document to which the Borrower is (or may become) a party, or for the performance by the Borrower of its obligations hereunder or thereunder, except for such authorizations, consents, approvals, registrations, filings, exemptions and licenses which are required to be effected or obtained by Citadel Cinemas or any of its Affiliates pursuant to the terms of the Operational Agreements or Applicable Law or the absence of which would not, in the aggregate, have a Material Adverse Effect, have been effected and obtained and, so

long as may be required for the Borrower to comply with this Agreement or any other Related Document, are in full force and effect.

V.6 Regulation. The Borrower is not principally engaged in, nor does it have as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System).

V.7 Title to Property; Liens. The Borrower has good title to the Borrower Collateral and is the sole legal owner thereof. The Borrower Collateral is free and clear of any Liens, except as permitted pursuant to Section 7.2 hereof and Liens arising as a result of any Tenant Event.

V.8 Taxes. The Borrower has filed, or caused to be filed, all required tax returns with respect to Taxes, or has filed for extensions of time for the filing thereof, and has paid all applicable Taxes other than Taxes not yet due or which may be paid hereafter without penalty, except for (a) filings or payments as to which the failure to file would not have a Material Adverse Effect, (b) Taxes which are being Properly Contested by the Borrower, and (c) Taxes which are required to be paid or discharged by Citadel Cinemas or any of its Affiliates under the terms of the Operational Agreements. The Borrower has no Actual Knowledge of any deficiency or additional assessment in connection therewith not provided for in the financial statements heretofore furnished the Lender except such deficiencies or assessments that would not have a Material Adverse Effect.

V.9 Pension Plans. The Borrower has not established and does not maintain or contribute to any employee benefit plan that is covered by Title IV of ERISA.

V.10 Collateral. Once executed and delivered, the terms of the Pledge Agreement shall create a valid security interest in the Equity Collateral, securing the payment of the Obligations. Once executed and delivered, the terms of the Security Agreement shall create a valid security interest in all material elements of the Borrower Collateral (taken as a whole), securing payment of the Obligations. On or prior to the date of the initial Loan, all action necessary to perfect such security interests will have been taken and such security interests will have priority over any other Lien on such Collateral, except for Liens permitted by Section 7.2 hereof.

V.11 Location of Borrower. On the date hereof, the Borrower is "located" (as that term is defined in (S) 9-103(3)(d) of the UCC) at 120 North Robertson Boulevard, Los Angeles, California 90048.

V.12 Investment Company Act. The Borrower is not, nor will it be during the term of this Agreement, (a) an "investment company," within the meaning of the Investment Company Act of 1940, as amended or (b) subject to regulation under any foreign, federal or local statute or any other Applicable Law of the United States of America or any other jurisdiction, in each case limiting its

ability to incur indebtedness for money borrowed as contemplated hereby or by any of the other Related Documents.

V.13 Membership Interests; Management. The only member of the

Borrower is Sutton Hill, its successors and assigns. As of the date hereof, James J. Cotter is an Operating Manager of the Borrower.

V.14 Brokerage Fees, etc. There are no claims against the Borrower

for brokerage commissions, finder's fees or investment banking fees in connection with the transactions contemplated by this Agreement.

V.15 Financial Statements. The financial statements of the Borrower

furnished to the Lender fairly present the financial position of the Borrower as of the date of this Agreement and have been prepared in conformity with tax accounting principles used by the Borrower for its federal tax reporting purposes.

V.16 Name. The Borrower has not changed its name prior to the date

hereof.

V.17 Indebtedness; Other Agreements. On or prior to the date hereof,

the Borrower has not (a) created, assumed or incurred any Indebtedness except the existing Indebtedness listed on Schedule 5.17 hereto and the Nationwide Indebtedness, (b) entered into any Contract other than (i) the Related Documents to which it is a party, and (ii) Contracts incidental to the performance of its obligations under the Operational Agreements, or (c) conducted any business other than incidental to its formation, its acquisition of the Property and related Assets from its Affiliates, and the transactions contemplated hereby and by the Operational Agreements. The Borrower has no material obligations other than under this Agreement and the documents and instruments referred to in clauses (a) and (b) of this Section 5.17. The Borrower has delivered to the Lender true and complete copies of all material documents and instruments relating to all such Indebtedness (including the Nationwide Indebtedness) and all material Contracts referred to in clause (b) (ii) of this Section 5.17 (other than the Operational Agreements).

V.18 No Subsidiaries. The Borrower has no Subsidiaries and owns no

interest in any other Person.

ARTICLE VI

AFFIRMATIVE COVENANTS

The Borrower hereby covenants and agrees that from the date hereof until the Obligations have been paid and performed in full and this Agreement shall have terminated, unless the Lender shall otherwise consent in writing:

VI.1 Payment of Taxes. The Borrower will duly pay and discharge, or

cause to be paid and discharged, all Taxes, and governmental charges or levies imposed upon it or upon its income or Assets, prior to the date on which penalties attach thereto, except to the extent that (a) the nonpayment of such Tax, charge or levy would not, either singly or in the aggregate, reasonably be expected to result in a Material Adverse Effect, (b) any such Tax, charge or levy is being Properly Contested or (c) such Tax, charge or levy is required to be paid or discharged by Citadel Cinemas or any of its Affiliates under the terms of the Operational Agreements. The Borrower will file all federal, state and local Tax returns and other reports which the Borrower is required by Applicable Law to file.

VI.2 Preservation of Existence. The Borrower will preserve and

maintain its existence, rights, franchises and privileges, except such rights, franchises and privileges the loss of which would not reasonably be expected to have a Material Adverse Effect, and shall maintain its qualification and good standing in the State of New York and in all other states in which the failure to be qualified might reasonably be expected to have a Material Adverse Effect.

VI.3 Compliance with Laws. The Borrower will comply with the

requirements of all Applicable Laws, except if (a) non-compliance, singly or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, (b) the compliance with which is being Properly Contested by the Borrower or (c) the compliance with such laws is the responsibility of Citadel Cinemas or any of its Affiliates under the Operational Agreements.

VI.4 Keeping of Books and Records; Inspection. The Borrower will

maintain, or cause to be maintained, at all times a system of accounting used for federal income tax purposes. Upon reasonable notice from the Lender, the Borrower will permit the Lender or any duly authorized representatives to have access to and examine and inspect the books and records and properties of the Borrower and confer with its agents and employees at any reasonable time and from time to time and reasonably to copy memoranda and extracts therefrom.

VI.5 Notice of Certain Events. The Borrower will promptly upon

obtaining Actual Knowledge thereof notify the Lender of (a) the occurrence of any Event of Default of which it has Actual Knowledge, (b) the service upon, or other actual receipt by, the Borrower of written notice of the commencement of any litigation or governmental proceeding affecting the Borrower or any of its Assets which, if adversely determined, could reasonably be expected to result in a Material Adverse

Effect, (c) any material adverse change in the condition or operations of the Borrower, financial or otherwise unless resulting from a Tenant Event, (d) the receipt by the Borrower of written notice of the occurrence of any action or event which might reasonably be expected to have a Material Adverse Effect, (e) any change in its name, (f) any proposed amendment requested in writing to any Site Lease or the Option Agreement which is not requested or consented to by Citadel Cinemas or FeeSub, as the case may be, or (g) any Person giving any written notice to the Borrower or taking any other material action with respect to a claimed default or event or condition of the type referred to in paragraph (e) of Section 9.1 hereof. The Borrower shall promptly give notice thereof to the Lender specifying the nature and period of existence of any such condition or event, or specifying the notice given or action taken and the nature of such claimed Event of Default or condition and what action the Borrower has taken, is taking and proposes to take with respect thereto.

VI.6 Financial Statements and Other Information. The Borrower will

deliver, or cause to be delivered, to the Lender:

(a) as soon as available and in any event within one hundred twenty (120) days after the end of each of its fiscal years, a balance sheet of the Borrower at the end of such year and statements of operations and statements of changes in member's capital and statements of cash flows of the Borrower for such year, setting forth in each (other than its first) fiscal year in comparative form the figures for the previous year;

(b) from and after the date the initial Loan is made, and simultaneously with the delivery of each set of financial statements referred to in clause (a) of this Section 6.6, a certificate of the Borrower stating, to its Actual Knowledge, whether there exists on the date of such certificate any Event of Default, and if any Event of Default exists, specifying the nature and period of existence thereof and the action the Borrower is taking and proposes to take with respect thereto; and

(c) from and after the date the initial Loan is made, and from time to time thereafter, such additional information regarding the financial condition or business of the Borrower as the Lender may reasonably request.

All such financial statements shall be complete and correct in all material respects and shall be prepared in accordance with tax accounting principles used by the Borrower for its federal tax reporting purposes applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officers, as the case may be, and disclosed therein).

VI.7 Maintenance of Property. The Borrower will maintain its Assets in

good condition, except to the extent Citadel Cinemas or any of its Affiliates has assumed such responsibility pursuant to the terms of the Operational Agreements.

VI.8 Use of Proceeds. The Borrower will use the proceeds of each Loan,

if any, solely for the purposes described in clause (h) of Section 4.1 hereof.

VI.9 Separate Existence. The Borrower shall continue to observe and

maintain the requisite legal formalities in order that the Borrower may be treated as a legally separate entity. The Borrower shall maintain separate financial records to reflect its Assets and liabilities, separate and apart from the financial records of its Member and its Affiliates. The Borrower shall maintain its Assets in such a manner that it is not costly or difficult to segregate, identify or ascertain such Assets. The Borrower shall conduct business in its own name, and use separate stationery, invoices and checks. The Borrower shall not commingle its Assets or funds with those of any other Person and shall correct any known misunderstanding as to its separate identity.

ARTICLE VII

NEGATIVE COVENANTS -----

The Borrower hereby covenants and agrees that from the date hereof until the Obligations have been paid and performed in full and this Agreement shall have terminated, unless the Lender shall otherwise consent in writing:

VII.1 Change in Nature of Business. The Borrower will not (a) enter

into any business other than the business contemplated by the Lease Agreement or (b) become subject to or a party to any Contract, without the written consent of the Lender, other than this Agreement, the other Related Documents to which the Borrower is (or may become) a party, Contracts incidental to the performance of its obligations under the Operational Agreements and this Agreement, and extensions, renewals and replacements of the Nationwide Indebtedness, the other Indebtedness listed on Schedule 5.17 hereto and Indebtedness arising or permitted pursuant to the terms hereof.

VII.2 Liens. The Borrower will not create, incur, assume or permit to

exist any Lien on any of its Assets or any portion thereof, whether now owned or hereafter acquired, other than as follows (each a "Permitted Lien"): (a) Liens in favor of the Lender (or for the benefit of the Lender) under this Agreement and the other Related Documents; (b) existing Liens, and other matters affecting title, listed on Schedule 7.2 hereto; (c) Liens for Taxes and governmental charges and levies not delinquent, which are being Properly Contested or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to the Operational Agreements; (d) mechanics', workers', materialmen's, warehousemen's, operators', carriers', or other like Liens arising in the ordinary and normal course of business with respect to obligations which are not overdue for a period of more than thirty (30) days or which are being Properly Contested by the Borrower; (e) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation; (f) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other

obligations of a like nature incurred in the ordinary and normal course of the Borrower's business; (g) extensions, renewals and replacements of Liens described in paragraph (b) hereof, provided that such extension, renewal or replacement Lien is limited to the property covered by the Lien so extended, renewed or replaced and does not secure any Indebtedness or amount that is in excess of that secured immediately prior to such extension or renewal; (h) easements, rights-of-way, restrictions, imperfections in title, liens, charges and other encumbrances on owned or leased real property, landlord's and lessor's Liens under any of the Site Leases, restrictions under federal and state securities laws on the transfer of securities and other restrictions not securing Indebtedness that are incurred in the ordinary and normal course of business, all of which (other than landlord's or lessor's Liens under the Site Leases), in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or will not have a Material Adverse Effect; (i) Liens created by the Nationwide Agreement (subject to Section 7.3 hereof) or Liens to secure Indebtedness permitted to exist pursuant to Section 7.3 hereof; (j) Liens not created by the Borrower, Citadel Cinemas or any of its Affiliates which are being Properly Contested; and (k) Liens placed on the Assets of the Borrower by, or arising from, a Tenant Event, whether or not such Liens are permitted to exist pursuant to the terms of the Operational Agreements; provided, however, that the fact that a Lien described in any of foregoing clauses other than clause (k) above is a Permitted Lien for purposes of this Agreement does not affect Citadel Cinemas's rights or the Borrower's obligations as landlord pursuant to the Lease Agreement if Citadel Cinemas properly exercises its Purchase Option thereunder; provided, further, however, that the Liens described in paragraphs (d), (e) and (f) shall only constitute Permitted Liens in the event that Citadel Cinemas or any of its Affiliates either has requested that the Borrower allow such Liens to be incurred or permitted to exist on the Borrower's Assets or has failed to perform any obligation under any of the Operational Agreements and as a result thereof, the Borrower, in its reasonable discretion, creates, incurs, assumes or permits to exist such Liens.

VII.3 Other Indebtedness. The Borrower will not create, assume, incur

or permit to exist or otherwise become or remain liable in respect of any Indebtedness other than (a) Indebtedness pursuant to the Related Documents; (b) the existing Indebtedness listed on Schedule 5.17 hereto; (c) the Nationwide Indebtedness; (d) prior to drawing down a Loan hereunder, any other Indebtedness (but any such other Indebtedness shall be repaid with proceeds of the initial Loan hereunder); and (e) extensions, renewals and replacements of the Indebtedness described in clauses (a), (b), (c), and (d) above; provided, however, that the Borrower may only incur or permit to exist such extensions, renewals, or replacements, or any Indebtedness described in clause (b) or (d) which is secured by a Lien on any material Assets of the Borrower, if each lender of any portion of such Indebtedness (excluding for this purpose Nationwide and the Lender and any of its Affiliates) shall have executed and delivered agreements (x) with Citadel Cinemas and FeeSub which in Citadel Cinemas's reasonable judgment will assure to Citadel Cinemas its rights under the Lease Agreement (including the Purchase Option), absent the existence of an Event of Default by Citadel Cinemas under the Lease Agreement, and assure to FeeSub its rights under the Fee Option Agreement and (y) in the case of such Indebtedness referred to in clause (b) only, with the Lender, in form and substance reasonably satisfactory to the Lender, providing to the Lender substantially the same rights as the

Lender has under Sections 2.02(e), 2.03, 2.08(b), 2.10(c), 2.11(g), 2.11(h)(i), 2.11(h)(iii), 2.12 and 2.13 of the Intercreditor Agreement (except that the Borrower shall have complied with its obligation in respect of this clause (y) to obtain an agreement of such other lender as aforesaid if such other lender has offered to enter into such an agreement provided the Lender hereunder agrees in such agreement to provisions in favor of such other lender similar to those set forth in Sections 2.02(e), 2.12 and 2.13(a) of the Intercreditor Agreement and, if such other lender is then providing financing to replace the Nationwide Indebtedness, Sections 2.02(a), (b) and (d), 2.04, 2.09(a), 2.10(b) and 2.11(f) thereof). Notwithstanding anything to the contrary herein, in no event will the Borrower create, assume, incur or permit to exist or otherwise become or remain liable in respect of any Indebtedness if, as a result thereof, (x) the outstanding principal amount of such Indebtedness under the Nationwide Agreement would exceed eleven million Dollars (\$11,000,000), or (y) the total outstanding principal amount of such Indebtedness, including the Indebtedness under this Agreement, would exceed thirty nine million Dollars (\$39,000,000) less any reductions made to the Acquisition Cost under the Lease (subject to the provisions of Section 2.6(c) as to the time period within which to reduce such Indebtedness if there is any Indebtedness outstanding hereunder).

VII.4 Consolidations, Mergers, etc. The Borrower will not merge with

or into, or consolidate with, any other Person.

VII.5 Pension Plans. The Borrower will not establish or become party

to any employee benefit plan of the type referred to in Section 5.9 hereof.

VII.6 Location of Borrower. The Borrower will not maintain its chief

executive office at any place other than the place specified in Section 5.11 hereof or change the places where the books and records of the Borrower are located unless the Borrower shall have given the Lender not less than thirty (30) days' prior written notice of such change in location, which shall be within the United States.

VII.7 Sale, Lease, etc. The Borrower will not sell, lease, license,

transfer, liquidate or otherwise dispose of any of its Assets, to or in favor of any Person without the prior written consent of the Lender.

VII.8 Fiscal Year. The Borrower will not change its fiscal year.

VII.9 Liquidation, Dissolution, etc. The Borrower will not liquidate,

wind up its affairs or dissolve itself.

VII.10 Loans. The Borrower will not acquire obligations of or

securities of or make any loans or advances to any Person.

VII.11 Change of Ownership or Management. The Borrower will not permit

anyone other than the Persons specified in Section 5.13 to own beneficially or of record any of the membership

interests of the Borrower without the prior written consent of the Lender, which consent shall not be unreasonably withheld or delayed. The Borrower will not, during the shorter of the four year period commencing on the date hereof or the period from the date hereof until James J. Cotter shall cease to be active in the business of the Borrower other than by involuntary replacement, terminate as an Operating Manager James J. Cotter.

VII.12 Dividends. The Borrower will not declare or pay any dividend in

respect of, or make any distribution in respect of, or redemption or purchase of, any of its membership interests; provided, however, that so long as no Event of Default has occurred and is continuing or would result therefrom, the Borrower may make distributions or returns of capital to its Member in respect of any fiscal quarter of the Borrower, provided that the aggregate amount of distributions so paid would not render the Borrower insolvent within the meaning of Section 101(32) (A) of the Bankruptcy Code, provided, however, that a "fair valuation" (as defined in that Section) of the Assets (less cash held by the Borrower) shall in no event be valued at less than \$52,500,000.

VII.13 Prohibition of Amendments or Waivers. The Borrower will not

amend, alter, modify, or waive, or consent to any amendment, alteration, modification or waiver of: the Borrower's certificate of formation, the Limited Liability Company Agreement, any Site Lease or the Option Agreement, except to effect administrative changes that could not adversely affect the interests of the Lender or Citadel Cinemas or, in the case of Site Lease or the Option Agreement, are incidental to performance of its obligations under the Operational Agreements, provided that the Borrower shall provide written notice to the Lender of any such change promptly, and in any event not more than five (5) Business Days after such change is effective; or any Contract (including those referred to above) if such amendment, alteration, modification or waiver might have a Material Adverse Effect.

VII.14 Subsidiaries. The Borrower will not create or acquire any Subsidiaries.

ARTICLE VIII

TERMS OF SUBORDINATION

VIII.1 Subordination of Indebtedness. The Indebtedness of the Borrower to the Lender pursuant hereto and the Liens on the Collateral in favor of the Lender are subject and subordinate to Indebtedness of the Borrower to Nationwide and the Liens on the Collateral in favor of Nationwide as more particularly described in and subject to the terms and conditions of the Intercreditor Agreement.

ARTICLE IX

EVENTS OF DEFAULT

IX.1 Events of Default. If any one or more of the following events or

conditions (herein called "Events of Default") shall occur and be continuing (each of which shall be deemed to exist and be continuing unless and until cured by the Borrower, or waived by the Lender, in its sole and absolute discretion), the Lender shall be entitled to exercise the remedies set forth in Section 9.2 hereof:

(a Failure of the Borrower to pay (i) any installment of principal owing on any Loan, as and when due and payable, whether by reason of maturity, mandatory prepayment, acceleration or otherwise, or (ii) any installment of interest or any other amount payable to the Lender hereunder or under any other Related Document to which the Borrower is a party within ten (10) Business Days after receipt of notice from the Lender that the payment thereof is due; provided, however, that no such failure described in clause (i) or (ii) shall constitute an Event of Default hereunder for any purpose to the extent arising from (x) a failure by Citadel Cinemas to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) as and when due thereunder or (y) the use by the Borrower of such cash or cash equivalents or other reasonably liquid assets to perform any obligations which Citadel Cinemas has failed to perform under any of the Operational Agreements; or

(b Any representation or warranty made by the Borrower in this Agreement, any other Related Document to which it is a party or any certificate, financial statement or other document delivered pursuant hereto or thereto proves to be false or inaccurate in any material respect when made or delivered unless each of the following conditions shall exist: (i) such representation or warranty is of a nature that it is capable of being cured within thirty (30) days after written notice shall have been given to the Borrower by the Lender specifying the falsity or inaccuracy of such representation or warranty, (ii) the Borrower shall have given such notice promptly after having obtained Actual Knowledge of such falsity or inaccuracy, (iii) the Borrower shall have diligently commenced curing such default and is proceeding diligently and in good faith to cure such false or inaccurate representation or warranty within such thirty (30) day period, and (iv) such false or inaccurate representation has not resulted in a Material Adverse Effect; or

(c Default on the part of the Borrower in the due performance or observance of any covenant or obligation contained in Section 6.5 or 6.8 or Article VII hereof, provided, however, in the event such default occurs prior to the commencement of the Commitment Period (or, if earlier, the making of a Loan), such default shall not constitute an Event of Default hereunder unless such default continues for thirty (30) days after written notice from the Lender; or

(d Default on the part of the Borrower in the due performance or observance of any other covenant or obligation of the Borrower contained herein, and, if such default is capable of cure, the continuance of such default for thirty (30) days after written notice to the Lender by the Borrower; provided that, if such default is of a nature that it is capable of being cured but not within such thirty (30) day period and the Borrower shall have proceeded diligently and in good faith to complete curing such default, such thirty (30) day period shall be extended to one hundred eighty (180) days; or

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

(ii) The commencement by the Borrower of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under any such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Borrower or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the failure of the Borrower generally to pay its debts as such debts become due, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this paragraph (e) shall arise as a result of a Tenant Event, such event shall not constitute an Event of Default for purposes hereof; or

(f Any of the Equity Collateral or any material portion of the Borrower Collateral (taken as a whole) shall be attached for execution or become subject to the order of any court or any other process for execution and attachment and such attachment, order or process shall remain in effect and undischarged for sixty (60) consecutive days and is not related to or does not arise from or by reason of a Tenant Event; or

(g One or more final judgments for the payment of money shall be rendered against the Borrower in an aggregate amount in excess of \$500,000 (against which the

Borrower is uninsured or which is not the obligation of Citadel Cinemas or any of its Affiliates pursuant to the Operational Agreements) and the same shall remain undischarged for a period of sixty (60) days during which execution of such judgment shall not be effectively stayed; or

(h) Sale, lease or encumbrance of any of the Equity Collateral, or, except as permitted pursuant to the Security Agreement (whether or not then in effect), any material portion of the Borrower Collateral (taken as a whole), or the making of any levy, seizure or attachment of or on the Equity Collateral or any material portion of the Borrower Collateral (taken as a whole) except in all cases described in this paragraph (h) as may be specifically permitted by other provisions of this Agreement or any Related Document or pursuant to any of the Operational Agreements; or

(i) (i) The Borrower shall default in the payment when due of any principal of or premium (if any) or interest on any Nationwide Indebtedness and such default shall continue beyond any applicable grace period, or shall fail to observe or perform any terms of any instrument pursuant to which any such Nationwide Indebtedness was created or of any mortgage, indenture or other agreement relating thereto if the effect of such failure is to cause the acceleration of such Indebtedness, or permit Nationwide to accelerate the maturity thereof, and such Nationwide failure shall not have been waived in writing pursuant thereto; or

(ii) The Borrower shall default in the payment when due of any principal of or premium (if any) or interest on any other Indebtedness and such default shall continue beyond any applicable grace period, or shall fail to observe or perform any terms of any instrument pursuant to which any such other Indebtedness was created or of any mortgage, indenture or other agreement relating thereto if the effect of such failure is to cause the acceleration of such Indebtedness and such failure shall not have been waived pursuant thereto;

provided, however, that no such failure to pay by the Borrower shall constitute an Event of Default hereunder to the extent arising from (x) a failure by Citadel Cinemas to pay any amount of Basic Rent or Additional Rent as and when due pursuant to the Lease Agreement or (y) the use by the Borrower of such cash or cash equivalents or other reasonably liquid assets to perform any obligations which Citadel Cinemas has failed to perform under any of the Operational Agreements; or

(j) The representation contained in Section 5.10 hereof shall at any time become untrue as relates to the Equity Collateral or any material element or portion of the Borrower Collateral (taken as a whole) and the Borrower fails to cure such condition within ten (10) days after written notice by the Lender that such a condition exists; or

(k (i) Any Related Document shall, for any reason, be declared to be null and void or shall not give or shall cease to give the Lender the Liens or the material rights, powers and privileges purported to be created thereby in favor of the Lender as relates to the Equity Collateral, or to any material element or portion of the Borrower Collateral (taken as a whole), superior to and prior to the rights of all third Persons and subject to no other Liens (except to the extent expressly permitted herein or therein), provided, however, if any of the events described in this clause (i) of this paragraph (k) shall arise as a result of a Tenant Event, such an event shall not constitute an Event of Default hereunder, or (ii) the validity or enforceability of the Liens granted, to be granted, or purported to be granted, by this Agreement or the other Related Documents shall be contested by the Borrower or any of its Affiliates; or

(l Any Site Lease or the Option Agreement shall be declared to be null and void or shall not give or shall cease to give the Borrower the material rights, powers and privileges purported to be created thereby, solely as a result of any action or inaction by the Borrower or an event or condition relating solely to the Borrower; or

(m The Lease Agreement shall be declared to be null and void or shall not give or shall cease to give Citadel Cinemas the material rights, powers and privileges purported to be created thereby, solely as a result of any action or inaction by the Borrower or any event or condition relating solely to Borrower; or

(n Any material representation or warranty made by either Indemnity Guarantor in his Indemnity Guarantee proves to be false or inaccurate in any material respect; or

(o (i) The Indemnity Guarantee ceases to be in full force and effect; or

(ii) A default occurs and continues after the expiration of any applicable grace period under the Indemnity Guarantee such that the ability of the Lender to realize thereon is materially compromised.

IX.2 Default Remedies. (a) If any Event of Default (other than Events

of Default specified in paragraph (e) of Section 9.1 hereof) shall occur and be continuing, then and in every such event, and at any time thereafter during the continuance of such Event of Default, the Lender may by written notice to the Borrower declare the Obligations to be forthwith due and payable, whereupon (i) the Commitment shall immediately reduce to zero and (ii) the Obligations shall become forthwith due and payable both as to principal and interest together with all other amounts payable by the Borrower under this Agreement which may be due or accrued and unpaid, without presentment, demand, protest or any other notice of any kind, all of which are expressly waived. Notwithstanding anything in the preceding sentence to the contrary, if an Event of Default occurs prior to the advance of the initial Loan and the Lender elects to reduce the Commitment to zero, then if the

Borrower cures such Event of Default before the Termination Date, the rights of the parties hereto shall be reinstated as if the Event of Default never occurred.

(b) In addition, if an Event of Default occurs following the date of the initial Loan but prior to the Termination Date, then if the Borrower cures such Event of Default prior to the earlier of (i) the completion of the sale of any Collateral pursuant to the Pledge Agreement or the Security Agreement and (ii) the Termination Date, then the rights of the parties hereto shall be reinstated as if the Event of Default never occurred, provided that the Borrower has made good any missed payments.

(c) If an Event of Default set forth in paragraph (e) of Section 9.1 hereof shall occur with respect to the Borrower, then without any notice to the Borrower or any other act by the Lender or any other Person (i) the Commitment shall be immediately reduced to zero, and (ii) the Obligations shall become forthwith due and payable, all without presentment, demand, protest or notice of any kind, all of which are expressly waived.

(d) If the Lender shall declare the Obligations to be forthwith due and payable pursuant to the terms of this Section 9.2, the Lender may, subject in all cases to the terms of the Intercreditor Agreement, enforce its rights hereunder and under any other instrument or agreement delivered in connection herewith and take any other action to which it is entitled hereunder, thereunder, or by law, whether for the specific performance of any covenant or agreement contained in this Agreement, in any such instrument or agreement or to enforce payment as provided herein, therein, or by law, and, in such event, the Lender shall be entitled to receive from the Borrower, in addition to all other amounts provided for herein, all costs, expenses and fees reasonably incurred by the Lender, including reasonable attorneys fees and disbursements.

(e) The Lender shall endeavor to give the Borrower notice within 30 days of the Lender becoming aware of any Event or Default (or event which, with notice or passage of time or both, would become an Event of Default), provided that (i) if Lender fails to give such notice within five Business Days of obtaining knowledge of such default (which shall not include knowledge of James J. Cotter), and Borrower does not otherwise have knowledge of such default on or before such fifth Business Day, then any period provided herein for Borrower to cure such default shall be extended by the number of days in the period from such fifth Business day to the date on which Borrower obtains Actual Knowledge of such default (whether by notice from Lender or otherwise) and (ii) failure to give such notice shall not act as a waiver of or prejudice any rights or remedies of the Lender, except as specifically provided in Section 9.2(e)(i).

IX.3 Setoff. The Lender is hereby authorized at any time and from time to

time, upon the occurrence and during the continuance of any Event of Default, without prior notice to the Borrower, to the fullest extent permitted by law, to set-off and apply any and all balances, credits, deposits (general or special, time or demand, provisional or final), accounts or monies at any time held and other indebtedness at any time owing by the Lender or any Affiliate to or for the account of the

Borrower against any and all of the amounts owing by the Borrower under this Agreement or the Related Documents to which it is a party, whether or not the Lender shall have made any demand hereunder or thereunder; provided, however, that no setoff will be made by any Affiliate of the Lender unless and until such Affiliate has provided not less than five (5) Business Days' notice to the Borrower of such anticipated action. The rights of the Lender under this Section 9.3 are in addition to, and do not derogate from or impair, other rights and remedies (including, without limitation, other rights of setoff) which the Lender may have.

IX.4 Default Interest. Notwithstanding any other provision of this

Agreement to the contrary, so long as an Event of Default shall have occurred and be continuing (after, as well as before judgment), but with regard to Events of Default other than pursuant to Section 9.1(a) only after notice from the Lender electing to impose the default rate, then to the extent permitted by Applicable Law, the Borrower shall from time to time pay interest to the Lender on any amount not paid within five (5) days after demand from the date such payment became due until payment in full at a rate equal to the sum of the rate of interest payable by the Borrower pursuant to Section 2.4 hereof plus 1.5% per annum.

IX.5 Restrictions on Remedies. Notwithstanding any provision in this

Agreement, including in Article IX hereof, the rights of the Lender hereunder shall be subject in all cases to the limitations imposed by the Intercreditor Agreement.

ARTICLE X

COLLATERAL

X.1 Borrower Collateral. In order to secure the due payment and

performance by the Borrower of all of the Obligations of the Borrower to the Lender, the Borrower shall grant to the Lender a Lien on all of the Borrower Collateral by the execution and delivery to the Lender of the Security Agreement.

X.2 Equity Collateral. In order to secure the Obligations, Sutton Hill

shall grant to the Lender a Lien on the Equity Collateral, by the execution and delivery of the Pledge Agreement.

ARTICLE XI

GENERAL PROVISIONS

XI.1 Modification of Agreement; No Sale of Interest. Any provision of this

Agreement or any other Related Document may be modified, altered, amended or waived if, but only if, such modification, alteration, amendment or waiver is in writing and is signed by the Borrower and the Lender. The Lender may assign, grant or sell any participation, interest, obligation or right in or to this Agreement or any other Related Document, or any portion hereof or thereof, to any Person

without the prior written consent of the Borrower; provided, however, that no such assignment, grant, or sale shall relieve the assigning Lender of its obligations to lend (before or after such assignment) or of any other obligations hereunder theretofore accruing; and, provided, further, that the Lender may grant participations to Affiliates so long as the Lender's obligations to the Borrower hereunder are not affected thereby.

XI.2 Indulgences Not Waivers. The Lender's failure, at any time or times

hereafter, to require strict performance by the Borrower of any provision of this Agreement or the other Related Documents shall not waive, affect or diminish any right of the Lender thereafter to demand strict compliance and performance therewith. Any suspension or waiver by the Lender of an Event of Default by the Borrower under this Agreement or the other Related Documents shall not suspend, waive or affect any other Event of Default by the Borrower under this Agreement or the other Related Documents, whether the same is prior or subsequent thereto and whether of the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of the Borrower contained in this Agreement or the other Related Documents and no Event of Default by the Borrower under this Agreement or the other Related Documents shall be deemed to have been suspended or waived by the Lender, unless such suspension or waiver is by an instrument in writing specifying such suspension or waiver and is signed by a duly authorized representative of the Lender and directed to the Borrower.

XI.3 Severability. Any provision of this Agreement which is prohibited or

unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

XI.4 Cumulative Rights; No Waiver. The rights, powers and remedies of the

Lender hereunder are cumulative and in addition to all rights, powers and remedies provided under any and all agreements between the Borrower and the Lender relating hereto, at law, in equity or otherwise. Neither any delay nor any omission by the Lender to exercise any right, power or remedy shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or remedy.

XI.5 Execution in Counterparts. This Agreement may be executed in any

number of counterparts and by different parties hereto on separate counterparts, each of which, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

XI.6 Notices. All notices, offers, acceptances, approvals, waivers,

requests, demands and other communications hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily

available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 11.6. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

(i) If to the Lender:

Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: President

Telecopier No.: (212) 239-0548

and

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, NY 10168
Attention: Michael H. Margulis, Esq.

Telecopier No.: (212) 692-1020

(ii) If to the Borrower:

Sutton Hill Capital, L.L.C.
120 North Robertson Boulevard
Los Angeles, California 90048
Attention: Ira Levin

Telecopier No.: (310) 652-6490

and

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, NY 10166
Attention: Howard E. Peskoe, Esq.

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

XI.7 Entire Agreement. This Agreement embodies the entire understanding

and agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements, understandings and inducements which relate to Loans, if any, to be made hereunder, whether express or implied, oral or written.

XI.8 Governing Law. THIS AGREEMENT HAS BEEN DELIVERED AT, AND SHALL BE

EFFECTIVE WHEN ACCEPTED BY THE LENDER IN, NEW YORK, NEW YORK, WHEREUPON THIS AGREEMENT SHALL BE DEEMED A CONTRACT MADE IN NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

XI.9 Waiver of Jury Trial. THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND

EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE BORROWER ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 11.9 HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

XI.10 General Waivers. The Borrower waives (a) presentment, demand and

protest and notice of presentment, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any Indebtedness at any time held by the Lender on which the Borrower may in any way be liable and hereby ratifies and confirms whatever the Lender may do in this regard; (b) notice prior to the Lender's taking possession or control of any of the Collateral or any bond or security which might be required by any court prior to allowing the Lender to exercise any of the Lender's remedies, including the issuance of an immediate writ of possession; and (c) notice of the Lender's acceptance hereof. Each party hereto waives the right to interpose counterclaims (other than mandatory counterclaims) of any kind or description in any litigation between the Borrower and the Lender involving this Agreement, provided that the foregoing shall not limit set-off rights any party may have.

XI.11 Limited Recourse. Except to the extent of, and under the

circumstances specifically provided for in, Section 5 of the Pledge Agreement, no recourse for the payment of the principal of, or interest on, the Loans or any other amount due under this Agreement or any Related Document, or for any claim based thereon or otherwise in respect thereof, shall be had against any direct or indirect member of the Borrower or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect member, it being understood that the Borrower is a special purpose limited liability company formed on the express understanding

aforesaid. Nothing contained in this Section 11.11 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Borrower or its Assets, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

XI.12 Headings. The Article and Section headings in this Agreement and the

table of contents are for convenience of reference only and shall not affect the interpretation hereof.

XI.13 Termination by Borrower. The Borrower may terminate this Agreement at

any time upon not less than thirty (30) days' prior written notice to the Lender; provided, however, that on the date specified by the Borrower for termination (a) there shall not be any Loans then Outstanding and (b) all amounts then due and payable to the Lender under this Agreement or the other Related Documents shall have been paid in full. No termination of this Agreement, for whatever reason, shall affect the obligations and liabilities of the Borrower hereunder which arose prior to such termination or the Lender's rights, powers and remedies with respect thereto.

XI.14 Accounting Terms. All accounting terms not specifically defined

herein shall be construed in accordance with GAAP, except as otherwise stated herein.

XI.15 Incorporation. All appendices and schedules attached to this

Agreement are incorporated herein by this reference.

XI.16 Tax Forms. On or before the date hereof or, if later, the date on

which it acquires the rights and obligations of a Lender pursuant to this Agreement, the Lender if it is not a United States person (within the meaning of Section 7701 of the Internal Revenue Code of 1986) will deliver to the Borrower a fully completed and duly executed copy of the United States Internal Revenue Service Form 4224 or Form 1001 confirming that such Lender is entitled under Section 1442 of the Internal Revenue Code or any other applicable provision thereof or under any applicable tax treaty or convention to receive payments under this Agreement without deduction or withholding of United States federal income tax. So long as the Loans are Outstanding and until the Obligations have been paid and performed in full, the Lender shall also deliver a further copy of such Form 4224 or Form 1001 or any successor forms thereto to the Borrower upon expiration of the form previously delivered by the Lender hereunder, unless any change in law or regulation of the United States or any taxing authority thereof has occurred prior to the date on which such delivery would otherwise be required which renders such form inapplicable or which would prevent the Lender from completing and delivering such form. Notwithstanding anything to the contrary in this Agreement, the Borrower shall not be required to gross-up any payment for withholding taxes imposed on the Lender which has failed to comply with its obligations under this Section 11.16 if such compliance would have avoided such withholding taxes.

ARTICLE XII

LENDER COOPERATION

XII.1 Lender Cooperation. In the event the Borrower has not drawn down, or

elects not to draw down, the entire Commitment hereunder, the Lender shall, to the extent reasonably requested by the Borrower and subject to the terms and conditions herein, and at the Borrower's cost and expense, cooperate to allow the Borrower to refinance its Indebtedness existing on the date hereof with any other Person, including at any time and from time to time, upon the reasonable request of the Borrower, and at the Borrower's cost and expense, to execute and deliver any and all such further instruments and documents as the Borrower may reasonably request in order to carry out such refinancing, provided that such financing otherwise complies with the terms of Sections 7.2 and 7.3 hereof.

IN WITNESS WHEREOF, this Agreement has been duly executed under seal in New York, New York, on the day and year specified at the beginning hereof.

SUTTON HILL CAPITAL, L.L.C.
("Borrower")

By: /s/ James J. Cotter

Name: James J. Cotter
Title: Operating Manager

CITADEL HOLDING CORPORATION
("Lender")

By: /s/ Andrzej Matyczynski

Name: Andrzej Matyczynski
Title: Chief Financial Officer

EXHIBIT A

FORM OF NOTE

SUTTON HILL CAPITAL, L.L.C.

NOTE

New York, New York

\$28,000,000

_____, ____

Sutton Hill Capital, L.L.C., a New York limited liability company (the "Borrower"), for value received, hereby promises to pay to the order of Citadel

Holding Corporation (the "Lender") the principal amount of TWENTY EIGHT MILLION

DOLLARS (\$28,000,000) or, if less, the unpaid principal amount of the Lender's Loans outstanding under the Citadel Standby Credit Facility dated as of _____, 2000 between the Borrower and the Lender (as the same may from time to time be amended, modified, supplemented or extended, the "Credit

Agreement"). Capitalized terms used herein have the meanings given to them in

the Credit Agreement. The principal amount of each Loan shall be due and payable as provided in the Credit Agreement. The Borrower also promises to pay interest on the unpaid principal amount hereof from time to time outstanding, at such interest rates and on such dates as are determined pursuant to the Credit Agreement. All such principal and interest shall be payable in lawful money of the United States of America in immediately available funds at the office of the Lender as provided in the Credit Agreement.

The date and amount of each Loan and each repayment and prepayment of principal thereof shall be endorsed by the Lender on the schedule attached hereto, or on a continuation of such schedule attached to and made a part hereof, provided that the failure to make or any error in making any such endorsement on such schedule shall not limit, extinguish or in any way modify the obligation of the Borrower to repay the Lender's Loans strictly in accordance with the Credit Agreement.

This Note is the Note referred to in the Credit Agreement and is entitled to the benefits thereof. This Note is subject to prepayment and its maturity is subject to acceleration upon the terms provided in the Credit Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

All indebtedness arising under this Note and all interest payable hereunder shall be subordinate and junior in right of payment to the Nationwide Indebtedness now or hereafter owing,

in the manner and to the extent set forth in the Credit Agreement and the Intercreditor Agreement (as defined in the Credit Agreement).

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SUTTON HILL CAPITAL, L.L.C.

By: _____
Name:
Title:

SCHEDULE OF LOANS

Date of Loan	Principal Amount of Loan	Payments or Prepayments of Principal	Balance Outstanding	Notation Made By
--------------	-----------------------------	--	------------------------	---------------------

EXHIBIT B

Form of Notice of Borrowing

NOTICE OF BORROWING

Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: Loan Administration

Gentlemen:

Pursuant to Section 2.2 of the Citadel Standby Credit Agreement dated as of _____, 2000 (the "Credit Agreement") between Sutton Hill Capital, L.L.C. and you, we hereby give you irrevocable notice that we request a Loan as follows:

1. Amount of Loan: _____ .
2. Date of borrowing: _____ , ____.
3. Account Information: _____ .

We hereby confirm that all conditions to such Loan will be satisfied on the date of such Loan.

Capitalized terms used herein but not defined shall have the meanings given to them in the Credit Agreement.

Dated this _____ day of _____, ____.

SUTTON HILL CAPITAL, L.L.C.

By: _____
Name:
Title:

EXHIBIT E
PLEDGE AGREEMENT

PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT, dated as of July __, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into by and

between SUTTON HILL ASSOCIATES, a California general partnership (the "Pledgor"), and CITADEL HOLDING CORPORATION, a Nevada corporation (together with

its permitted successors and assigns, the "Pledgee").

WITNESSETH:

WHEREAS, the Pledgor is (a) the sole member of Sutton Hill Capital, L.L.C., a limited liability company formed under the laws of the State of New York ("Sutton Hill Capital"), and (b) the legal and beneficial owner of the

Membership Interest (as hereinafter defined);

WHEREAS, Sutton Hill Capital and the Pledgee have entered into a certain Citadel Standby Credit Facility, dated as of July __, 2000 (as the same may be amended, restated, modified, or supplemented from time to time, the "Credit Agreement"), pursuant to which, at the election of Sutton Hill Capital

and upon the satisfaction of certain conditions precedent provided for therein, the Pledgee has agreed to make to Sutton Hill Capital certain loans in an aggregate principal amount up to twenty eight million Dollars (\$28,000,000) (hereinafter referred to as the "Loans");

WHEREAS, as an inducement to the Pledgee to make the Loans, if any, to Sutton Hill Capital pursuant to the terms of the Credit Agreement, the Pledgor has agreed, in accordance with the terms of Section 4.1(f) of the Credit Agreement, to execute and deliver this Agreement pursuant to which the Pledgor will pledge the Collateral (as hereinafter defined) in favor of the Pledgee to secure the performance and repayment of Sutton Hill Capital's Obligations (as hereinafter defined), to the extent and in accordance with the terms hereof;

WHEREAS, Sutton Hill Capital has also acquired certain interests in various theatre properties in New York City, including the option (the "Sutton/Murray Hill Fee Option") to acquire the fee interests in and to two of such properties (the "Sutton & Murray Hill Fees");

WHEREAS, Citadel Cinemas, Inc., a Nevada corporation ("Citadel Cinemas"), has subleased from Sutton Hill Capital certain of the theatre properties, including the improvements and equipment located therein or thereon (collectively, the "Leased Interests"), pursuant to provisions of a certain Lease Agreement, dated as of July __, 2000 (the "Lease Agreement"), between Sutton Hill Capital, as lessor, and Citadel Cinemas, as lessee;

WHEREAS, included in the Lease Agreement is an option in favor of Citadel Cinemas (the "Lease Option") to acquire from Sutton Hill Capital the Leased Interests;

WHEREAS, pursuant to an agreement, dated as of July __, 2000 (the "Fee Option Agreement"), between Citadel Realty, Inc. ("Fee Sub") and Sutton Hill

Capital, Sutton Hill Capital has granted to FeeSub the right (the "Fee Option Right"), subject to the exercise by Citadel Cinemas of the Lease Option and payment by Citadel Cinemas of the exercise price under the Lease Option, to require Sutton Hill Capital to exercise the Sutton/Murray Hill Fee Option and direct the delivery of the Sutton/Murray Hill Fees to or as directed by FeeSub, upon payment by FeeSub or its designee of the exercise price under the Sutton/Murray Hill Fee Option;

WHEREAS, the Collateral will be subject to the prior pledge thereof to Nationwide, as described in a certain Intercreditor Agreement among Nationwide, Sutton Hill Capital and the Pledgee;

WHEREAS, it is the intention of the Pledgor in executing and delivering this Agreement to assure to the Pledgee that, if it forecloses on the pledge of the Membership Interest, the Membership Interest will not be subject to any claims thereto or rights therein arising from any action of Sutton Hill Capital or its Affiliates, except for Pledgor Permitted Liens (as hereinafter defined); and

WHEREAS, it is the Pledgee's expectation that, if it were to foreclose on the pledge of the Membership Interest, Sutton Hill Capital's interest in the Sutton/Murray Hill Fee Option and in the Leased Interests would be subject only to Pledgor Permitted Liens;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

XIII Definitions. Unless otherwise defined herein, terms that are

defined in the Credit Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Accounts" shall have the meaning assigned to that term in Article 9 of the Code.

"Certificate of Title" shall mean a title search or report provided by a title insurance company or agency licensed to do business in the state where the Leased Interests are located.

"Chattel Paper" shall have the meaning assigned to that term in Article 9 of the Code.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada corporation and its successors and assigns (including successors or assigns as tenant under the Lease Agreement).

"Code" shall mean the Uniform Commercial Code from time to time in effect in the State of New York.

"Collateral" shall have the meaning assigned to that term in Section 2

of this Agreement.

"Cure" (including grammatical alternatives thereof) shall mean (i) the

removal of the Lien or Title Impairment in question, either of record or by
arrangement for the title company insuring the interest of the transferee to
"omit" the Lien or Title Impairment in question, or (ii) the causing of the
title company involved to insure against collection or to insure against loss or
forfeiture of title with respect to the Lien or Title Impairment in question,
provided, that, in the case of a Cure described in clause (ii) hereof, the title
company must agree to "omit" such Lien or Title Impairment in question in
connection with any mortgagee title insurance policy with respect to any third
party financing.

"Designated Payment" shall mean the amounts (if any) required to be

paid to satisfy amounts then payable by the Pledgor to Nationwide pursuant to
the Nationwide Agreement.

"Event of Default" shall mean the occurrence of any of the following

events: (1) an Event of Default (as defined in the Credit Agreement), or (2) a
default on the part of the Pledgor in the due performance or observance of any
covenant or obligation of the Pledgor contained herein, and, if such default is
capable of cure, the continuance of such default for thirty (30) days after
written notice from the Pledgee to the Pledgor; provided, however, that if such

default is of a nature that it is capable of being cured but not within such
thirty (30) day period and the Pledgor shall have proceeded diligently and in
good faith to complete curing such default, such thirty (30) day period shall be
extended to one hundred eighty (180) days.

"Fee Option Agreement" shall have the meaning assigned to that term in

the recitals hereto.

"Fee Option Right" shall have the meaning assigned to that term in the

recitals hereto.

"General Intangibles" shall have the meaning assigned to that term in

Section 9-106 of the Code and shall include, without limitation, the Membership
Interest and all rights of the Pledgor to receive, directly or indirectly,
moneys or any other rights or benefits therefrom.

"Insolvency or Liquidation Proceeding" of any person shall mean:

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

(b) The commencement by such person of a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, or the consent by it to the entry of an order for relief in an involuntary case under such law or the consent by it to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of such person or of any substantial part of its property, or the making by it of a general assignment for the benefit of creditors, or the taking of any action in furtherance of any of the foregoing;

provided, however, that, if any of the events described in clauses (i) and (ii) of this definition shall arise as a result of a Tenant Event, then such an event shall not constitute an Insolvency or Liquidation Proceeding.

"Instruments" shall have the meaning assigned to that term in Article 9

of the Code.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated

as of July __, 2000, entered into by and among the Pledgor, the Pledgee, and Nationwide Theatres Corp., a California corporation and its successors and assigns (hereinafter referred to as "Nationwide").

"Lease Agreement" shall mean the Lease Agreement between Sutton Hill

Capital, as lessor, and Citadel Cinemas, as lessee, dated as of July __, 2000, as amended, modified and supplemented from time to time.

"Lease Option" shall have the meaning assigned to that term in the

recitals hereto.

"Leased Interests" shall have the meaning assigned to that term in the

recitals hereto.

"Legal Requirements" shall mean all laws, judgments, decrees,

ordinances and regulations and any other governmental rules, orders and determinations and all requirements having the force of law, now or hereinafter enacted, made or issued, whether or not presently contemplated (including without limitation the Americans with Disabilities Act, 42 U.S.C. (S)(S) 12181 et seq., and local and state laws of similar impact or effect and rules, regulations and (to the extent Citadel Cinemas receives notice and a copy thereof pursuant to the Lease Agreement) orders issued under any thereof) and all existing recorded agreements, covenants, conditions and restrictions (or any such of which Citadel Cinemas has notice), applicable to any Leased Interest and/or the construction, ownership, operation or use thereof, including, without limitation, compliance with all requirements of labor laws and all federal, state, local and foreign laws, statutes, codes, ordinances, rules, regulations, directives, binding policies, permits or orders relating to or addressing the environment or human health, including, but not limited to, any law, statute, code, ordinance, rule, regulation, directive, binding policy, permit, authorization or order, compliance with which is required at any time from the date hereof through the Lease Termination Date as such term is defined in the Lease Agreement (or thereafter as therein set forth), if any, whether or not such compliance shall require structural,

unforeseen or extraordinary changes to any Leased Interest or the operation, occupancy or use thereof

"Lien" shall mean any security interest, mortgage, pledge,

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

"Limited Liability Company Agreement" shall mean the Limited Liability

Company Agreement of Sutton Hill Capital, dated as of April 8, 1999, as the same may be amended, restated, modified or supplemented from time to time.

"Membership Interest" shall have the meaning assigned to that term in

Section 2 of this Agreement.

"Nationwide Accrued Interest" shall mean any interest that has accrued

with respect to the Nationwide Indebtedness so long as such interest has not arisen as a result of a Tenant Event.

"Nationwide Pledge Agreement" shall mean the agreement, dated as of

July __, 2000, entered into between the Pledgor and Nationwide, pursuant to which the Pledgor has granted a first security interest in the Collateral to Nationwide.

"Obligations" shall mean any and all indebtedness, debts, obligations,

and liabilities of Sutton Hill Capital to the Pledgee from time to time outstanding under the Related Documents to which Sutton Hill Capital is a party, whether fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal, interest, fees, expenses or otherwise, including principal of and interest on any other amounts payable in respect of the Loans, if any, and including, further, any rights of subrogation or contribution arising under the Related Documents.

"Operational Agreements" shall have the meaning assigned to that term

in the Credit Agreement.

"Pledgor Permitted Liens" shall mean (a) with respect to the Membership

Interest, the Lien created pursuant to the Nationwide Agreement or any Lien resulting from or attributable to a Tenant Event and (b) with respect to the Leased Interests and the Sutton/Murray Hill Fee Option, the following Liens and other matters affecting the title thereto: (i) Liens securing the payment of taxes, assessments and other governmental charges or levies which are not yet delinquent to the extent not the obligations of Citadel Cinemas pursuant to the Lease Agreement; (ii) Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions, easements, rights-of-way,

licenses, reservations, covenants, conditions, waivers, or restrictions on the use of any material component of real estate comprising the Leased Interests, which exist on the date hereof and either are set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement or are not disclosed therein; (iii) encroachments or irregularities of title none of which materially impairs the current use or value of the affected Leased Interests; (iv) the Liens created pursuant to the Nationwide Agreement provided that such Liens are paid with the applicable Designated Payment; (v) leases and licenses in effect with respect to any Leased Interest which are permitted by the Lease Agreement; (vi) mechanics' and materialmen's liens or Liens not disclosed in the title insurance policy and existing on the date hereof; (vii) exceptions to the title of any material component of real estate comprising the Leased Interests, of the Sutton and Murray Hill Fees or of the Sutton/Murray Hill Fee Option, as the case may be, as set forth in the title insurance policy delivered to Citadel Cinemas in connection with the Lease Agreement; (viii) existing Liens listed on Exhibit A attached hereto; (ix) any Lien which is or results from a Tenant Event or is approved by Citadel Cinemas for purposes of the Lease Agreement; (x) Liens, including Legal Requirements, zoning and planning restrictions, subdivision and platting restrictions and any of the matters affecting title, which result from acts of any agency, department, court or other administrative, legislative or regulatory authority of any Federal, state, local or foreign governmental body from and after the date hereof not caused by or resulting from a Landlord Act (as such term is defined in the Lease Agreement); and (xi) such other or additional matters as may be approved in writing by Citadel Cinemas in its sole discretion.

"Proceeds" shall mean all "proceeds" as such term is defined in Section 9-306(1) of the Code on the date hereof and, in any event, shall include, without limitation, all dividends or other income from the Membership Interest and any and all collections on the foregoing or distributions with respect to the foregoing.

"Sutton & Murray Hill Fees" shall have the meaning assigned to that term in the recitals hereto.

"Sutton/Murray Hill Fee Option" shall have the meaning assigned to that term in the recitals hereto.

"Taxes" shall mean any present or future taxes, levies, imposts, duties, fees, assessments, deductions, withholdings or other charges of whatever nature, including income, receipts, excise, property, sales, use, transfer, license, payroll, withholding, social security and franchise taxes now or hereafter imposed or levied by the United States, or any state, local or foreign government or by any department, agency or other political subdivision or taxing authority thereof or therein and all interest, penalties, additions to tax and similar liabilities with respect thereto.

"Title Impairment" shall mean a claim, charge or other matter affecting title to an Asset or interest therein, other than a Lien, which materially impairs the intended use or value of the Asset (or

interest therein) in question excluding, however, the matters affecting title as of the date hereof, the Site Leases and the terms and conditions thereof and matters which constitute Tenant Events.

XIV Grant of Security. As security for the prompt and complete

payment when due of the Obligations, the Pledgor hereby assigns, pledges, transfers and grants to the Pledgee a continuing security interest (which shall be subject and subordinate to the prior security interest granted to Nationwide pursuant to the Nationwide Pledge Agreement as and to the extent provided in the Intercreditor Agreement) in, and a lien upon, all of the Pledgor's right, title and interest in the following property now owned or at any time hereafter acquired by the Pledgor, or in which the Pledgor may acquire any right, title or interest, as collateral security for the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations (collectively, the "Collateral"):

XIV.1 any and all of its membership interest in Sutton Hill Capital, including, without limitation, all its rights, title and interest to participate in the operation or management of Sutton Hill Capital and all its rights to properties, assets and distributions under the Limited Liability Company Agreement, and all certificates evidencing any of such membership interests (collectively, the "Membership Interest");

XIV.2 all Accounts arising out of the Limited Liability Company Agreement in respect of the Membership Interest;

XIV.3 all General Intangibles arising out of or constituted by the Limited Liability Company Agreement in respect of the Membership Interest; and

XIV.4 to the extent not otherwise included, all Proceeds of any and all of the foregoing.

This Agreement shall create a continuing security interest in the Collateral which shall be subject and subordinate to the prior security interest granted to Nationwide as provided in the Intercreditor Agreement and shall remain in effect until all the Obligations, now existing or hereafter arising, shall have been paid in full, the Commitments shall have been terminated and the Credit Agreement and the Related Documents shall no longer be in effect.

XV Representations and Warranties of Pledgor. The Pledgor hereby

represents and warrants to the Pledgee that: (i) the Pledgor is the sole member of Sutton Hill Capital and no other Person owns or holds any other ownership rights in the Membership Interest; (ii) the execution, delivery, and performance of this Agreement are not in violation of any indenture, agreement, or undertaking to which the Pledgor is a party or by which the Pledgor is bound; (iii) the execution, delivery and performance of this Agreement will not result in the creation or imposition of any lien or charge on, security interest in or other encumbrance on any of the assets of the Pledgor except as contemplated by this Agreement; (iv) the Pledgor's chief executive office and the place where the Pledgor keeps its business records is 120 North Robertson Boulevard, Los Angeles, California

90048; and (v) this Agreement will create and grant to the Pledgee (upon the filing of appropriate UCC-1 financing statements) a valid lien on, and a perfected security interest in favor of the Pledgee in, all right, title or interest of the Pledgor in or to the Collateral, subject to the prior lien in favor of Nationwide as provided in the Intercreditor Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Pledgor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements.

The Pledgor agrees that the foregoing representations and warranties shall be deemed to have been made by it on each date of a Notice of Borrowing on or after the date hereof by Sutton Hill Capital under the Credit Agreement on and as of such date as though made hereunder on and as of such date.

XVI Further Assurances; Affirmative Covenants.

The Pledgor covenants and agrees that, from and after the date of this Agreement until the Obligations are paid in full and the Commitment is terminated :

XVI.1 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.

XVI.2 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.

XVI.3 The Pledgor will keep the Collateral free and clear of all security interests, liens and claims other than the security interest and lien herein granted and the security interest and lien granted to Nationwide, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Pledgor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the

Operational Agreements, and will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, except by assignment to the Pledgee and Nationwide.

XVI.4 The Pledgor will defend the Pledgee's right, title and security interest in and to the Collateral against claims and demands of all persons whomsoever, other than Nationwide.

XVI.5 If the Pledgor shall, as a result of its ownership of the Collateral, receive any certificate representing its ownership of the Membership Interest and all of the Nationwide Indebtedness now or hereafter owing has been paid in full in accordance with the terms of the Nationwide Agreement, the Pledgor shall accept the same as the agent of the Pledgee, hold the same in trust for the Pledgee and deliver the same forthwith to the Pledgee in the exact form received, duly indorsed by the Pledgor to the Pledgee, if required.

XVI.6 The Pledgor will at all times remain the sole member of Sutton Hill Capital and will allow no other Person to own or hold any other ownership rights in the Membership Interest; provided, however, that the

failure to comply with the terms hereof shall not constitute a breach hereunder if the failure to comply arises as a result of any action or inaction of, or any condition or event relating to, Citadel Cinemas or any of its Affiliates.

XVII Lien or Title Impairment.

XVII.1 Subject to the limitations set forth in Section 19 hereof, if, at the time of the exercise by the Pledgee of its rights and remedies involving the Membership Interest, title thereto or to any of the Leased Interests or the Sutton/Murray Hill Fee Option shall be subject to a Lien or to a Title Impairment other than a Pledgor Permitted Lien, the Pledgor shall be obligated to pay, bond, or otherwise Cure such Lien and to Cure such Title Impairment.

XVII.2 Not less than ten days prior to the date of the anticipated exercise described in the preceding sentence, the Pledgee shall deliver to the Pledgor a lien search with respect to the Membership Interest and a Certificate of Title with respect to the Leased Interests and the Sutton/Murray Hill Fee Option, indicating whether or not any Liens encumbering such Membership Interest or the interest of Sutton Hill Capital in such other assets constitute such Liens other than Pledgor Permitted Liens and whether there exists as to Sutton Hill Capital's title to any of such assets any such Title Impairment, each as described in the preceding paragraph.

XVII.3 If by reason of the occurrence of an Insolvency or Liquidation Proceeding of Sutton Hill Capital, Pledgee shall be prevented from foreclosing on the Membership Interest or its security interest under the Security Agreement (as defined in the Credit Agreement), Pledgor shall cause such Insolvency or Liquidation Proceeding to be terminated or otherwise

to be resolved as promptly as practicable and in a manner such that the applicable transaction can be consummated in accordance with its terms. All times referred to in Section 5(d) hereof shall be determined without regard to any additional time that may be permitted or authorized under any statute or order entered in or applicable to such Insolvency or Liquidation Proceeding.

XVII.4 In the event the Pledgor does not timely perform any of the obligations set forth in paragraphs (a), (b) or (c) of this Section 5, the Pledgee may, after written demand to perform has been served upon the Pledgor and the Pledgor has been given 15 days to perform, perform said obligations at the Pledgor's sole cost and expense; provided, however, that the Pledgee shall not exercise its option to perform said obligations for up to 90 days if within said 15-day period the Pledgor has commenced to perform the obligation or obligations in question and thereafter to the reasonable satisfaction of the Pledgee continues to perform such obligation or obligations with reasonable diligence. The Pledgor shall, upon written demand from the Pledgee, reimburse the Pledgee for all costs, including reasonable attorney's fees and out-of-pocket expenses, and all liabilities incurred by the Pledgee by reason of the foregoing set forth in this Section 5, with interest thereon at the rate of eleven and one quarter percent (11.25%) per annum.

XVII.5 The obligations of the Pledgor under this Section 5 hereof and with respect to the Nationwide Accrued Interest shall be unlimited, with full recourse to all of the assets of the Pledgor and its partners. The Pledgor and its partners agree not to request or permit, in any Insolvency or Liquidation Proceeding of the Pledgor, (i) any plan of reorganization, or confirmation order with respect thereto, which would include a provision that would discharge the partners of Pledgor from their obligations to Pledgee under this Section 5 or (ii) any party in interest to obtain an injunction that would enjoin or limit the Pledgee's rights against the partners of the Pledgee or their assets.

XVIII Remedies. (a) Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence of an Event of Default and an acceleration of the Loans, the Pledgee may, in its sole discretion, exercise with respect to the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the New York Uniform Commercial Code or other applicable law, and the Pledgee may also, upon reasonable notice as specified below, sell the Collateral at public or private sale, at any exchange, broker's board or at any of the Pledgee's offices or elsewhere, for cash, on credit or for future delivery, and at such price and upon such other terms as the Pledgee may in good faith deem commercially reasonable. The Pledgee or any of its Affiliates may be the purchaser of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for the Collateral, to use and apply any of the Obligations as a credit on account of the purchase price of the Collateral payable by such Person at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of the Pledgor, and the Pledgor hereby waives (to the fullest extent permitted by law) all rights of

redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Pledgor agrees that at least fifteen (15) days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notice. The Pledgee will not be obligated to make any sale regardless of notice of sale having been given. The Pledgee may adjourn any public or private sale from time to time by announcement of the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. The Pledgor hereby waives any claims against the Pledgee arising by reason of the fact that the price at which the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale, even if the Pledgee accepts the first offer received and does not offer the Collateral to more than one offeree.

(b) The proceeds of any sale of the Collateral under subsection (a) above shall be applied in the following manner:

(a) FIRST, to the payment of all costs and expenses reasonably incurred in connection with the sale, collection or other realization, including reasonable costs, fees and expenses of the Pledgee and its agents and counsel, all other reasonable expenses, liabilities and advances made or incurred by the Pledgee in connection therewith;

(b) SECOND, to the payment, in whole or in part, of the Nationwide Indebtedness (as defined in the Intercreditor Agreement);

(c) THIRD, to the payment, in whole or in part, of the Obligations;
and

(d) FOURTH, the balance, if any, shall be paid to the Pledgor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If the Pledgee or any of its Affiliates is the successful bidder at such sale, the amount owing to Nationwide must be paid in cash.

(c) The Pledgee has the right to enforce any and all remedies provided in this Agreement, successively and concurrently, and such action will not operate to estop or prevent the Pledgee from pursuing any other remedy which the Pledgee may have at law or in equity or under any other document.

(d) THE PLEDGOR ACKNOWLEDGES THAT ANY PRIVATE SALE OF THE COLLATERAL MAY RESULT IN PRICES AND OTHER TERMS LESS FAVORABLE TO THE PLEDGOR THAN IF SUCH SALE WERE A PUBLIC SALE AND THE PLEDGOR AGREES THAT ANY SUCH PRIVATE SALE SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALY REASONABLE MANNER.

XIX Pledgee Appointed Attorney-in-Fact.

Subject in all cases to the terms of the Intercreditor Agreement, upon the occurrence and during the continuance of an Event of Default which is not waived by the Pledgee and following an acceleration of the Loans, the Pledgor hereby irrevocably makes, constitutes and appoints the Pledgee or any of its officers or designees its true and lawful attorney-in-fact, with full authority in the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time after the occurrence and during the continuation of an Event of Default which is not waived by the Pledgee and following an acceleration of the Loans, to take any action, to execute any instruments and to exercise any rights, privileges, elections or power of the Pledgor pertaining or relating to the Collateral which the Pledgee may reasonably deem necessary or desirable to preserve and enforce its security interest in the Collateral and otherwise to accomplish the purposes of this Agreement.

XX Pledgee May Perform. If the Pledgor fails to perform any

agreement contained herein other than any agreement set forth in Section 5 hereof, the Pledgee may (but shall not be obligated to) itself perform, or cause performance of, such agreement; provided, however, that the Pledgee shall first have provided to the Pledgor five (5) Business Days' prior written notice of the Pledgee's intention so to act (except in cases of emergency when no such notice shall be required). Any sums expended by the Pledgee pursuant to this Section 7 shall be added to the Obligations and secured by the Collateral.

XXI Amendments, etc. No amendment, waiver or modification of any

provision of this Agreement, nor consent to any departure by the Pledgor therefrom, shall in any event be effective unless the same shall be in writing making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings and signed by the Pledgor, the Pledgee and Nationwide, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

XXII Continuing Security Interest. This Agreement shall create a

continuing security interest in the Collateral and shall (a) except with respect to the provisions in Section 5 hereof, remain in full force and effect until the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, (b) be binding upon the Pledgor and (c) inure to the benefit of the Pledgee and its successors and assigns. If the Pledgee shall have instituted any proceeding to enforce any right, power or remedy under this instrument by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Pledgee, then and in every such case, the Pledgor and the Pledgee shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all right, remedies and powers of the Pledgee shall continue as if no such proceeding had been instituted.

XXIII Notices. All notices, offers, acceptances, approvals, waivers,

requests, demands and other communication hereunder or under any other Related Document shall be

addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the

sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 10. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice

is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided,

however, that any party shall have the right to change its address for notice

hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

(a) If to the Pledgor:
Sutton Hill Associates
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Legal Dept.

Telecopier: (310) 652-6490

with required copies to:

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10199
Attention: Howard Peskoe

Telecopier No.: (212) 351-3131

(b) If to the Pledgee:
Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: President

Telecopier No.: (213) 239-0548

with required copies to:

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, NY 10168

Attention: Michael H. Margulis, Esq.

Telecopier No.: (212) 692-1020

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

XXIV 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.

XXV 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.

XXVI 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.

XXVII 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.

XXVIII Powers Coupled With An Interest. All authorizations and agencies

herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

XXIX 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.

XXX 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.

XXXI Termination. After the later of (i) the termination of the

Commitment or (ii) the payment in full of the Obligations, this Agreement shall terminate and the Pledgee at the request of the Pledgor will execute and deliver to the Pledgor a proper instrument or instruments acknowledging the satisfaction and termination of this Agreement, and will duly assign, transfer and deliver to the Pledgor such of the Collateral as may be in the possession of the Pledgee and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement, together with any moneys at the time held by the Pledgee. Notwithstanding anything contained herein to the contrary, the provisions of Section 5 hereof and the obligations of the Pledgor arising with respect thereto shall terminate and be of no further force and effect on and as of the day following the repayment in full of the Loan, provided that such obligations shall be reinstated if at any time payment or performance of Sutton Hill Capital is rescinded or must otherwise be returned as a result of an Insolvency or Liquidation Proceeding.

XXXII Conflict Of Provisions. In the event of any conflict between any

term, covenant or condition of this Agreement and any term, covenant or condition of the Intercreditor Agreement, the provisions of the Intercreditor Agreement shall control and govern.

XXXIII Limited Recourse. Except to the extent of and under the

circumstances specifically provided for in Section 5 hereof and except with respect to the Nationwide Accrued Interest, no recourse for the payment of the principal of, or interest on, the Obligations or obligations of the Pledgor hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect partner or owner of the Pledgor or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect partner. Nothing contained in this Section 21 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Collateral, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby. In no event shall the Pledgor have any liability to the Pledgee hereunder for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise). The parties further agree that no claim for direct damages by a party hereunder shall include any amounts for which such party has been reimbursed or is entitled to be reimbursed under any insurance required to be obtained under the Lease Agreement or acquired in connection therewith.

XXXIV Cumulative Rights; No Waiver. No failure on the part of the

Pledgee to exercise, no course of dealing with respect to, and no delay on the part of the Pledgee in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

PLEDGOR:
SUTTON HILL ASSOCIATES

By: _____
Name:
Title:

By: _____
Name:
Title:

PLEDGEE:
CITADEL HOLDING CORPORATION

By: _____
Name:
Title:

Agreed to as to Section 5 hereof
and as to payment of the Nationwide
Accrued Interest

James J. Cotter

Michael R. Forman

EXHIBIT F
SECURITY AGREEMENT

SECURITY AGREEMENT

THIS SECURITY AGREEMENT, dated as of July __, 2000 (as amended, modified and supplemented from time to time, this "Agreement"), is entered into -----
by and between SUTTON HILL CAPITAL, L.L.C., a New York limited liability company (the "Grantor"), and CITADEL HOLDING CORPORATION, a Nevada corporation (the "Company").

W I T N E S S E T H :

WHEREAS, the Grantor and the Company have entered into a certain Citadel Standby Credit Facility, dated as of July __, 2000 (as the same may be amended, restated, modified, or supplemented from time to time, the "Credit Agreement"), pursuant to which, at the election of the Grantor and upon the satisfaction of certain conditions precedent provided for therein, the Company has agreed to make to the Grantor certain loans in an aggregate principal amount up to twenty eight million Dollars (\$28,000,000) (hereinafter referred to as the "Loans"); and

WHEREAS, as an inducement to the Company to make the Loans, if any, to the Grantor, pursuant to the terms of the Credit Agreement, the Grantor has agreed, in accordance with the terms of Section 4.1(f) of the Credit Agreement, to execute and deliver this Agreement pursuant to which the Grantor will pledge the Collateral (as hereinafter defined) in favor of the Company to secure the performance and repayment of the Grantor's Obligations (as hereinafter defined), to the extent and in accordance with the terms hereof;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

XXXV Definitions. Unless otherwise defined herein, terms that are -----
defined in the Intercreditor Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Accounts" shall have the meaning assigned to that term in Article 9 of -----
the Code.

"Citadel Cinemas" shall mean Citadel Cinemas, Inc., a Nevada -----
corporation, and its successors or assigns (including successors or assigns as tenant under the Lease Agreement).

"Code" shall mean the Uniform Commercial Code from time to time in -----
effect in the State of New York.

"Collateral" shall have the meaning assigned to that term in Section 2 -----
of this Agreement.

"Equipment" shall have the meaning assigned to that term in Article 9

of the Code.

"Event of Default" shall mean the occurrence of any of the following

events: (1) an Event of Default (as defined in the Credit Agreement), or (2) a
default on the part of the Grantor in the due performance or observance of any
covenant or obligation of the Grantor contained herein, and, if such default is
capable of cure, the continuance of such default for thirty (30) days after
written notice from the Company to the Grantor; provided, however, that if such

default is of a nature that it is capable of being cured but not within such
thirty (30) day period and the Grantor shall have proceeded diligently and in
good faith to complete curing such default, such thirty (30) day period shall be
extended to one hundred eighty (180) days.

"General Intangibles" shall have the meaning assigned to that term in

Article 9-106 of the Code.

"Intercreditor Agreement" shall mean the Intercreditor Agreement, dated

as of July __, 2000, entered into by and among the Grantor, the Company and
Nationwide Theatres Corp., a California corporation and its successors and
assigns (hereinafter referred to as "Nationwide").

"Lease Agreement" shall mean the lease agreement between the Grantor,

as lessor, and Citadel Cinemas, as lessee, dated as of the date hereof, as
amended, modified and supplemented from time to time.

"Lien" shall mean any security interest, mortgage, pledge,

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

"Nationwide Security Agreement" shall mean the agreement, dated as of

July __, 2000, entered into between the Grantor and Nationwide, pursuant to
which the Grantor has granted a first security interest in the Collateral to
Nationwide.

"Obligations" shall mean any and all indebtedness, debts, obligations,

and liabilities of the Grantor to the Company from time to time outstanding
under the Related Documents to which the Grantor is a party, whether fixed or
contingent, due or not due, liquidated or unliquidated, determined or
undetermined, and whether for principal, interest, fees, expenses or otherwise,
including principal of and interest on any other amounts payable in respect of
the Loans, if any, and including, further, any rights of subrogation or
contribution arising under the Related Documents.

"Operational Agreements" shall have the meaning assigned to that term

in the Credit Agreement.

"Proceeds" shall mean all "proceeds" as such term is defined in

Section 9-306(1) of the Code on the date hereof and, in any event, shall
include, without limitation, any and all collections on the foregoing.

"Properly Contested" shall have the meaning assigned to that term in

the Lease Agreement.

"Taxes" shall mean any present or future taxes, levies, imposts,

duties, fees, deductions, withholdings or other charges of whatever nature,
including income, receipts, excise, property, sales, use, transfer, license,
payroll, withholding, social security and franchise taxes now or hereafter
imposed or levied by the United States, or any state, local or foreign
government or by any department, agency or other political subdivision or taxing
authority thereof or therein and all interest, penalties, additions to tax and
similar liabilities with respect thereto.

XXXVI Grant of Security. As security for the prompt and complete

payment when due of the Obligations, the Grantor hereby assigns, pledges,
transfers and grants to the Company a continuing security interest (which shall
be subject and subordinate to the prior security interest granted to Nationwide
pursuant to the Nationwide Security Agreement as and to the extent provided in
the Intercreditor Agreement) in, and a lien upon, all of the Grantor's right,
title and interest in the following property now owned or at any time hereafter
acquired by the Grantor, or in which the Grantor may acquire any right, title or
interest, as collateral security for the prompt and complete payment and
performance when due (whether at the stated maturity, by acceleration or
otherwise) of the Obligations (collectively, the "Collateral"):

XXXVI.1 all of the Grantor's right, title and interest,
whether now owned or hereafter acquired, in and to all Equipment,
wherever located, now or hereafter existing, together with any
manufacturers' warranties with respect to the foregoing;

XXXVI.2 all Accounts;

XXXVI.3 all General Intangibles;

XXXVI.4 any and all insurance policies, proceeds or benefits
thereof related to the Collateral, provided that such policies do not
expressly prohibit the grant of such security interest; and

XXXVI.5 to the extent not otherwise included, all Proceeds of
any and all of the foregoing.

Notwithstanding the foregoing, "Collateral" shall not include any
general intangibles, or other rights, arising under any contracts, licenses or
other documents as to which the grant of a security interest would constitute a
violation of a valid and enforceable restriction in favor of a third party on
such grant, unless and until any required consents shall have been obtained. The
Grantor

agrees to use commercially reasonable efforts to obtain any such required consent with respect to any material items of such Collateral.

This Agreement shall create a continuing security interest in the Collateral which shall remain in effect until all the Obligations, now existing or hereafter arising, shall have been paid in full, the Commitments shall have been terminated and the Credit Agreement and the Related Documents shall no longer be in effect.

XXXVII Representations and Warranties of Grantor. The Grantor hereby

represents and warrants to the Company that: (i) except as otherwise provided in the Operational Agreements, no other Person owns or holds any ownership rights in the Collateral; (ii) the execution, delivery, and performance of this Agreement are not in violation of any indenture, agreement, or undertaking to which the Grantor is a party or by which the Grantor is bound; (iii) the execution, delivery and performance of this Agreement will not result in the creation or imposition of any lien or charge on, security interest in or other encumbrance on any of the assets of the Grantor except as contemplated by this Agreement; (iv) the Grantor's chief executive office and the place where the Grantor keeps its business records is 120 North Robertson Boulevard, Los Angeles, California 90048; and (v) this Agreement will create and grant to the Company (upon the filing of appropriate UCC-1 financing statements) a valid lien on, and a perfected security interest in favor of the Company in, all right, title or interest of the Grantor in or to the Collateral, subject only to the prior lien in favor of Nationwide as provided in the Intercreditor Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Grantor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements.

XXXVIII Further Assurances; Affirmative Covenants.

The Grantor covenants and agrees that, from and after the date of this Agreement until the Obligations are paid in full and the Commitment is terminated:

XXXVIII.1 The Grantor will promptly execute and deliver and will cause to be executed and delivered all further instruments and documents, including, without limitation, financing and continuation statements, and will take all further action and will cause all further action to be taken, that the Company may reasonably request in order to create, preserve, perfect and protect the security interest in the Collateral or to enable the Company to exercise and enforce its rights and remedies hereunder or to preserve, perfect and protect the Company's right, title and interest in and to the Collateral.

XXXVIII.2 The Grantor will at all times keep accurate and complete books and records with respect to the Collateral and agrees that the Company or its representative shall

have the right at any time and from time to time to call at the Grantor's place of business during normal business hours to inspect and examine the books and records of the Grantor relating to the Collateral and to make extracts therefrom and copies thereof.

XXXVIII.3 The Grantor will keep the Collateral free and clear of all security interests, liens and claims other than the security interest and lien herein granted and the security interest and lien granted to Nationwide or otherwise permitted to exist pursuant to the Credit Agreement, Liens for Taxes and governmental charges and levies which are not delinquent, which are being Properly Contested by or on behalf of the Grantor or which are the obligation of Citadel Cinemas or any of its Affiliates to pay pursuant to any of the Operational Agreements and Liens placed on the Collateral by, or arising from, the actions or inactions of, or any event or condition relating to, Citadel Cinemas or any of its Affiliates, whether or not such Liens are permitted to exist pursuant to the terms of any of the Operational Agreements, and will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Collateral, except by assignment to the Company and Nationwide or the holder of any such other permitted lien.

XXXVIII.4 The Grantor will defend the Company's right, title and security interest in and to the Collateral against claims and demands of all persons whomsoever, other than Nationwide.

XXXIX Remedies. XXXIX.1 Subject in all cases to the terms of the

Intercreditor Agreement, upon the occurrence of an Event of Default and an acceleration of the Loans, the Company may, in its sole discretion, exercise with respect to the Collateral, in addition to any other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the Code or other applicable law, and the Company may also, upon reasonable notice as specified below, sell the Collateral at public or private sale, at any exchange, broker's board or at any of the Company's offices or elsewhere, for cash, on credit or for future delivery, and at such price and upon such other terms as the Company may in good faith deem commercially reasonable. The Company or any of its Affiliates may be the purchaser of the Collateral at any such sale and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for the Collateral, to use and apply any of the Obligations as a credit on account of the purchase price of the Collateral payable by such Person at such sale. Each purchaser at any such sale shall acquire the property sold absolutely free from any claim or right on the part of the Grantor, and the Grantor hereby waives (to the fullest extent permitted by law) all rights of redemption, stay and/or appraisal which it now has or may at any time in the future have under any rule of law or statute now existing or hereafter enacted. The Grantor agrees that at least fifteen (15) days' notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notice. The Company will not be obligated to make any sale regardless of notice of sale having been given. The Company may adjourn any public or private sale from time to time by announcement of the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was adjourned. The Grantor hereby waives any

claims against the Company arising by reason of the fact that the price at which the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale, even if the Company accepts the first offer received and does not offer the Collateral to more than one offeree.

XXXIX.2 The proceeds of any sale of the Collateral under subsection (a) above shall be applied in the following manner:

(a) FIRST, to the payment of all costs and expenses reasonably incurred in connection with the sale, collection or other realization, including reasonable costs, fees and expenses of the Company and its agents and counsel, all other reasonable expenses, liabilities and advances made or incurred by the Company in connection therewith;

(b) SECOND, to the payment, in whole or in part, of the Nationwide Indebtedness (as defined in the Intercreditor Agreement).

(c) THIRD, to the payment, in whole or in part, of the Obligations; and

(d) FOURTH, the balance, if any, shall be paid to the Grantor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

If the Company or any of its Affiliates is the successful bidder at such sale, the amount owing to Nationwide in respect of the Nationwide Indebtedness (as defined in the Intercreditor Agreement) must be paid in full in cash.

XXXIX.3 The Company has the right to enforce any and all remedies provided in this Agreement, successively and concurrently, and such action will not operate to estop or prevent the Company from pursuing any other remedy which the Company may have at law or in equity or under any other document.

XXXIX.4 THE GRANTOR ACKNOWLEDGES THAT ANY PRIVATE SALE OF THE COLLATERAL MAY RESULT IN PRICES AND OTHER TERMS LESS FAVORABLE TO THE GRANTOR THAN IF SUCH SALE WERE A PUBLIC SALE AND THE GRANTOR AGREES THAT ANY SUCH PRIVATE SALE SHALL BE DEEMED TO HAVE BEEN MADE IN A COMMERCIALY REASONABLE MANNER.

XL Company Appointed Attorney-in-Fact. Subject in all cases to the terms

of the Intercreditor Agreement, upon the occurrence and during the continuance of an Event of Default which is not waived by the Company and following an acceleration of the Loans, the Grantor hereby

irrevocably makes, constitutes and appoints the Company or any of its officers or designees its true and lawful attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time after the occurrence and during the continuation of an Event of Default which is not waived by the Company and following an acceleration of the Loans, to take any action, to execute any instruments and to exercise any rights, privileges, elections or power of the Grantor pertaining or relating to the Collateral which the Company may reasonably deem necessary or desirable to preserve and enforce its security interest in the Collateral and otherwise to accomplish the purposes of this Agreement.

XLI Company May Perform. If the Grantor fails to perform any agreement contained herein, the Company may (but shall not be obligated to) itself perform, or cause performance of, such agreement; provided, however, that -----
the Company shall first have provided to the Grantor five (5) Business Days' prior written notice of the Company's intention so to act (except in cases of emergency when no such notice shall be required). Any sums expended by the Company pursuant to this Section 7 shall be added to the Obligations and secured by the Collateral.

XLII Amendments, etc. No amendment, waiver or modification of any provision of this Agreement, nor consent to any departure by the Grantor therefrom, shall in any event be effective unless the same shall be in writing making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings and signed by the Grantor, the Company and Nationwide, and then such amendment, waiver, modification or consent shall be effective only in the specific instance for the specific purpose for which given.

XLIII Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral and shall (a) remain in full force and effect until the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, (b) be binding upon the Grantor and (c) inure to the benefit of the Company and its successors and assigns. If the Company shall have instituted any proceeding to enforce any right, power or remedy under this instrument by foreclosure, sale, entry or otherwise, and such proceeding shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Company, then and in every such case, the Grantor and the Company shall be restored to their respective former positions and rights hereunder with respect to the Collateral, and all right, remedies and powers of the Company shall continue as if no such proceeding had been instituted.

XLIV Notices. All notices, offers, acceptances, approvals, waivers, requests, demands and other communication hereunder or under any other Related Document shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a -----

notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 10. All notices shall be effective upon receipt by the addressee; provided, however,

that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its

address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

XLIV.1 If to the Grantor:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Ira Levin

Telecopier: (310) 652-6490

with required copies to:

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10199
Attention: Howard Peskoe

Telecopier No.: (212) 351-3131

XLIV.2 If to the Company:

Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Attention: President

Telecopier No.: (213) 239-0548

with required copies to:

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, NY 10168
Attention: Michael H. Margulis, Esq.

Telecopier No.: (212) 692-1020

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

XLV Governing Law. THIS AGREEMENT HAS BEEN DELIVERED AT, AND SHALL BE EFFECTIVE WHEN EXECUTED BY THE GRANTOR AND THE COMPANY IN, NEW YORK, NEW YORK, WHEREUPON THIS AGREEMENT SHALL BE DEEMED A CONTRACT MADE IN NEW YORK AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

XLVI Severability. Any provision of this Agreement which 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.

XLVII 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.

XLVIII Benefits. The rights and privileges of the Company hereunder shall inure to the benefit of its successors and assigns and the obligations of the Grantor shall be binding on the Grantor's successors and assigns.

XLIX Powers Coupled With An Interest. All authorizations and agencies herein contained with respect to the Collateral are irrevocable and powers coupled with an interest.

L 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.

LI Waiver of Jury Trial. THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND EXPRESSLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ENFORCING OR DEFENDING ANY RIGHTS ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. THE GRANTOR ACKNOWLEDGES THAT THE PROVISIONS OF THIS SECTION 17 HAVE BEEN BARGAINED FOR AND THAT IT HAS BEEN REPRESENTED BY COUNSEL IN CONNECTION HEREWITH.

LII Termination. After the later of (i) the termination of the Commitment or (ii) the payment in full of the Obligations, this Agreement shall terminate and the Company at the request of the Grantor will execute and deliver to the Grantor a proper instrument or instruments acknowledging the satisfaction and termination of this Agreement, and will duly assign, transfer and

deliver to the Grantor such of the Collateral as may be in the possession of the Company and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement, together with any moneys at the time held by the Company.

LIII Conflict Of Provisions. In the event of any conflict between any

term, covenant or condition of this Agreement and any term, covenant or condition of the Intercreditor Agreement, the provisions of the Intercreditor Agreement shall control and govern.

LIV Limited Recourse. No recourse for the payment of the principal

of, or interest on, the Obligations or obligations of the Grantor hereunder or any other amount due under this Agreement, or for any claim based thereon or otherwise in respect thereof or hereof, shall be had against any direct or indirect member or owner of the Grantor or any incorporator, partner, shareholder, officer, member, Affiliate or director, as such, past, present or future, of any such direct or indirect member or owner except as provided in the Pledge Agreement (as defined in the Credit Agreement). Nothing contained in this Section 20 shall be construed to limit the exercise or enforcement, in accordance with the terms of this Agreement and the other documents referred to herein, of rights and remedies against the Collateral, or any other Person expressly undertaking in writing obligations in connection with the transactions contemplated hereby.

LV Cumulative Rights; No Waiver. No failure on the part of the

Company to exercise, no course of dealing with respect to, and no delay on the part of the Company in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies herein provided are cumulative and are not exclusive of any remedies provided by law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

GRANTOR:

SUTTON HILL CAPITAL, L.L.C.

By: _____

Name:

Title:

COMPANY:

CITADEL HOLDING CORPORATION

By: _____

Name:

Title:

EXHIBIT G
INTERCREDITOR AGREEMENT

INTERCREDITOR AGREEMENT

THIS INTERCREDITOR AGREEMENT, dated as of July __, 2000 (as amended, supplemented or modified from time to time, this "Agreement"), is entered into by and among: Citadel Holding Corporation, a Nevada corporation (together with its permitted successors and assigns, "Citadel"); Sutton Hill Capital, L.L.C., a New York limited liability company (together with its permitted successors and assigns, "SHC"); and Nationwide Theatres Corp., a California corporation (together with its permitted successors and assigns, "Nationwide").

R E C I T A L S

WHEREAS, Nationwide is the holder of certain obligations of Sutton Hill Associates, a California general partnership ("Sutton Hill"), which relate to various assets of Sutton Hill or its Affiliates (the "Affected Assets") (such agreements, documents and instruments between Nationwide and Sutton Hill evidencing such obligations and representing a principal indebtedness of \$11,000,000, collectively referred to as the "Existing Nationwide Agreement," the balance of such obligations of Sutton Hill to Nationwide being unaffected by this Agreement and not included in the "Existing Nationwide Agreement");

WHEREAS, pursuant to the Existing Nationwide Agreement, there are outstanding loans in the aggregate principal amount of eleven million Dollars (\$11,000,000);

WHEREAS, the Affected Assets are being transferred from Sutton Hill or its Affiliates to SHC, which is wholly owned by Sutton Hill, and, in connection with such transfer, Sutton Hill desires to amend and modify the Existing Nationwide Agreement;

WHEREAS, SHC and Citadel have entered into an agreement dated as of the date hereof (as amended, restated, modified or supplemented from time to time, the "Citadel Agreement"), pursuant to which Citadel will make available to SHC a standby credit facility in an aggregate principal amount up to twenty eight million Dollars (\$28,000,000);

WHEREAS, as a condition precedent of borrowing under the Citadel Agreement, SHC and Citadel must enter into the Subordinated Documents (as hereinafter defined);

WHEREAS, Nationwide has required that, in order to satisfy a condition to the amendment and modification of the Existing Nationwide Agreement (the Existing Nationwide Agreement, as so amended and modified, the "Nationwide Agreement"), this Agreement be entered into among the parties hereto; and

WHEREAS, the purpose of this Agreement is to confirm, as between Nationwide and Citadel, their respective rights and priorities with respect to the obligations of SHC and with respect to the Equity Collateral and the Borrower Collateral (as such terms are defined in the Citadel Agreement) now or hereafter held as security by Nationwide in respect of the Nationwide Indebtedness and by Citadel in respect of the Citadel Indebtedness.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE LVI

DEFINITIONS

LVI.1 Certain Defined Terms. Unless otherwise defined herein, terms

that are defined in the Citadel Agreement and used herein are so used as so defined, and the following terms shall have the following meanings:

"Affiliate" of any Person means any other Person controlling, controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled by" have the meanings correlative to the foregoing. Notwithstanding the foregoing: (a) SHC and its Affiliates ("SHC's Affiliates") shall not include Reading, Citadel and their respective Subsidiaries; (b) Reading, Citadel and their respective Subsidiaries, on the one hand, and SHC and SHC's Affiliates, on the other hand, shall not be considered Affiliates of each other; (c) SHC and SHC's Affiliates shall not include Nationwide and its Subsidiaries; (d) none of Nationwide or any of its Subsidiaries, on the one hand, and SHC or any of SHC's Affiliates, on the other hand, shall be considered Affiliates of each other; (e) Citadel and its Affiliates ("Citadel's Affiliates") shall not include Nationwide and its Subsidiaries; (f) Reading and its Affiliates ("Reading's Affiliates") shall not include Nationwide and its Subsidiaries; and (f) none of Nationwide or any of its Subsidiaries, on the one hand, and either Citadel or any of Citadel's Affiliates or Reading and any of Reading's Affiliates, on the other hand, shall be considered Affiliates of each other.

"Agreement" has the meaning specified in the preamble to this Agreement.

"Bad Faith Determination" with respect to a Citadel Proceeding means the entry of one or more Final Orders (i)(a) dismissing such Citadel Proceeding if (I) neither Nationwide

nor SHC consented to such Citadel Proceeding and at least one of Nationwide or SHC opposed such Citadel Proceeding and (II) such Final Order is based on a finding by the court that (A) in the case of a Citadel Proceeding under the Federal bankruptcy laws, the criteria in 11 U.S.C. ss.303(b) are not satisfied or (B) in any other case, the relevant statutory criteria for bringing such Citadel Proceeding are not satisfied and (b) finding that any Petitioning Creditor in such Citadel Proceeding which is Citadel or a Citadel Affiliate, at the time such petition or other action was filed or taken, initiated such Citadel Proceeding in "bad faith" (or words of similar import) or (ii) granting judgment against a Petitioning Creditor therein which is Citadel or an Affiliate of Citadel under 11 U.S.C. ss.303(i)(2) (as any such statutory section referenced herein may hereafter be modified, restated or amended).

"Blockage Period" has the meaning specified in Section 2.02(b).

"Change" has the meaning specified in paragraph (b) of Section 2.10.

"Citadel" has the meaning specified in the preamble to this Agreement.

"Citadel Agreement Payment Default" means an Event of Default under Section 9.1(a) of the Citadel Agreement.

"Citadel Event of Default" means an Event of Default as such term is defined in the Citadel Agreement.

"Citadel Indebtedness" means any and all amounts of money from time to time owing by, and any and all obligations and liabilities from time to time of, SHC under the Subordinated Documents, whether now existing or hereafter arising (as limited by the terms of this Agreement), fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for fees, indemnities, costs, expenses or otherwise, including without limitation any rights of indemnification, reimbursement, subrogation or contribution arising under the Subordinated Documents.

"Citadel Proceeding" means an Insolvency or Liquidation Proceeding in which Citadel or any Citadel Affiliate is a Petitioning Creditor; provided, however, that, if the Citadel Indebtedness is transferred, the term Citadel Proceeding shall mean an Insolvency or Liquidation Proceeding in which the holder of the Citadel Indebtedness or an Affiliate of such holder is a Petitioning Creditor.

"Credit Agreement" shall mean each credit agreement, loan agreement, note purchase agreement and each other agreement or arrangement between SHC and a lender or lenders to SHC or other Person or Persons providing credit support to SHC or to debt issued by or on

behalf of SHC, as the same may be amended, restated, modified or supplemented from time to time, including without limitation the Nationwide Agreement and collectively, the Citadel Agreement and the Subordinated Documents.

"Creditor" shall mean each of Nationwide and Citadel, in their respective roles as lender to SHC.

"Final Order" means a judgment by a court of competent jurisdiction, not subject to further appeal or with respect to which the time to appeal has lapsed.

"Fully Paid" means, with respect to the Nationwide Indebtedness, for purposes only of this Agreement, as of any date, that on or before such date (i) the principal of such Nationwide Indebtedness shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide, (ii) all interest accrued on such Nationwide Indebtedness as of such date (including interest accrued after, or that would have accrued but for, the filing of a petition under Title 11 of the United States Code (or any successor statute thereto) or the institution or initiation of any other Insolvency or Liquidation Proceeding, in accordance with the terms of such Nationwide Indebtedness) shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide, and (iii) all fees and expenses and other amounts then due and payable that constitute Nationwide Indebtedness shall have been paid in full in immediately available funds or such other manner satisfactory to Nationwide; provided, however, that if, at any time after the Nationwide Indebtedness is determined to be "Fully Paid" for purposes of this Agreement, any other amounts that constitute Nationwide Indebtedness become due and payable, such other Nationwide Indebtedness shall be "Fully Paid" for such purpose only upon satisfaction of the conditions specified in foregoing clause (i), (ii) or (iii), as the case may be, and the provisions of this Agreement shall remain, or shall be revived and thereafter remain, in full force and effect, with respect only to the principal amount of the Citadel Indebtedness then outstanding and accrued interest thereon, and any other amounts payable with respect thereto, then unpaid, until such other Nationwide Indebtedness shall be Fully Paid pursuant hereto.

"Insolvency or Liquidation Proceeding" means (i) any insolvency or bankruptcy case or proceeding (including any case under the Bankruptcy Code), or any receivership, liquidation, reorganization or other similar case or proceeding relative to SHC or all or substantially all of its assets, or (ii) any liquidation, dissolution, reorganization or winding up of SHC, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (iii) any assignment of all or substantially all of the assets of SHC for the benefit of creditors or any other marshaling of assets and liabilities of SHC.

"Nationwide" has the meaning specified in the preamble to this Agreement.

"Nationwide Accrual" means interest on the principal of the Nationwide Indebtedness (i) relating to any period in respect of which either (x) Citadel Cinemas has failed to pay any amount of Basic Rent or Additional Rent (each as defined in the Lease Agreement) or (y) as a result of the failure by Citadel Cinemas to perform any of its obligations under any of the Operational Documents, SHC has applied Basic Rent received by it to perform such obligations, in each case under clause (x) or (y) limited to the lesser of (a) the amount which Citadel Cinemas failed to so pay or the amount which SHC has so applied, as the case may be, and (b) the amount of such interest, or (ii) which remains unpaid and accruing on such principal (or, but for the filing of a Citadel Proceeding, that would have accrued on such principal) during the pendency of a Citadel Proceeding if there is a Bad Faith Determination with respect to such Citadel Proceeding.

"Nationwide Agreement" has the meaning specified in the recitals to this Agreement, as any document, instrument or agreement comprising the Nationwide Agreement may from time to time be amended, modified or supplemented, and any agreement or other document or instrument pursuant to which any principal of or interest on or other amounts payable in respect of indebtedness thereunder of SHC (or any successor Person to SHC (whether by merger, consolidation, or acquisition of all or substantially all of its assets)) may be renewed, extended, refinanced, restructured, refunded or guaranteed, in each case as permitted in accordance with Section 2.10(c) of this Agreement.

"Nationwide Event of Default" means an Event of Default as such term may be defined in the Nationwide Agreement.

"Nationwide Indebtedness" means any and all indebtedness, obligations and liabilities of SHC from time to time outstanding under the Nationwide Agreement, in a principal amount not to exceed the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement, whether now existing or hereafter arising, fixed or contingent, due or not due, liquidated or unliquidated, determined or undetermined, and whether for principal (subject to the aforesaid limitation), premium, interest (including interest accruing before or after the commencement of any Insolvency or Liquidation Proceeding or interest that would have accrued but for the commencement of such Insolvency or Liquidation Proceeding, to the date of payment, even if the claim for such interest is not allowed pursuant to Applicable Law), fees, indemnities, costs, expenses or otherwise.

"Petitioning Creditor" with respect to any Insolvency or Liquidation Proceeding means each of the creditors that filed the petition to commence or otherwise commenced such Insolvency or Liquidation Proceeding.

"Reading" means Reading Entertainment, Inc., a Delaware corporation, and its successors.

"Retained Claims" has the meaning specified in Section 2.11(h) hereof.

"SHC" has the meaning specified in the preamble to this Agreement.

"Subordinated Documents" means the Citadel Agreement and the Note (if and when executed) and all other promissory notes and other instruments, agreements and documents executed at any time pursuant to the Citadel Agreement or in connection therewith between SHC and Citadel, including all other Related Documents, and all amendments, modifications, supplements, extensions, renewals, restatements, refundings and refinancings affecting the Citadel Agreement and all such other notes, instruments, agreements and documents.

"Trigger Event" means the occurrence of any of the following events:

- (a) An Insolvency or Liquidation Proceeding excluding such Insolvency or Liquidation Proceeding caused by or in any way resulting from a Tenant Event;
- (b) Acceleration of the Nationwide Indebtedness;
- (c) Acceleration of the Citadel Indebtedness as a result of a Citadel Agreement Payment Default or a failure to make payment when due under the Nationwide Agreement following the expiration of applicable notice or grace period thereunder; or
- (d) The occurrence of an Event of Default under the Citadel Agreement pursuant to Section 9.1(c) thereof arising as a result of a default by SHC under any of Section 6.8, 6.9, 7.1, 7.2, 7.3, 7.4, 7.5, 7.7, 7.9, 7.11, 7.12 or 7.13 thereof.

LVI.2 Construction. References herein to the plural form include the

singular, and the singular include the plural; the word "including" is not limiting; and the word "or" is not exclusive. The words "hereof", "wherein", "hereby", and "hereunder" refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, section, exhibit and schedule references are to articles and sections of, and exhibits and schedules to, this Agreement, unless otherwise expressly indicated.

ARTICLE LVII

TERMS OF SUBORDINATION

LVII.1 Subordination of Indebtedness. Citadel, for itself and its

successors and assigns, hereby agrees that (a) to the extent and in the manner provided in this Agreement, and under the circumstances provided in Sections 2.02 and 2.04 hereof, the Citadel Indebtedness is hereby expressly made subordinate and subject in right of payment to the prior payment in full of all Nationwide Indebtedness, (b) the subordination provided herein is for the benefit of Nationwide and its permitted successors and assigns, (c) Nationwide shall be deemed to have extended or acquired the Nationwide Indebtedness, whether now outstanding or hereafter created, incurred, assumed or guaranteed, in reliance upon the covenants and provisions contained in this Agreement, and (d) the provisions of this Agreement apply notwithstanding anything to the contrary in the Subordinated Documents. Notwithstanding anything contained herein or in any other document related hereto to the contrary, however, in no event shall the Citadel Indebtedness be subordinate to a principal amount of Nationwide Indebtedness which exceeds the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement.

LVII.2 No Payment on Citadel Indebtedness in Certain Circumstances.

(a) Upon the maturity of any Nationwide Indebtedness, whether at the final maturity thereof, by lapse of time, acceleration or otherwise (including the scheduled time of payment (including any mandatory prepayment) of any principal or interest), all principal thereof that is then due and payable (up to the amount permitted pursuant to the last sentence of Section 7.3 of the Citadel Agreement) and interest thereon and interest thereafter accruing pursuant to the terms of the Nationwide Agreement (including interest that would have accrued but for the commencement of any Insolvency or Liquidation Proceeding) and other amounts constituting Nationwide Indebtedness that are then due and payable or thereafter accruing in accordance with the Nationwide Agreement and, to the extent so provided for therein or otherwise permitted by law, interest on such other amounts shall first be Fully Paid, before any payment or distribution is made by SHC on account of the Citadel Indebtedness.

(b) Upon the occurrence and during the continuation of a Nationwide Event of Default, no direct or indirect payment or distribution shall be made by SHC on account of any Citadel Indebtedness, for a period (the "Blockage Period") beginning on the date of the occurrence of the Nationwide Event of Default in question and ending upon the earliest to occur of the following: (i) when such Nationwide Event of Default shall have been cured by SHC or waived in writing by Nationwide, (ii) when Nationwide shall have waived in writing the application of this Section 2.02(b) to such Nationwide Event of Default, or (iii) when the Nationwide Indebtedness is Fully Paid.

(c) Except as expressly prohibited in paragraphs (a) and (b) of this Section 2.02, nothing contained herein or in any other document or agreement shall prohibit or restrict SHC from paying the Citadel Indebtedness as and when due.

(d) If Citadel shall have received any payment or distribution in contravention of the provisions of paragraph (a) or (b) of this Section 2.02, such payment or distribution shall be held in trust for Nationwide and shall be promptly paid over to Nationwide for application to the payment of the Nationwide Indebtedness, until any of the events described in Sections 2.02(b)(i), 2.02(b)(ii) and 2.02(b)(iii) shall have occurred.

(e) Each of the Creditors shall give prompt notice to the other Creditor of the occurrence and the type of any Nationwide Event of Default or Citadel Event of Default, as the case may be, or if a payment or distribution would constitute or result in a Nationwide Event of Default or Citadel Event of Default, as the case may be. Nationwide shall confirm in writing, in response to a written request from Citadel or any of its Affiliates, whether or not Nationwide shall have received payment from SHC of any obligation of SHC to Nationwide specified in such request. If such confirmation is not provided within ten (10) Business Days following Nationwide's receipt thereof, the requesting party can assume that such payment(s) had not been made. Failure to give any of such notices in the foregoing sentences shall not affect the subordination of the Citadel Indebtedness to the Nationwide Indebtedness as provided herein.

(f) The provisions of this Section 2.02 shall not modify or limit in any way the application of Section 2.04.

LVII.3. Actions in Respect of Citadel Indebtedness.

(A) Subject in all cases to the terms of this Agreement, Citadel may (1) accelerate the Citadel Indebtedness in accordance with the terms of the Subordinated Documents; (2) file a claim in respect of the Citadel Indebtedness in any Insolvency or Liquidation Proceeding; and (3) take all other action necessary to enforce and protect its rights with respect to the Citadel Indebtedness.

(B) In the event of a Citadel Agreement Payment Default, Citadel is entitled to exercise all rights and remedies pursuant to the terms of the Citadel Agreement and the Subordinated Documents. In the event of a Citadel Event of Default other than a Citadel Agreement Payment Default, Citadel is entitled to exercise all rights and remedies pursuant to the terms of the Citadel Agreement and the Subordinated Documents following the earliest to occur of the following: (i) Nationwide has waived this provision in writing; (ii) the Nationwide Indebtedness is Fully Paid; (iii) the Nationwide Indebtedness is accelerated; and

(iv) the expiration of ninety (90) days from the occurrence of the Citadel Event of Default in question. If the Citadel Event of Default in question is cured within the time period set forth in clause (iv) of this paragraph (b) and prior to the occurrence of the event described in clause (i), (ii) or (iii) above, then, for all purposes of this Agreement, such Citadel Event of Default shall be deemed never to have existed. Nothing contained in this Section 2.03 shall in any way affect the rights and remedies of the parties contained in the other provisions of this Agreement in the event of an Insolvency or Liquidation Proceeding.

(c) Notwithstanding anything contained herein to the contrary, Nationwide, for itself and its successors and assigns, agrees that (i) it will not voluntarily release, subordinate or surrender, or, except in connection with an assignment of the Nationwide Indebtedness, sell or exchange, its Lien on the Equity Collateral unless and until the Nationwide Indebtedness shall have been Fully Paid or Citadel shall have given its prior consent to such release, and (ii) if Citadel shall be subrogated to the rights and interests of Nationwide pursuant to Section 2.06 hereof or shall acquire the Nationwide Indebtedness pursuant to Section 2.11(h) hereof, Nationwide shall assign to Citadel, without recourse to, or representation or warranty by, Nationwide, Nationwide's Lien on the Equity Collateral and the Borrower Collateral to the extent of such Lien.

LVII.4 Subordination on Dissolution, Liquidation or Reorganization of

SHC. In the event of any Insolvency or Liquidation Proceeding:

- - -

(a) Unless Nationwide agrees to a different treatment with respect to its claim for the Nationwide Indebtedness (as to which Nationwide shall have absolutely no obligation), upon any distribution of assets of SHC of any kind or character, whether in cash, securities or other property, arising out of such Insolvency or Liquidation Proceeding, all Nationwide Indebtedness shall be Fully Paid before Citadel is entitled to receive any payment or distribution on account of any Citadel Indebtedness;

(b) Any payment or distribution of assets of SHC of any kind or character, whether in cash, securities or other property (including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of SHC being subordinated to the Citadel Indebtedness), to which Citadel would be entitled except for the provisions of this Section 2.04, shall be paid by SHC, as debtor in possession, or any bankruptcy trustee or other agent or other Person making such payment or distribution directly to Nationwide, until all Nationwide Indebtedness remaining unpaid is Fully Paid, after giving effect to any concurrent payments or distributions to or for Nationwide for application to the payment of the Nationwide Indebtedness, or any of the events described in Section 2.02(b)(i), (ii) or (iii) shall have occurred; and

(c) If, notwithstanding the foregoing provisions of this Section 2.04, Citadel shall have received any payment or distribution of assets of SHC, or the estate created by the commencement of any such Insolvency or Liquidation Proceeding, of any kind or character in respect of the Citadel Indebtedness, whether in cash, securities or other property, before all Nationwide Indebtedness shall have been Fully Paid, such payment or distribution shall be received and held in trust for Nationwide, and shall promptly be paid over or delivered to Nationwide, for the benefit of Nationwide, until all Nationwide Indebtedness then remaining unpaid is Fully Paid, after giving effect to any concurrent payments or distributions to or for Nationwide for application to the Nationwide Indebtedness, or any of the events described in Section 2.02(b)(i), (ii) or (iii) shall have occurred.

LVII.5. Liens. The Liens on the Collateral in favor of Citadel

shall be subject and subordinate in all respects to the Liens in favor of Nationwide.

LVII.6. Citadel to Be Subrogated to Rights of Nationwide. Only

after the Nationwide Indebtedness shall have been Fully Paid, Citadel, to the extent of any payments or distributions of cash, securities and other assets with respect to the Citadel Indebtedness made to or for Nationwide pursuant to this Agreement, shall be subrogated to the rights of Nationwide to receive any and all payments or distributions of cash, securities and other assets payable with respect to the Nationwide Indebtedness until all amounts owing on the Citadel Indebtedness shall have been paid in full. For the purpose of such subrogation, no such payments or distributions to or for Nationwide that otherwise would have been made to Citadel but for this Agreement shall, as between SHC and Citadel, be deemed to be payment by SHC on account of the Citadel Indebtedness; provided, however, that (x) unless and until, as between Nationwide and Citadel, the Nationwide Indebtedness is Fully Paid, Citadel shall not have the right, ability or power to exercise any rights or remedies in respect of or by reason of such subrogation and (y) such rights of subrogation, and any claims of Citadel with respect thereto, are nevertheless limited by and subject to Section 11.12 of the Citadel Agreement.

LVII.7. Relative Rights. (a) This Agreement defines the relative

rights of Citadel, on the one hand, and Nationwide, on the other hand. Nothing in this Agreement is intended to or shall:

(i) impair, as between SHC and Citadel, the obligation of SHC to pay the amounts payable with respect to the Citadel Indebtedness as and when the same shall become due and payable in accordance with its terms; or

(ii) affect the relative rights against SHC of Citadel and creditors of Citadel other than Nationwide.

(b) Notwithstanding anything herein or elsewhere to the contrary, if SHC fails, because of this Agreement or otherwise, to pay principal of or interest on the Citadel Indebtedness on the due date thereof, such failure shall still be considered an Event of Default under paragraph (a) of Section 9.1 of the Citadel Agreement except as otherwise provided in said paragraph (a).

LVII.8. Continued Effectiveness of this Agreement.

(a) The terms of this Agreement, the subordination affected hereby, and the rights of Nationwide and the obligations of Citadel arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (i) any amendment, modification or termination of or supplement to the Nationwide Indebtedness or the Nationwide Agreement, or any agreement, instrument or document executed or delivered pursuant thereto; (ii) the validity or enforceability of any such document; (iii) the release, sale, exchange or surrender, in whole or in part, of any collateral security, now or hereafter existing, for any of the Nationwide Indebtedness or any other indebtedness, liability or obligations of SHC to Nationwide, now existing or hereafter arising; (iv) any exercise or non-exercise of any right, power or remedy under or in respect of the Nationwide Indebtedness or any of such instruments and documents referred to in clause (i) above or arising at law; or (v) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, inaction or omission in respect of the Nationwide Indebtedness or any of the agreements, instruments or documents referred to in clause (i) above or in respect of any collateral security for the Nationwide Indebtedness or any other indebtedness, liability or obligation of SHC to Nationwide, now existing or hereafter arising, all whether or not Citadel shall have had notice or knowledge of any of the foregoing and whether or not Citadel shall have consented thereto.

(b) The terms of this Agreement, and the rights of Citadel and the obligations of Nationwide arising hereunder, shall not be affected, modified or impaired in any manner or to any extent by: (i) any amendment, modification or termination of or supplement to the Citadel Indebtedness or the Subordinated Documents, or any agreement, instrument or document executed or delivered pursuant thereto; (ii) the validity or enforceability of any such document; (iii) the release, sale, exchange or surrender, in whole or in part, of any collateral security, now or hereafter existing, for any of the Citadel Indebtedness or any other indebtedness, liability or obligations of SHC to Citadel, now existing or hereafter arising; (iv) any exercise or non-exercise of any right, power or remedy under or in respect of the Citadel Indebtedness or any of such instruments and documents referred to in clause (i) above or arising at law; or (v) any waiver, consent, release, indulgence, extension, renewal, modification, delay or other action, inaction or omission in respect of the Citadel Indebtedness or any of the agreements, instruments or documents referred to in clause (i)

above or in respect of any collateral security for the Citadel Indebtedness or any other indebtedness, liability or obligation of SHC to Citadel, now existing or hereafter arising, all whether or not Nationwide shall have had notice or knowledge of any of the foregoing and whether or not Nationwide shall have consented thereto.

LVII.9. Provisions to Effectuate Subordination of Citadel

Indebtedness.

(a) In the event of any Insolvency or Liquidation Proceeding, Nationwide is irrevocably authorized and empowered, in its discretion, to make and present for and on behalf of Citadel such proofs of claim against SHC on account of the Citadel Indebtedness or other motions or pleadings as Nationwide may deem expedient or proper, to vote such proofs of claim in any such Insolvency or Liquidation Proceeding, to the extent permitted by law, and to receive and collect any and all payments or distributions made thereon in whatever form and to apply such payments or distributions on account of any of the Nationwide Indebtedness. Citadel irrevocably authorizes and empowers Nationwide to demand, sue for, collect and receive each of such payments and distributions and to file claims and take such other actions, in the name of Nationwide or Citadel or otherwise, as Nationwide may deem necessary or advisable for the enforcement of this Agreement. To the extent that payments or distributions are made in property other than cash, Citadel authorizes Nationwide to sell such property to such buyers and on such terms as Nationwide, in its reasonable discretion, shall determine. Citadel will execute and deliver to Nationwide such powers of attorney, assignments and other instruments or documents as may be requested by Nationwide in order to enable Nationwide to enforce any and all claims upon or with respect to the Citadel Indebtedness and to collect and receive any and all payments and distributions which may be payable or deliverable at any time with respect thereto.

(b) Nationwide agrees that it will not exercise any of the rights or remedies under paragraph (a) of this Section 2.09 unless Citadel has failed to implement any action in question within ten (10) days prior to when such action is required pursuant to an Insolvency or Liquidation Proceeding.

(c) Citadel specifically waives: unless Nationwide shall otherwise give its prior written consent or the Nationwide Indebtedness is Fully Paid, (i) the right to seek to give its credit (secured or otherwise) to SHC in any way under Section 364 of the Bankruptcy Code unless the same is subordinated in all respects to the Nationwide Indebtedness in accordance with the terms and conditions of this Agreement; (ii) the right to take a position inconsistent with or contrary to that of Nationwide (including a position by Nationwide to take no action) if SHC seeks to use, sell or lease the Collateral under Section 363 of the Bankruptcy Code or seeks to accept or reject any executory contract or lease under Section 365 of the Bankruptcy Code; (iii) the right to receive any collateral (including any "super priority" or equal or

"priming" or replacement Lien) for the Citadel Indebtedness, other than the Equity Collateral and the Borrower Collateral, in each case subject to Nationwide's Liens thereon to the extent provided herein; and (iv) the right to seek adequate protection in respect of the Collateral under Section 363 or 361 of the Bankruptcy Code, unless and then only to the extent that Nationwide does and then only to the extent consistent with the subordinated position of Citadel.

LVII.10. Subordination not Impaired by Acts or Omissions of SHC or

Nationwide. (a) No right of Nationwide to enforce subordination as provided

herein shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of SHC or, except as provided in Section 2.10(c), by any act or failure to act by Nationwide, or by any noncompliance by SHC with the provisions and covenants of the Nationwide Agreement or the Subordinated Documents, regardless of any knowledge thereof that Nationwide may have or be otherwise charged with and regardless of whether such action or failure to act diminishes or destroys any subrogation or other rights that Citadel may have or reduces or eliminates any eventual recovery in respect of the Citadel Indebtedness. Without in any way limiting the generality of the foregoing, Nationwide may, at any time and from time to time, without the consent of or notice to Citadel, except as provided in Section 2.10(c), without incurring responsibility to Citadel and without impairing or releasing the subordination and other benefits provided in this Agreement or the obligations hereunder of Citadel to Nationwide, do any one or more of the following even if any right to reimbursement or subrogation or other right or remedy of Citadel is affected, impaired or extinguished thereby:

(i) change the manner, place or terms of payment or extend, renew, modify or amend the terms of the Nationwide Indebtedness or any agreement or instrument evidencing, securing or guarantying any Nationwide Indebtedness (including increasing the amount of principal, changing the time and amount of repayments, increasing the rate of interest or otherwise changing the terms of the Nationwide Agreement), exercise or delay in or refrain from exercising any right or remedy against SHC and otherwise deal freely with SHC or any liability of SHC;

(ii) release, exercise or delay in or refrain from exercising any right or remedy against, change the terms of any agreement or instrument with or otherwise deal freely with any guarantor or any other Person liable or contingently liable in any manner for the Nationwide Indebtedness or any such liability or contingent liability;

(iii) settle or compromise any of the Nationwide Indebtedness or any other liability of SHC or any guarantor of the Nationwide Indebtedness to Nationwide and apply any sums by whomsoever paid and however realized to any liability (including, without limitation, the Nationwide Indebtedness) in any manner or order; and

(iv) fail to take or to record or otherwise perfect, for any reason or for no reason, any Lien securing the Nationwide Indebtedness by whomsoever granted, and release, sell, exercise or delay in or refrain from exercising any right or remedy against, exchange, enforce, realize upon, or otherwise deal freely with, in any manner and in any order, any of the Collateral.

(b) Except as provided in Section 2.10(c), Citadel hereby waives any and all notice of the creation, modification, renewal, extension or accrual of any Nationwide Indebtedness and notice of or proof of reliance by Nationwide upon this Agreement, and the Nationwide Indebtedness shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Agreement, and all dealings between SHC and Nationwide shall be deemed to have been consummated in reliance on this Agreement.

(c) Notwithstanding anything contained in this Agreement or any other agreement to the contrary, the consent of Citadel shall be required for (i) any amendment or modification of the Nationwide Agreement (any of the foregoing being a "Change") (A) changing the dates of payment of interest, principal, fees or costs in respect of the Nationwide Indebtedness or shortening the maturity of or requiring the earlier payment of any principal or interest in respect of the Nationwide Indebtedness, (B) increasing the rate of interest or the amount of any payments (including the amount of any fees payable in respect of the Nationwide Indebtedness), except for the increase in rate provided for therein following maturity thereof, whether at stated maturity, by acceleration or otherwise, or (C) adding any requirement for SHC to pay any additional fees in respect of the Nationwide Indebtedness, or (ii) any Change making any material terms and conditions of the Nationwide Agreement more restrictive or burdensome on SHC than the terms and conditions of the Nationwide Agreement delivered to Citadel and in effect on the date hereof. If any Change is made in contravention of this Section 2.10(c), any additional liabilities or obligations to Nationwide imposed thereby on SHC shall not constitute obligations secured by the Collateral and, with respect to such additional liabilities or obligations, Nationwide shall not be entitled to any of the benefits of this Agreement, the Security Agreement or the Pledge Agreement.

LVII.11. Additional Agreements and Waivers.

(a) Citadel hereby waives (i) any requirement for marshaling of assets by Nationwide in connection with any foreclosure of the Liens of Nationwide on any Collateral or any other realization upon such Collateral, and (ii) any other principle of election of remedies.

(b) Nationwide shall not have any obligation or duty, nor shall Citadel have any right to direct Nationwide, to retain, perfect, protect or release any Collateral (except as

provided in Section 2.03(c)), to foreclose or refrain from foreclosing the Lien of Nationwide on any Collateral, to act or refrain from acting with respect to any Nationwide Event of Default, to act or refrain from acting with respect to the collection of any claim from any account debtor, guarantor or any other party, to realize upon any collateral or otherwise to exercise or refrain from exercising any rights or remedies in respect of such Lien or such Collateral. Except with respect to a violation of Section 2.03(c), Nationwide shall not be subject to any liability on account of taking or refraining from taking any action referred to in this Section 2.11(b), and Citadel waives and agrees to refrain from asserting against Nationwide any claim seeking damages or other relief by way of specific performance, injunction or otherwise, with respect to any action taken or not taken by Nationwide with respect to SHC, the Collateral or any other Person. Without limiting the foregoing, Citadel waives the right to commence or pursue any legal action on account of the exercise or non-exercise of rights, remedies or other conduct of Nationwide under the Nationwide Agreement or any document entered into in connection therewith, including allegations based on a theory of breach of fiduciary obligations of Nationwide, duty of care, duty of good faith, duty of reasonableness, negligence, equitable subordination of claims, interference with contractual relationships, conflicts of interest or otherwise, except for willful misconduct by Nationwide or a violation of Section 2.03(c) hereof.

(c) Solely between Nationwide and Citadel, Citadel assumes responsibility for keeping itself informed as to the condition (financial or otherwise), business, assets and operations of SHC, the condition of the Collateral and all other circumstances that might in any way affect Citadel's risk under the Subordinated Documents and this Agreement (including without limitation the risk of non-payment of the Nationwide Indebtedness), and Nationwide shall have no duty or obligation whatsoever to obtain or disclose to Citadel any information or documents relative to such condition (financial or otherwise), business, assets or operations of SHC, such Collateral or such risk, whether acquired by Nationwide in the course of its relationship with SHC or otherwise. The terms of this Section 2.11(c) shall not impair or affect SHC's obligations arising under any Credit Agreement or any of the Subordinated Documents.

(d) Citadel agrees that the subordination hereunder applies regardless of the validity or enforceability of the Nationwide Indebtedness or the Nationwide Agreement or the validity, perfection or enforceability of the Liens securing the Nationwide Indebtedness.

(e) Citadel agrees not to (i) take any action to challenge the validity, enforceability or amount of any guaranty of the Nationwide Indebtedness given by any other Person, (ii) induce any other Person to take such action, or (iii) cooperate with any other Person in taking such action.

(f) Within fifteen (15) days following the written request from Nationwide or SHC, Citadel shall deliver to SHC and Nationwide an estoppel certificate setting forth (i) the amount of principal and interest then due, if any, and other amounts then payable (to the extent then ascertainable), if any, in respect of the Citadel Indebtedness and (ii) whether or not the Subordinated Documents have been amended since the date hereof or the date of the last such certificate delivered pursuant hereto, as the case may be, and if so, providing a copy of the relevant amendment documents.

(g) Within fifteen (15) days following the written request from Citadel, each of Nationwide and SHC shall deliver to Citadel an estoppel certificate setting forth (i) the amount of principal and interest then due, and other amounts then payable (to the extent ascertainable), in respect of the Nationwide Indebtedness and (ii) whether or not the Nationwide Agreement has been amended since the date hereof or the date of the last such certificate delivered pursuant hereto, as the case may be, and, if so, providing a copy of the relevant amendment documents. Nationwide confirms that, as of the date hereof, the outstanding principal sum of the Nationwide Indebtedness is eleven million Dollars (\$11,000,000), and no other sums are now accrued or payable under the Nationwide Agreement except interest in accordance with the terms of the Nationwide Agreement from _____, the date of last payment of interest thereunder.

(h) (i) At any time following a Trigger Event, upon the request of Citadel and upon at least five (5) Business Days' prior written notice to Nationwide, Nationwide will assign to Citadel, without any recourse to, or representation or warranty by, Nationwide, the Nationwide Agreement (other than Nationwide's claims, if any, in respect of interest and other fees and costs thereunder, to the extent not included in the Nationwide Accrual) (the "Retained Claims"), which Retained Claims shall be retained by and remain the property of Nationwide) upon the payment to Nationwide, or as it may direct in writing, of the sum of (x) the principal amount of the Nationwide Indebtedness or \$11,000,000, whichever is less, and (y) the Nationwide Accrual; provided, however, that the Nationwide Indebtedness and the Nationwide Agreement, as assigned, will then be subject to Section 11.12 of the Citadel Agreement. Upon such assignment, this Agreement shall terminate and all rights and obligations between Nationwide and Citadel shall terminate, except as provided in this Section 2.11(h). Upon such assignment, the combined assigned Nationwide Indebtedness and the Citadel Indebtedness shall be treated for purposes of this Agreement as if such combined Indebtedness were the Nationwide Indebtedness and the Retained Claims shall be treated as if such Retained Claims were the Citadel Indebtedness; provided, however, that nothing herein shall affect, limit or impair the right of Nationwide to enforce, collect and retain free from any limitations or restrictions of this Agreement payment of the Retained Claims from any Person other than SHC.

(ii) At Citadel's election, payment to Nationwide or an Affiliate thereof for the amount required to be paid pursuant to subsection 2.11(h)(i) may be made by it or an Affiliate making and delivering a note for the full amount due, payable in full ninety (90) days from its date, with interest thereon payable at the rate of 8.25% monthly in arrears and on the date of payment in full (increasing to 9.75% following maturity thereof, whether at stated maturity, by acceleration or otherwise); provided, however, that Nationwide (or such Affiliate) may require that the maturity date of the note be extended to such later date, not beyond the expiration of the Initial Term of the Lease Agreement as may be requested by Nationwide (or such Affiliate) in a notice given to Citadel not later than sixty (60) days prior to the originally stated maturity date of such note, in which case the maker of the note and, if applicable, the guarantor thereof shall execute and deliver such additional documents to confirm such extension as may be appropriate. Such note, if made by an Affiliate of Citadel, shall be fully guaranteed as to payment by Citadel, or may in the first instance be made by Citadel (in which case no guaranty shall be required). The note and, if applicable, the guaranty shall be on terms and conditions reasonably satisfactory to Nationwide. The option provided herein in favor of Citadel to pay through delivery of a note and, if applicable, a guaranty shall not be available in connection with the exercise of the Purchase Option pursuant to the Lease Agreement and any such note shall be pre-payable in full upon the closing pursuant to the Purchase Option or the purchase or other acquisition by Citadel (or an Affiliate) of the Membership Interest in SHC.

(iii) Upon the payment to Nationwide of the amount required to be paid to it pursuant to subsection 2.11(h)(i) (whether in cash or by the making and delivery of a note and, if applicable, a guaranty), Nationwide shall, as Citadel may request, either satisfy or assign (without recourse to, or representation or warranty by, Nationwide) as Citadel shall direct any and all Liens securing the Nationwide Indebtedness and any claims (other than the Retained Claims) with respect thereto; provided, however, that such Liens and claims, if so assigned, will be subject to the limitations of Section 11.12 of the Citadel Agreement. Any and all Retained Claims shall be unsecured claims and any judgment thereon shall not be enforced against or become Liens on any assets of SHC.

(iv) If the Trigger Event is a Citadel Proceeding and if a Bad Faith Determination is entered with respect thereto, then Citadel shall be liable: (x) to Nationwide, for all costs and expenses (including reasonable fees and expenses of counsel and other professional advisors) incurred by Nationwide in connection with the Citadel Proceeding and in seeking such Bad Faith Determination and for interest (at the Reimbursement Rate) on any taxes paid by Nationwide as a result of the transfer or repayment of the Nationwide Indebtedness for the period from the date such taxes were paid until the date such taxes would have been paid if the Nationwide Indebtedness had been repaid at the maturity date thereof; and (y) to SHC and its Affiliates, for all costs and expenses (including reasonable fees and expenses of counsel and other professional advisors) incurred by SHC and its

Affiliates in connection with the Citadel Proceeding and in seeking such Bad Faith Determination. If following the initiation of a Citadel Proceeding either Nationwide or any of its Affiliates or SHC or any of its Affiliates, or any other Person acting in concert with or with the support of any of them, unsuccessfully asserts a claim for a Bad Faith Determination, then Nationwide (if it or any of its Affiliates asserted such claim) or James J. Cotter and Michael R. Forman (if SHC or any of its Affiliates asserted such claim) shall be liable to Citadel for all costs and expenses (including reasonable fees and expenses of counsel and other professionals) incurred by Citadel in defending against the claim for a Bad Faith Determination.

Section 2.12. Transferees of Creditors; Notice of Subordination.

(a) Each Creditor shall not at any time sell, assign, pledge, hypothecate, or otherwise transfer its Credit Agreement (or any of its respective rights or interests therein), unless and until the transferee, pledgee, or other appropriate party shall have assumed in a writing, reasonably satisfactory to the other, all of the transferring, pledging, or hypothecating Creditor's obligations under this Agreement.

(b) Each Creditor warrants and represents to the other Creditor that it has not previously assigned any interest in its respective Indebtedness, that no party owns an interest in its Indebtedness other than itself and that its entire Indebtedness is owing only to it. Each Creditor covenants that its entire Indebtedness shall continue to be owing only to it, unless assigned or transferred in accordance with the terms of this Agreement.

Section 2.13. Representations and Warranties. (a) Each Creditor hereby

represents and warrants for the benefit of the other as follows: (i) the execution, delivery and performance of this Agreement are within its corporate power and authority and have been duly authorized by all necessary corporate action and this Agreement constitutes the legal, valid and binding obligation of each Creditor enforceable against it in accordance with its terms, except as enforceability may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or limiting creditors' rights generally; and (ii) all consents for, in the case of Nationwide, the amending of the Existing Nationwide Agreement to the Nationwide Agreement and, in the case of Citadel, the funding to SHC pursuant to the Citadel Agreement have been obtained and are in effect (or will be obtained and in effect upon the date of funding).

(b) Nationwide hereby represents to Citadel that, upon the tender in cash of the amount of the Nationwide Indebtedness in the amount and subject to the conditions set forth in Section 2.11(h)(i) hereof, the assignment provided for in said Section 2.11(h)(i) will be provided whether or not Nationwide is then the holder of the Nationwide Indebtedness.

Section 2.14. Restriction on Amendments to Subordinated Documents. Neither

SHC nor Citadel shall, without the prior written consent of Nationwide, waive, amend or modify any of the terms and conditions of any Subordinated Document if the effect of such waiver, amendment or modification is to (a) advance maturity dates, (b) increase rates or amounts of payments, (c) change any provision herein, or (d) otherwise make any such terms and conditions more restrictive or burdensome on SHC than the terms and conditions of the Subordinated Documents delivered to Nationwide and in effect on the date hereof or at the time of such amendment or modification.

Section 2.15. Continuing Agreement of Subordination. This is a continuing

agreement of subordination and Nationwide may continue, at any time and without notice to Citadel, to extend credit or other financial accommodations to or for the benefit of SHC in reliance hereon. This Agreement shall be effective and may not be terminated or otherwise revoked by Citadel until the Nationwide Indebtedness has been Fully Paid. If Citadel shall have any right under Applicable Law or otherwise to terminate or revoke this Agreement which cannot be waived, then, to the extent permitted by law, such termination or revocation shall not be effective until written notice of such termination or revocation, signed by Citadel, is given to the holder of such Nationwide Indebtedness. Any such termination or revocation shall not affect this Agreement in relation to (a) any Nationwide Indebtedness which arose prior to the receipt thereof, or (b) any of the Nationwide Indebtedness created after receipt thereof, if such Nationwide Indebtedness was incurred either through committed advances or re-advances by Nationwide pursuant to the Nationwide Agreement.

Section 2.16. Further Assurances.

(a) Upon the occurrence and during the continuation of a Nationwide Default, Citadel shall duly and promptly take such action as Nationwide may reasonably request (a) to collect the Citadel Indebtedness for the account of Nationwide and to file appropriate claims or proofs of claims in respect of the Citadel Indebtedness, (b) to execute and deliver to Nationwide such assignments or other instruments as Nationwide may reasonably request in order to enable it to enforce any and all claims with respect to the Citadel Indebtedness and any security interests securing payment of the Citadel Indebtedness, and (c) to collect and receive any and all payments or distributions which may be payable or deliverable with respect to the Citadel Indebtedness.

(b) Nothing contained in this Agreement shall affect Citadel's obligations to make any advances pursuant to the terms of the Citadel Agreement.

ARTICLE LVIII

MISCELLANEOUS

LVIII.1. Amendments, Etc. No amendment, waiver or modification of any

provision of this Agreement, nor consent to any departure by any party hereto therefrom, shall in any event be effective unless the same shall be in writing, making specific reference to this Agreement and such amendment, waiver, modification or consent shall be consented to in one or more writings signed by or consented to by all the parties hereto, and then such amendment, waiver, modification or consent shall be effective only in the specific instance and for the specific purpose for which given.

LVIII.2. Notices, Etc. All notices, offers, acceptances, approvals,

waivers, requests, demands and other communications required or permitted hereunder or under any other instrument, certificate or other document delivered in connection with the transactions described herein shall be in writing, shall be addressed as provided below and shall be considered as properly given (a) if delivered in person, (b) if sent by express courier service (including, without limitation, Federal Express, Emery, DHL, Airborne Express, and other similar express delivery services), (c) in the event overnight delivery services are not readily available, if mailed by United States Postal Service, postage prepaid, registered or certified with return receipt requested, or (d) if sent by telecopy and confirmed; provided, that in the case of a notice by telecopy, the sender shall in addition confirm such notice by writing sent in the manner specified in clause (a), (b) or (c) of this Section 3.02. All notices shall be effective upon receipt by the addressee; provided, however, that if any notice is tendered to an addressee and the delivery thereof is refused by such addressee, such notice shall be effective upon such tender. For the purposes of notice, the addresses of the parties shall be as set forth below; provided, however, that any party shall have the right to change its address for notice hereunder to any other location by giving written notice to the other party in the manner set forth herein. The initial addresses of the parties hereto are as follows:

If to Citadel:

Citadel Holding Corporation
550 South Hope Street
Suite 1825
Los Angeles, CA 90071
Facsimile: (213) 239-0548

with required copies to

Duane, Morris & Heckscher LLP
380 Lexington Avenue
New York, NY 10168
Attention: Michael H. Margulis, Esq.
Telecopier No.: (212) 692-1020

If to SHC:

Sutton Hill Capital, L.L.C.
120 North Robertson Blvd.
Los Angeles, California 90048
Attention: Ira Levin
Telecopier No.: (310) 652-6490

If to Nationwide:

Nationwide Theatres Corp.
c/o Pacific Theatres
Los Angeles, California 90048
Attention: Legal Department
Telecopier No.: (310)

with required copies to

Whitman Breed Abbott & Morgan LLP
200 Park Avenue
New York, New York 10166
Attention: Howard E. Peskoe, Esq.
Telecopier No.: (212) 351-3131

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

LVIII.3. No Waiver; Remedies. No failure on the part of any party

hereto to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

LVIII.4. Costs and Expenses. Each Creditor agrees to pay on demand all

costs and expenses of the other Creditor in connection with the successful enforcement of this Agreement against the first Creditor (including without limitation for reasonable fees and expenses of counsel).

LVIII.5. Binding Effect. This Agreement shall be binding upon and

inure to the benefit of the parties hereto and their respective successors and assigns.

LVIII.6. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND

CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

LVIII.7. Execution in Counterparts. This Agreement may be executed in

any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

LVIII.8. Waiver of Jury Trial. THE PARTIES HERETO HEREBY IRREVOCABLY

WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

LVIII.9. Evidence of Understanding. Citadel shall, promptly upon the

request of Nationwide, and Nationwide shall, promptly upon the request of Citadel, execute and deliver such other documents and instruments as Nationwide or Citadel, as the case may be, may deem reasonably necessary or appropriate (in proper form for recording or filing, if requested) to more fully implement or further evidence the understandings and agreements contained in this Agreement.

LVIII.10. Conflict of Provisions. In the event of any conflict between

any term, covenant or condition of this Agreement and any term, covenant or condition of the Nationwide Agreement, the Subordinated Documents, or any documents executed in connection therewith or the indebtedness evidenced thereby, the provisions of this Agreement shall control and govern.

LVIII.11. Respective Rights. This Agreement sets forth the respective

rights of Citadel, on the one hand, and Nationwide, on the other hand, and, as such, has not been entered into for the benefit of SHC and may not be enforced by SHC. SHC is executing and delivering this Agreement solely to confirm to the other parties that it is aware that such other parties have entered into this Agreement and that it consents to the other parties' entering into this Agreement (though the foregoing shall not imply that SHC's consent was or is required for the execution and delivery of this Agreement by such other parties, or that its obligations pursuant to the Nationwide Agreement or the Subordinated Documents are affected in any way if an amendment is made hereto, or a waiver is granted hereunder, without SHC's consent).

LVIII.12. Termination. This Agreement shall terminate upon payment in

full of the Nationwide Indebtedness and all other amounts due under the
Nationwide Agreement.

LVIII.13. Section Headings. The Section headings in this Agreement are

for convenience of reference only and shall not affect the interpretation
hereof.

LVIII.14. Limited Recourse. SHC's obligations hereunder are intended

to be the obligations of the limited liability company only and no recourse
for the payment of any amount due hereunder, or for any claim based thereon
or otherwise in respect thereof, shall be had against any member of SHC or
any incorporator, member, officer, director or Affiliate, as such, past,
present or future of such limited liability company, it being understood
that SHC is a limited liability company formed for the purpose of the
transactions involved in and relating to the Citadel Agreement on the
express understanding aforesaid. Nothing contained in this Section shall be
construed to limit the exercise or enforcement, in accordance with the
terms of this Agreement, of the rights and remedies against the limited
liability company or the assets of the limited liability company or affect
claims under Section 5 of the Pledge Agreement or under the Indemnity
Guarantee (as such terms are defined in the Citadel Agreement).

LVIII.15. Severability. Any provision of this Agreement which is

prohibited or unenforceable in any jurisdiction shall, as to such
jurisdiction, be ineffective to the extent of such prohibition or
unenforceability without invalidating the remaining provisions hereof or
affecting the validity or enforceability of such provisions in any other
jurisdiction.

LVIII.16. Bankruptcy. This Agreement shall be applicable both before

and after the commencement, whether voluntary or involuntary, of any case
under the Bankruptcy Code (or similar state law) involving SHC, and all
references herein to SHC shall be deemed to apply to SHC as a debtor-in-
possession and to any trustee in bankruptcy for the estate of SHC.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CITADEL HOLDING CORPORATION

By:

Name:
Title:

NATIONWIDE THEATRES CORP.,

By:

Name:
Title:

SUTTON HILL CAPITAL, L.L.C.,

By:

Name:
Title:

FOR PURPOSES OF THE LAST SENTENCE OF
SECTION 2.11(h)(iv) ONLY:

James J. Cotter

Michael R. Forman

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT, dated as of September 20, 2000 (as the same may be amended, modified, supplemented or restated from time to time, this "Agreement"), between Citadel Holding Corporation, a Nevada corporation ("Citadel"), and Michael R. Forman and James J. Cotter (individually, an "Original Holder" and, collectively, the "Original Holders").

RECITALS

WHEREAS, pursuant an Agreement and Plan of Merger, dated as of July 28, 2000 (as the same may be amended, modified, supplemented or restated from time to time, the "Merger Agreement"), among Citadel, Off Broadway Investments, Inc., a California corporation wholly owned by the Original Holders ("OBI"), Citadel Off Broadway Theatres, Inc. a Nevada corporation and an affiliate of Citadel ("Merger Sub"), and the Original Holders, OBI is merging with and into Merger Sub on the date hereof (the "Closing Date");

WHEREAS, pursuant to the Merger Agreement, Citadel is issuing to the Original Holders _____ duly authorized, validly issued, fully paid and non-assessable shares (the "Shares") of Citadel's Class A Non-Voting Common Stock, par value \$.01 per share (the "Class A Common Stock"), and Citadel's Class B Voting Common Stock, par value \$.01 per share (the "Class B Common Stock"; the Class A Common Stock and Class B Common Stock are together referred to as the "Common Stock"); and

WHEREAS, the Company wishes to afford the Holders unlimited "piggyback" registration rights and each Original Holder one demand registration right each in respect of the Shares;

NOW, THEREFORE, in consideration of the premises and of the mutual covenants, agreements and understandings contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement intending to be legally bound hereby agree as follows:

Definitions. For purposes of this Agreement, the following terms shall have _____ the following meanings:

The term "Act" refers to the Securities Act of 1933, as amended, and the rules _____ and regulations promulgated thereunder.

The term "Cotter Holder" means a Holder which is James J. Cotter or an _____ assignee of a Cotter Holder.

The term "Exchange Act" refers to the Securities Exchange Act of 1934, as _____ amended, and the rules and regulations promulgated thereunder.

The term "Forman Holder" means a Holder which is Michael R. Forman or an assignee of a Forman Holder.

The term "Holder" means a holder of record of Registrable Securities on the books and records of Citadel which is either an Original Holder or an assignee of an Original Holder who succeeds to the rights as a Holder in accordance with Section 1.9 hereof.

The term "Original Holder" means Michael R. Forman or James J. Cotter.

The terms "register," "registered," and "registration" refer to a registration effected by preparing and filing a registration statement in compliance with the Act and the declaration or ordering of effectiveness of such registration statement by the SEC.

The term "Registrable Securities" of any Holder refers to the Shares owned by such Holder, except that the Shares owned by a Holder shall cease to be Registrable Securities at the earliest date when (i) a registration statement with respect to the sale of such Shares has become effective under the Act and the Shares have been disposed of in accordance with such registration statement; (ii) all such Shares may be sold to the public pursuant to paragraph (k) of Rule 144 under the Act ("Rule 144") or any successor provision; (iii) such Shares shall have been transferred (under Rule 144 or otherwise), new certificates for the Shares not bearing a legend restricting further transfer (other than as provided in Citadel's Articles of Incorporation) shall have been delivered by Citadel and subsequent disposition of the shares does not require registration or qualification under the Act or state law then in force in the opinion of legal counsel for Citadel; or (iv) such Shares cease to be outstanding.

The number of shares of "Registrable Securities then outstanding" means the number of Shares which are Registrable Securities.

The term "SEC" means the Securities and Exchange Commission.

1.1 Demand Registration.

(a) Subject to Sections 1.2(b) and 1.2(c), if Citadel shall receive a written request (specifying that it is being made pursuant to this Section 1.2) from a Holder or Holders that Citadel file a registration statement under the Act, or a similar document pursuant to any other statute then in effect corresponding to the Act, covering the registration of Shares owned by such Holder or Holders which represent at least twenty-five percent of the Registrable Securities originally issued pursuant to the Merger Agreement, then Citadel shall, within ten (10) business days of the receipt thereof, give written notice of such request to the other Holders at their respective addresses and shall file as soon as practicable, and in any event within sixty (60) days of the receipt of such request, a registration statement under the Act covering all Registrable Securities which the Holders request to be registered within 30 days of the mailing of such notice to all Holders.

(b) Notwithstanding the foregoing, (i) Citadel shall not be obligated to effect a registration pursuant to this Section 1.2 during the period starting with the date 60 days prior to Citadel's estimated date of filing of, and ending on a date six months following the effective date

of, a registration statement pertaining to an underwritten public offering of securities for the account of Citadel, provided that Citadel is actively employing in good faith all reasonable efforts to cause such registration statement to become effective and that Citadel's estimate of the date of filing such registration statement is made in good faith; (ii) if Citadel shall furnish to the Holders initiating the registration request hereunder (the "Initiating Holders") a certificate signed by the President of Citadel stating that in the good faith judgment of the Board of Directors it would be seriously detrimental to Citadel or its shareholders for a registration statement to be filed in the near future, then Citadel's obligation to file a registration statement shall be deferred for a period not to exceed six months, provided, however, that Citadel may furnish such a certificate to the Initiating Holders only once in any one-year time period, and (iii) if the managing underwriter advises the Initiating Holders in writing that marketing factors require a limitation of the number of shares to be underwritten, then the Initiating Holders shall so advise all Holders which would otherwise be underwritten pursuant hereto, and the number of shares of Registrable Securities that may be included in the underwriting shall be allocated among all Holders thereof in proportion to the amount of Registrable Securities owned by each Holder; provided, however, that the number of shares of Registrable Securities to be included in such underwriting shall not be reduced unless all other securities are first entirely excluded from the underwriting.

(c) Citadel shall be obligated to effect only one demand registration pursuant Forman Holders, collectively, provided, however, that if the Holders who demand registration under this Section 1.2 are unable to register at least ninety percent (90%) of their Registrable Securities requested to be included in such registration, then the number of registrations which Citadel shall be obligated to effect under this Section 1.2 shall be increased by one.

1.2 "Piggyback" Registration.

(d) Subject to Section 1.3(b), if at any time Citadel determines to register (including for this purpose a registration effected by Citadel for stockholders other than the Holders) any shares of Common Stock under the Act in connection with the public offering of such securities solely for cash on an SEC Form that would also permit the registration of the Registrable Securities (other than Forms S-4 and S-8, or successor forms with similar applicability), Citadel shall, each such time while Registrable Securities are outstanding, promptly give each Holder written notice of such determination. Upon the written request of any Holder given within 20 days after mailing of any such notice by Citadel, Citadel shall, subject to the provisions of Section 1.7, cause to be registered under the Act all of the Registrable Securities that such Holder has requested be registered; provided, however, that Citadel shall not be required to proceed with such registration if the offering is abandoned in its entirety and no other securities are offered for sale.

(e) Citadel shall not be required under this Section 1.3 to include any Registrable Securities in such underwriting unless the Holders accept reasonable and customary terms of the underwriting as agreed upon between Citadel and the underwriters selected by it.

1.3 Obligations of Citadel. Notwithstanding any other provision hereof,

whenever required under this Article One to effect the registration of any Registrable Securities, Citadel shall, as expeditiously as reasonably possible:

(f) Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective, and, upon the request of any Holder, to keep such registration statement effective for up to 90 days.

Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement.

Furnish to the Holders such numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

Use its commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be necessary for the Holders to dispose of the Registrable Securities, provided that Citadel shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process or subject itself to taxation in any such states or jurisdictions.

Enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter, if any, of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act or the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

Furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Article One, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Article One, (i) an opinion, dated such date, of the counsel representing Citadel for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters and to the Holders requesting registration of Registrable Securities and (ii) a letter, dated such date, from the independent certified public accountants of Citadel, in form and substance as is customarily given by independent certified

public accountants to underwriters in an underwritten public offering, addressed to the underwriters and to the Holders requesting registration of Registrable Securities.

Make generally available to its stockholders an earnings statement satisfying the provisions of Section 11(a) of the Act (including by means of satisfying the provisions of Rule 158 under the Act) as soon as reasonably practical covering the 12-month period beginning with the first month of Citadel's first fiscal quarter commencing after the effective date of the registration statement.

Whenever any notice is required to be given under this Article One, such notice may be given personally or by mail. Any notice given to a Holder shall be sufficient if given to the Holder at the last address set forth for such Holder on the stock transfer records of Citadel. Any notice given by mail shall be deemed to have been given when deposited in the United States mail with postage thereon prepaid.

1.4 Furnish Information. The selling Holders shall furnish to Citadel

such information regarding themselves, the Registrable Securities held by them, and the intended method of disposition of such securities as shall be required to effect the registration of the Registrable Securities.

1.5 Expenses of Registration. All expenses other than underwriting

discounts and commissions incurred in connection with any registration, filing or qualification pursuant to Sections 1.2 and 1.3, including, without limitation, all registration, filing and qualification fees, printers and accounting fees, fees and disbursements of counsel for Citadel, and the reasonable fees and disbursements of a single counsel for the selling Holders selected by the Holders of a majority of the Registrable Securities which are included in such registration statement shall be borne by Citadel; provided, however, that Citadel shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 if the registration request is subsequently withdrawn at the request of the selling Holders (in which case such selling Holders shall bear such expenses), unless, at the time of such withdrawal, the selling Holders have learned of a material adverse change in the condition, business or prospects of Citadel from that known to the selling Holders at the time of its request, in which case the selling Holders shall not be required to pay any such expenses and shall retain all rights pursuant to Section 1.2.

1.6 Underwriting Requirements. In connection with any offering involving

an underwriting of shares being issued by Citadel, Citadel shall not be required under Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between Citadel and the underwriters selected by it, and then only in such quantity as will not, in the reasonable opinion of the underwriters, jeopardize the success of the offering by Citadel. If the total amount of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the amount of securities to be sold other than by Citadel that the underwriters reasonably believe compatible with the success of the offering, then Citadel shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters believe will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling stockholders according to the total amount of securities entitled to be included therein owned by each selling stockholder or in such other proportions as shall mutually be agreed to by

such selling stockholders); provided, however, that in no event shall any securities of selling Holders be excluded until all securities of selling employees of, or consultants and advisors to, Citadel are excluded.

1.7 Indemnification and Contribution. In the event any Registrable

Securities are included in a registration statement under this Article One:

(g) To the extent permitted by law, Citadel will indemnify and hold harmless each Holder, the officers and directors of each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively, a "Violation"): (i) any untrue statement

or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by Citadel of the Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Act, the Exchange Act or any state securities law; and Citadel will reimburse each such Holder, officer or director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that Citadel shall not be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon (x) a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, officer, director or controlling person of such Holder or underwriter or (y) any untrue statement or alleged untrue statement made in, or omission or alleged omission from, any preliminary prospectus or final prospectus, if the final prospectus or the final prospectus as amended or supplemented, respectively, which shall have been furnished to the underwriter or Holders claiming indemnification, prior to the time such underwriter sent written confirmation of or the Holders made such sale to the person alleging such statement, alleged statement, omission or alleged omission, does not contain such statement, alleged statement, omission or alleged omission and a copy of such final prospectus or such prospectus as amended or supplemented, respectively, shall not have been sent or given to such person; and provided, further, that in no case shall Citadel be liable for amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the written consent of Citadel, which consent shall not be unreasonably withheld.

To the extent permitted by law, each selling Holder will indemnify and hold harmless Citadel, each of its directors, each of its officers who have signed the registration statement and any underwriters, against any losses, claims, damages or liabilities (joint or several) to which Citadel or any such director, officer, controlling person or underwriter may become subject, under the Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by or on behalf of such Holder expressly for

use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by Citadel or any such director, officer, controlling person or underwriter in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 1.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of each Holder, which consent shall not be unreasonably withheld; provided further that, in no event shall any indemnity under this Section 1.8(b) exceed the net proceeds from the offering received by such Holder.

Promptly after receipt by an indemnified party under this Section 1.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually reasonably satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding.

In order to provide for just and equitable contribution under the Act in any case in which (i) any indemnified party makes claim for indemnification pursuant to this Section 1.8, but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact the express provisions of this Section 1.8 provide for indemnification, or (ii) contribution under the Act may be required on the part of any indemnified party, then the indemnifying party in lieu of indemnifying such indemnified party hereunder shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities, in such proportion as is appropriate to reflect the relative fault of the indemnifying parties on the one hand and of the indemnified parties on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the indemnifying parties and of the indemnified parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party, or by the indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The parties further agree that it would not be just and equitable if contribution pursuant to this Section 1.8(d) were determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities or actions in respect thereof referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with

investigating or defending any such action or claim. Notwithstanding the provisions of this Section 1.8(d), in no event shall any contribution under this Section 1.8(d) exceed the net proceeds from the offering received by such Holder. No person guilty of fraudulent misrepresentations (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

The obligations of Citadel and the Holders under this Section 1.8 shall survive the completion of any offering of Registrable Securities in a registration statement under this Article One.

1.8 Assignment of Registration Rights. The rights to cause Citadel to

register Registrable Securities pursuant to this Article One may be assigned by a Holder to any transferee or assignee of any amount of such securities or pursuant to the laws of descent and distribution; provided, in each case that (i) Citadel is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (ii) such assignment shall be effective only if, immediately following such transfer, the further disposition of such securities by the transferee or assignee is restricted under the Act; and (iii) the transferee or assignee agrees in writing to assume all the obligations of the transferor under this Article One with respect to the Shares so transferred.

1.9 Limitations on Subsequent Registration Rights. From and after the

date of this Agreement, Citadel shall not, without the prior written consent of the Holders of a majority of the outstanding Registrable Securities, enter into any agreement with any holder or prospective holder of any securities of Citadel which would allow such holder or prospective holder to include such securities in any registration, filed under Section 1.2 hereof, unless, under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of its securities will not reduce the amount of the Registrable Securities of the Holders which is included.

1.10 Amendment of Registration Rights. Any provision of this Article One

may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of Citadel and the Holders of a majority of the Registrable Securities then outstanding. Any amendment or waiver effected in accordance with this Section 1.11 shall be binding upon each Holder of Registrable Securities, each future holder of all such securities and Citadel.

GENERAL PROVISIONS

1.11 General Provisions.

(h) Subject to Section 1.4(i), all notices, requests, demands or other communications required or authorized or contemplated to be given by this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt, upon receipt of a facsimile transmission, when deposited in the United States mails (first class postage prepaid) or when deposited with Federal Express, and addressed as provided in

subsection 11.3 of the Merger Agreement or to such other address and fax number as any of the parties hereto may from time to time designate in writing, prior to the giving of such notice.

(i) Except as set forth in Article One, no amendment or waiver of any provision this Agreement shall in any event be effective, unless the same shall be in writing signed by the parties hereto, and then such amendment, waiver or consent shall be effective only in a specific instance and for the specific purpose for which given.

(j) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

(k) Except as set forth in Article One, this Agreement shall not be assigned by any party without the prior written consent of the other party hereto.

(l) This Agreement and the documents and agreements referred to herein contain the entire understanding among the parties with respect to the transactions contemplated hereby and supersede all prior and contemporaneous agreements and understandings whether oral or written, relating to the subject matter hereof.

(m) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, notwithstanding any New York or other conflict of law provisions to the contrary.

(n) Each party hereto shall execute and deliver such further agreements and instruments, and take such further actions, as the other party may reasonably request in order to carry out the purpose and intent of this Agreement.

(o) Other than as specifically provided herein, each party shall bear its own costs and expenses (including fees and disbursements of legal counsel) incurred in connection with the consummation of the transactions provided for herein.

(p) No party, nor its respective counsel, shall be deemed the drafter of this Agreement for purposes of construing the provisions of this Agreement, and all language in all parts of this Agreement shall be construed in accordance with its fair meaning, and not strictly for or against any party.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed as of the date first above written.

CITADEL HOLDING CORPORATION

By: /s/ Craig Tompkins

Name: S. Craig Tompkins
Title: Vice-Chairman

/s/ Michael R. Forman

/s/ James J. Cotter

Citadel Holding Corporation acquires City Cinemas

For Immediate Release
For Information Contact:

Andrzej Matyczynski
Chief Financial Officer
(213) 239-0555

Los Angeles, California, September 22, 2000--Citadel Holding Corporation ("Citadel") (AMEX: "CDL.A", "CDL.B") announced today that it has completed the acquisition of Manhattan based Off Broadway Investments, Inc. and City Cinemas, and has entered into an agreement to purchase the Royal George Theatre complex in Chicago. Off Broadway owns three live theatres in Manhattan; the Minetta Lane, the Orpheum and the Union Square Theatres. City Cinemas owns or manages 28 screens in eight cinemas all of which are likewise located in Manhattan. The Royal George includes four live theatre auditoriums and a cafe.

Included in the City Cinemas chain are the Angelika Film Centers (Soho), the Cinemas 1,2 and 3, the Eastside Playhouse, the East 86/th/ Street Cinema, the Gotham, the Murray Hill, the Sutton and the Village East Cinemas. Citadel will operate the City Cinemas chain under the same management as previously operated the chain. City Cinemas had gross revenues of approximately \$10.5 million for the first six months of 1999 and of approximately \$10 million for the first six months of 2000.

The City Cinemas acquisition has been structured essentially as an operating lease from Sutton Hill Capital, LLC, of the Cinemas 1,2 and 3, the Murray Hill, the Sutton and the Village East Cinemas, and a transfer of the management rights with respect to the remaining cinemas in the chain. Citadel has options (exercisable in 2010) to purchase the fee interests underlying the Murray Hill and Sutton cinemas, and the long term leasehold estates underlying the Cinemas 1,2 and 3 and Village East Cinemas for an aggregate exercise price of \$48 million. Citadel has paid \$5 million for the options, which will be applied against the option exercise prices, if exercised, and has agreed to lend to Sutton Hill Capital up to \$28 million commencing in July 2007, which will likewise be applied against the exercise prices, if exercised. In addition, Citadel has acquired a 1/6th equity interest in the Angelika Film Center (Soho) for \$4.5 million, payable in

July 2002, has assumed the management of the Angelika Film Center and Cafe in Houston and has agreed to assume the lease of a new multiplex cinema currently under construction in Dallas, and likewise to be operated under the Angelika Film Center and Cafe name.

Off Broadway Investments, Inc. was acquired pursuant to a merger in consideration of the issuance of 2,622,466 shares of Citadel Class A Common Stock and 655,616 shares of Citadel Class B Common Stock. The Minetta Lane and Orpheum Theatres are owed in fee. The Union Square is a lease, but includes a right of first refusal to acquire the property of which it is a part. In 1999, these theatres produced approximately \$1.9 million in theatre cash flow. The Royal George Theatre Complex in Chicago is a fee property and is being acquired for \$3 million.

According to Citadel's Chairman, James J. Cotter, these transactions are in furtherance of Citadel's plan to acquire cash flowing entertainment assets with strong real estate attributes and have more than doubled the assets controlled by the Company. Mr. Cotter noted that these assets provide a solid real estate base in a variety of prime Manhattan real estate markets, on which Citadel can build in future years. Mr. Cotter further noted that the Company's live theater assets are completely unleveraged and that Citadel, after closing on the Royal George Theatre, will have in excess of \$14 million in cash on hand to pursue these and other related opportunities.

OFF BROADWAY INVESTMENTS, INC.

(A Sub Chapter S Corporation)

Interim Financial Statements

For the Six Months Ended June 29, 2000 and July 1, 1999

(Unaudited)

These statements include
Off Broadway Investments, Inc. (A Sub Chapter S Corporation)

OFF BROADWAY INVESTMENTS, INC.

(A Subchapter S Corporation)
 Balance Sheets
 June 30, 2000 and December 30, 1999
 (Unaudited)

Assets	June 30 2000	December 30, 1999
	-----	-----
Current Assets:		
Cash	\$ 677,000	\$ 1,071,000
Trade and other receivables	-	1,000
Due from affiliates	167,000	52,000
Income tax receivable	50,000	40,000
Prepaid expenses and other current assets	98,000	42,000
	-----	-----
Total current assets	992,000	1,206,000
	-----	-----
Property, equipment and improvements, net	2,448,000	2,493,000
Other assets and deferred charges	4,000	4,000
	-----	-----
Total assets	\$ 3,444,000	\$ 3,703,000
	=====	=====
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 418,000	\$ 573,000
Deferred revenue	291,000	399,000
Due to affiliates	-	47,000
	-----	-----
Total current liabilities	709,000	1,019,000
Deferred income and other obligations	53,000	-
Deferred rental obligations	45,000	35,000
	-----	-----
Total liabilities	807,000	1,054,000
	-----	-----
Shareholder's equity:		
Capital stock, \$1,000 par value. Authorized 100 shares; issued and outstanding 20 shares	20,000	20,000
Contributed capital	349,000	349,000
Retained earnings	2,268,000	2,280,000
	-----	-----
Total shareholders' equity	2,637,000	2,649,000
	-----	-----
Total liabilities and stockholder's equity	\$ 3,444,000	\$ 3,703,000
	=====	=====

See accompanying notes to financial statements

OFF BROADWAY INVESTMENTS, INC.
(A Subchapter S Corporation)

Statement of Operations

(Unaudited)

	3 Months Ended		6 Months Ended	
	June 29 2000	July 1 1999	June 29 2000	July 1 1999
Operating income:				
Theatre revenues and other income	\$ 784,000	-	\$ 1,706,000	-
Operating income - net revenues from management company		\$ 548,000		\$ 1,186,000
Total operating income	784,000	548,000	1,706,000	1,186,000
Operating costs and expenses:				
Operating costs, including onsite management fees	437,000	63,000	925,000	121,000
Rent expense	58,000	57,000	117,000	113,000
General and administrative expenses	39,000	8,000	74,000	236,000
General and administrative expenses provided by an affiliated company	322,000	300,000	550,000	600,000
Depreciation and amortization	28,000	22,000	52,000	47,000
Total operating costs and expenses	884,000	450,000	1,718,000	1,117,000
Income before income taxes	(100,000)	98,000	(12,000)	69,000
State income taxes	(8,000)	10,000	-	11,000
Net (loss) income	\$ (92,000)	\$ 88,000	\$ (12,000)	\$ 58,000

See accompanying notes to financial statements

OFF BROADWAY INVESTMENTS, INC.
(A Sub Chapter S Corporation)
Statement of Cash Flows

	6 Months Ended	
	June 29 2000	July 1 1999
Cash flows from operating activities:		
Net (loss) income	\$ (12,000)	58,000
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	52,000	47,000
Deferred rent expense	9,000	13,000
Changes in assets and liabilities associated with operating activities:		
Trade and other receivables	1,000	43,000
Income tax receivable	(10,000)	(50,000)
Prepaid expenses and other current assets	(56,000)	(2,000)
Due from affiliates	(115,000)	
Accounts payable and accrued liabilities	(155,000)	(391,000)
Deferred revenue	(108,000)	
Due to affiliates	(47,000)	600,000
	(441,000)	318,000
Net cash (used in) provided by operating activities		
Cash flows from investing activities		
Purchases of property, equipment and improvements	(6,000)	(158,000)
Increase in deferred income and obligations	53,000	
	47,000	(158,000)
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Net distributions to shareholders	-	36,000
	-	36,000
Net cash provided by (used in) financing activities		
Net (decrease) increase in cash	(394,000)	196,000
Cash at beginning of year	1,071,000	86,000
Cash at end of six months	\$ 677,000	\$ 282,000
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 10,000	\$ 55,000
	=====	=====

(1) Interim Financial Statements

In the opinion of management the accompanying unaudited financial statements contain all adjustments of a recurring nature considered necessary for a fair presentation of its financial position as of June 29, 2000 and December 30, 1999, the results of operations and its cash flows for the three and six-month periods ended June 29, 2000 and July 1, 1999. The results of operations and its cash flows for the three and six month period ended June 29, 2000 are not necessarily indicative of the results of operations to be expected for the entire year. The accompanying unaudited financial statements do not include all information and footnotes required to be in conformity with generally accepted accounting principles. The financial information provided here in, including the information under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations," is written with the presumption that the users of the interim financial statements have read, or have access to, the most recent Annual Report which contains the latest audited financial statements and notes thereto, together with the Management's Discussion and Analysis of Financial Condition and Results of Operations as of December 30, 1999 and December 31, 1998.

(2) Organization

Off Broadway Investments, Inc. (the Company), formerly Amsoinvest Incorporated, is a Subchapter S Corporation, which was incorporated on March 10, 1989. The Company's name was changed April 29, 1998. The Company is owned 50% each by two individuals. The Company invests in live stage performance theatre properties in the City of New York.

The Company owns the fee interest in the Orpheum and Minetta Lane Theatre and the leasehold interest in the Union Square Theatre.

(3) Summary of Significant Accounting Policies

(a) General Practices

The Company operates on a fiscal year ending on the Thursday closest to December 31. Fiscal quarters ended June 29, 2000 and July 1, 1999 each include 13 weeks and the fiscal six months ended June 29, 2000 and July 1, 1999 each include 26 weeks. During November 1999, the Company started transferring accounting responsibilities formally conducted by the management company to an affiliated company. Specifically, the affiliated company began paying the production companies' licensing fees and paying direct operating expenses. Up until November 1999, the Company had engaged a management company, which was responsible for booking the theaters, entering into contracts with and paying the production companies' licensing fees, collecting the cash from ticket sales and paying the direct operating expenses. Due to this change, the company no longer recorded the net revenue received from its management company for the theatres but showed revenues and expenses as separate line items in the Statement of Operations.

(b) Property, Equipment and Improvements

Property, equipment and improvements are recorded at cost. Depreciation and amortization is computed principally by use of the straight-line method based upon the estimated useful lives of the various classes of assets as follows:

Description	Useful life
Buildings	25 to 31 years
Furniture, fixtures and equipment	7 years

Leasehold improvements are amortized over the estimated useful life or the remaining lease term, whichever is less.

(c) Income Taxes

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). Off Broadway Investments, Inc. is a Subchapter S Corporation and does not pay any federal income taxes; however, it is subject to state and local income taxes and alternative minimum taxes. Any liability or benefit from the Company's Subchapter S income or losses is the responsibility of or benefit to the individual shareholders.

(d) Financial Instruments

The Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments, defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. The Company's carrying value of cash, accounts receivable, accounts payable, accrued expenses and notes payable approximates fair value.

(e) Long-Lived Assets

The Company accounts for long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of (SFAS No. 121). This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated fair value, which is generally determined by estimating future undiscounted cash flows without interest costs expected to be generated by the asset. If the carrying value of the assets exceeds the estimated fair market value, an impairment exists and is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value, less costs to sell. No impairment was recorded during the quarters ended June 29, 2000 and July 1, 1999 and the six months ended June 29, 2000 and July 1, 1999.

(f) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and contingent liabilities at the balance sheet date and revenue and expenses during the reporting periods, in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

(4) Property, Equipment and Improvements

At June 29, 2000 and December 30, 1999, a summary of property, equipment and improvements is as follows

	2000	1999
Land	\$ 777,000	777,000
Buildings and leasehold improvements	2,531,000	2,533,000
Furniture, fixtures and equipment	177,000	168,000

	3,485,000	3,478,000
Less accumulated depreciation and amortization	1,037,000	985,000
	-----	-----
Property, equipment and improvements, net	\$ 2,448,000	2,493,000
	=====	=====

(5) Senior Bank Facility

The Company and a related partnership have a revolving credit agreement (the Agreement) with a bank group. The related partnership received all amounts borrowed from the bank group and recorded the liability to the Bank group. No portion of the debt has been recorded by the Company. However, all Group members, including the Company, are jointly and severally liable for the total debt outstanding under the Agreement. In addition, the Company's stock serves as collateral for the debt. The debt in the amount of \$15,500,000 and \$16,700,000 at June 29, 2000 and July 1, 1999, and related interest expense of \$286,000 and \$265,000 for the quarters ended June 29, 2000 and July 1, 1999 and the related interest expense of \$575,000 and \$538,000 for the six months ended June 29, 2000 and July 1, 1999, respectively, is recorded on the related partnership's financial statements.

The Agreement provides the Company and the related partnership with a \$21,000,000 revolving note maturing October 1, 2001. The Agreement contains, among other matters, certain financial covenants and provisions pertaining to limitations on investments, restrictive payments, limitations on sale of assets, limitations on capital expenditures and ability to incur debt. The Company and related partnership is in compliance with all terms of the Agreement. In addition, the Agreement provides, at the election of the related partnership, for various rates of interest, which include the alternative base rate (prime rate) and Eurodollar rate. Such applicable rates are adjusted each quarter based upon the attainment of certain financial ratios. The interest rate was 7.49% at June 29, 2000. Amounts outstanding under the Agreement are secured by a first priority security interest in the personal property located in or on real estate subject to the deeds of trust, and certain other tangible and intangible assets of the Company and related partnership. This security interest is senior to the interests of the affiliate lenders. The partnership is required to pay a commitment fee based on certain financial ratios, ranging from .3% to .5%.

(6) Commitments and Contingent Liabilities

For the past several years, the Company has been involved in litigation as a plaintiff (Caveman litigation). The matter was resolved in 1999. The Company is in a dispute regarding certain legal bills with its former counsel. The Company has expensed and a related party has paid to date approximately \$375,000 to such counsel. In 1999, the Company paid the remaining amount owed to a related party. The Company believes that it does not have any further obligation. The total amount sought by counsel is approximately \$545,000, including the amounts paid to date.

The Company is involved in various other lawsuits. The ultimate outcome of these lawsuits is not presently determinable; however, in the opinion of management, based in part upon advice of counsel, the amount of losses that might be sustained, if any, would not materially affect the financial position, results of operations or liquidity of the Company.

(7) Related Party Balances and Transactions

Onsite management fee and profit participation for the quarter ended June 29, 2000 and July 1, 1999 of \$112,000 and \$89,000, respectively, are included in operating costs. Onsite management

fee and profit participation for the six months ended June 29, 2000 and July 1, 1999 of \$175,000 and \$126,000, respectively, are included in operating costs.

General and administrative expenses provided by an affiliated company for the quarter ended June 29, 2000 and July 1, 1999 include management fees of \$322,000 and \$300,000 respectively, and for the six months ended June 29, 2000 and July 1, 1999 included management fees of \$550,000 and \$600,000, respectively.

An affiliate of the Company acts as a cash disbursement agent. Substantially all cash disbursements are transacted through the affiliate's bank account.

(8) General and Administrative Expenses

General and administrative expenses consist of the following at June 29, 2000 and July 1, 1999:

	6/29/2000	7/1/1999
	-----	-----
Auditing fees	\$ 39,000	35,000
Caveman litigation fees		196,000
Other	35,000	5,000
	-----	-----
	\$ 74,000	236,000
	=====	=====

(9) Gross Theatre Box Office Revenues (unaudited)

The unaudited gross theatre box office revenues were \$2,271,000 and \$2,498,000 for the quarters ended June 29, 2000 and July 1, 1999, respectively. The unaudited gross theatre box office revenues were \$5,121,000 and \$7,333,000 for the six months ended June 29, 2000 and July 1, 1999, respectively.

(10) Pending Transaction

The Company has entered into a letter of intent whereby the Company will be acquired by a related party in exchange for stock of the related party.

OBI Management's Discussion and Analysis of Financial Conditions and Results of Operations

Organization

OBI is a California Subchapter S Corporation incorporated on March 10, 1989. OBI is owned 50% each by two individual shareholders. Michael R. Forman and James J. Cotter. OBI invests in live stage show performance theatre properties in the City of New York.

OBI owns the Orpheum Theatre. During 1998, the owners of OBI transferred the leasehold interest in the Union Square Theatre and during 1999 transferred the fee interest in the Minetta Lane Theatre. As part of the transfer of the Minetta Lane Theatre, a note payable relating to this theatre was contributed to the capital of OBI. These transfers were made from an entity with common ownership and, accordingly, have been recorded at historical costs. OBI's financial statements reflect the transfers as if they occurred prior to the beginning of 1998.

The financial information discussed herein may not necessarily reflect the combined results of operations, financial position and cash flows of OBI in the future or what they would have been had it been a separate, stand-alone entity for the period presented.

Results of Operations

During November 1999, OBI started managing the theatre operations and began transferring the accounting responsibilities to an affiliated company; a third party management company formerly was responsible for these duties. Specifically, OBI began booking the theatres and entering into contracts and the affiliated company began paying the production companies' licensing fees and paying direct operating expenses. Until November 1999, OBI had engaged a management company, which was responsible for booking the theaters, entering into contracts with and paying the production companies' licensing fees, collecting cash from ticket sales and paying direct operating expenses. Due to the management change in November 1999, beginning with the quarter ended March 30, 2000, OBI no longer records net revenue received from its management company for the theatre operations but presents gross revenues and expenses in its Statement of Operations. For reporting periods prior to March 30, 2000, OBI recorded the net revenue received from the third party management company.

Quarter Ended June 29, 2000 versus July 1, 1999

For the quarters ended June 29, 2000 and July 1, 1999, the theatre properties gross theatre box office revenues were \$2,271,000 and \$2,498,000, respectively. After paying the theatres' production companies share of the gross theatre box office revenue, theatre-operating revenues were \$784,000 and \$885,000 for the quarters ended June 29, 2000 and July 1, 1999,

For the quarter ended June 30, 2000, the theatre operating revenues of \$784,000 were reported. For the quarter ended July 1, 1999, the net revenues from Management Company of \$558,000 were reported. The net theatre revenues \$558,000 are comprised of the \$885,000 in theatre operating revenues less \$327,000 in direct operating expenses that were paid by the third party management company.

For the quarters ended June 29, 2000 and July 1, 1999, the theatre operating costs, including onsite management fees, increased from \$63,000 to \$437,000. \$327,000 of this

increase was due to operating expenses paid by the management company for the quarter ended July 1, 1999 being netted against theatre operating revenues.

For the quarters ended June 29, 2000 and July 1, 1999, OBI's net income (loss) amounted to (\$92,000) and \$88,000, respectively. The decrease in net income for the 2000 quarter was principally attributable to a \$91,000 decrease in theatre revenue, and a \$47,000 increase in operating costs and expenses, a 22,000 increase in general and administrative expenses provided by an affiliated company, and a \$30,00 increase in legal fees related to a litigation that ended in February 1999. The decrease in theatre revenue in the 2000 period was principally due to the mix of live stage shows playing in each of the three theatres in the quarter ended June 29, 2000 versus the quarter ended July 1, 1999. The increase in operating costs and expenses was due to an increase in theatre operating wage expenses. Rent expense was higher due to a June 1999 rent increase.

Six Months Ended June 29, 2000 versus July 1, 1999

For the six months ended June 29, 2000 and July 1, 1999, the theatre properties gross theatre box office revenues were \$5,121,000 and \$7,333,000, respectively. After paying the theatres' production companies share of the gross theatre box office revenue, theatre-operating revenues were \$1,706,000 and \$1,825,000 for the six months ended June 29, 2000 and July 1, 1999, respectively.

For the six months ended June 29, 2000, the theatre operating revenues of \$1,706,000 were reported. For the six months ended July 1, 1999, the net revenues from Management Company of \$1,186,000 were reported. The net theatre revenues are comprised of the \$1,825,000 in theatre operating revenues less \$639,000 in direct operating expenses that were paid by the third party management company.

For the six months ended June 29, 2000 and July 1, 1999, the theatre operating costs, including onsite management fees, increased from \$121,000 to \$934,000. \$639,000 of this increase was due to operating expenses paid by the management company for the six months ended July 1, 1999 being netted against theatre operating revenues.

For the six months ended June 29, 2000 and July 1, 1999, OBI's net income (loss) amounted to (\$12,000) and \$58,000, respectively. The decrease in net income for the 2000 quarter was principally attributable to a \$119,000 decrease in theatre revenue, and a \$165,000 increase in operating costs and expenses, offset by a \$50,000 decrease in general and administrative expenses provided by an affiliated company and a \$196,00 decrease in legal fees related to a litigation that ended in February 1999 and a \$32,000 increase in litigation related to the current six month period. The decrease in theatre revenue in the 2000 period was principally due to the mix of live stage shows playing in each of the three theatres in the six months ended June 29, 2000 versus the six months ended July 1, 1999. The increase in operating costs and expenses was due to an increase in bonus fee due OBI management and an increase in theatre operating wage expenses. Rent expense was higher due to a June 1999 rent increase. In the six months ended July 1, 1999, general and administrative expenses included \$196,000 for legal fees in connection a litigation that ended in February 1999, in which OBI was the plaintiff.

Year Ended December 30, 1999 versus Year Ended December 31, 1998

The theatre properties' gross theatre box office revenues were \$14,283,000 and \$10,993,000 for the years ended December 30, 1999 and December 31, 1998, respectively. After paying the theatres' production companies share of the gross theatre box office revenue, theatre-operating revenues were \$3,844,000 and \$3,206,000 for the years ended December 30, 1999 and

December 31, 1998, respectively. As OBI had engaged a management company until November 1999, OBI did not record the revenues and expenses of the management company, but recorded the net revenue received of \$2,582,000 and \$1,916,000, respectively. The increase in net revenues from year to year resulted from a mix change in live shows in 1999 compared to 1998.

Operating costs, including onsite management fees, increased from \$308,000 for the year ended December 31, 1998 to \$379,000 for the year ended December 31, 1999. As a percentage of net revenues from the management company, operating costs were comparable for 1998 and 1999.

Rent expense increased from \$209,000 in 1998 to \$224,000 in 1999. Rent expense was higher due to the lease for one theatre being extended and assigned to OBI in June 1998 from an affiliated company.

General and administrative expenses decreased from \$322,000 in 1998 to \$305,000 in 1999. In 1999, general and administrative expenses included \$225,000 for legal fees in connection with the merger of OBI. In 1998, general and administrative expenses included \$257,000 in legal fees in connection with a litigation in which OBI was a plaintiff. The litigation matter was resolved in 1999.

General and administrative expenses for services provided by an affiliated company increased from \$460,000 in 1998 to \$1,200,000 in 1999. In 1999, \$400,000 in general and administrative fees due to an affiliate was charged to each of the three theatres. In 1998, general and administrative fees due to an affiliate were charged \$400,000 to the Orpheum theatre, \$60,000 to Minetta Lane theatre and \$0 to the Union Square theatre. These general and administrative fees are based on theatre performance.

Depreciation and amortization increased from \$88,000 in 1998 to \$104,000 in 1999. The increase resulted from increased depreciation and amortization of assets placed in service in 1999.

Tax expense was \$74,000 in 1998 and 1999. In 1999 tax expense was comprised of state taxes, as OBI was a Subchapter S corporation. In 1998, one of the company's subsidiaries was a C corporation for part of the year. Accordingly, 1998 tax expense is comprised of state taxes and federal taxes for the portion of the year OBI's subsidiary was a C corporation.

Business Plan, Capital Resources and Liquidity of OBI

Six Months Ended June 29, 2000

Cash totaled \$677,000 at June 29, 2000 and 228,000 at July 1, 1999. As part of the transferring of the management duties mentioned above, OBI had control of the cash collected from the ticket sales of the upcoming shows. For the six months ended 1999, the managing agent had control of this cash, which therefore was not reflected in OBI's financial statements.

OBI expects that its source of funds in the near term will come primarily from its operations of the live show theatres in New York City. Management believes that the Company's source of funds will be sufficient to meet its operational cash flow requirements for the foreseeable future.

Fiscal 1999

Cash totaled \$1,071,000 at December 30, 1999 as compared to \$86,000 at December 31, 1998. As part of the transferring of the management duties mentioned above, OBI at December 30, 1999 had control of the cash that was collected in advance for the live shows. In 1998, the managing agent had control of this cash, which therefore was not reflected on OBI financial statements.

Cash flows from operating activities were \$362,000 in 1998 compared to \$1,180,000 in 1999. The increase relates primarily to reduction in trade and other receivables, increase in accounts payable and receipt of cash collected in advance as discussed above.

Cash flows used in investing activities relate to purchases of property, equipment and improvements and amounted to \$53,000 in 1998 compared to \$195,000 in 1999.

Cash flows used in financing activities are comprised solely of a distribution to shareholders of \$305,000 in 1998.

OBI expects that its source of funds in the near term will come primarily from its operations of the live show theatres in New York City.

Management of OBI believe that existing cash balances and funds generated from operations will be sufficient to satisfy the Company' cash requirements for its existing operations for at least the next twelve months.

CITADEL HOLDING CORPORATION
PRO FORMA COMBINED STATEMENT OF INCOME (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2000

	Citadel	OBI	Adjustments	Proforma Consolidated
Revenues	\$ 1,207	1,706		2,913
Operating expenses	942	1,718	141 (A)	2,801
Operating income	\$ 265	\$ (12)	\$(141)	\$ 112
Non-operating income (expense)	(641)	-		(641)
Earnings before minority interest and taxes	\$ (376)	\$ (12)	\$(141)	\$ (529)
Minority interest	(3)	-	-	(3)
Earnings before taxes	\$ (379)	\$ (12)	\$(141)	\$ (532)
Taxes	(76)	-	- (B)	(76)
Net earnings	\$ (455)	\$ (12)	\$(141)	\$ (608)
Basic earnings per share	(\$0.05)			(\$0.06)
Diluted earnings per share	(\$0.05)			(\$0.06)

(A) Adjustment represents the amortization of the goodwill and capitalized transaction costs for the six months ended June 30, 2000.

(B) Adjustment represents what the income tax expense would have been if OBI had been a C-corporation instead of being a more tax favorable S-corporation during the six months ended June 30, 2000 and had taxable income.

(C) Earnings per share has been calculated based on 7,958,379 shares of Class A and 1,989,585 shares of Class B common stock, which includes the \$10,000,000 stock issuance.

CITADEL HOLDING CORPORATION
PRO FORMA COMBINED BALANCE SHEET (UNAUDITED)
JUNE 30, 2000

	Pro Forma				Combined
	Citadel	OBI	Acquisition Adjustments	Offering Adjustments	
ASSETS					
Cash and cash equivalents	\$ 21,440	\$ 677		\$ (709) (E)	\$ 21,408
Investment in marketable securities	2,269	-			2,269
Prepaid expenses and other current assets	1,375	315			1,690
Total current assets	\$ 25,084	\$ 992	\$ -		\$ 25,367
Rental properties, less accumulated depreciation	7,624	-			7,624
Property, equipment and improvements	-	2,448	3,654 (A)		6,102
Investment in shareholder affiliate	7,000	-			7,000
Equity investment in and advances to Agriculture Partnerships	2,206	-			2,206
Goodwill	-	-	3,709 (B)		3,709
Capitalized transaction costs	-	-	150 (C)		150
Other assets	4,236	4			4,240
Total assets	\$ 46,150	\$ 3,444	\$ 7,513	\$ -	\$ 56,398
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Accounts payable and accrued liabilities	2,017	709	150	(709) (E)	2,167
Current portion of mortgage note payable	145				145
Total current liabilities	\$ 2,162	\$ 709	\$ 150	\$ (709)	\$ 2,312
Minority interest in consolidated affiliate	53				53
Other long-term liabilities	407	98			505
Long-term portion of mortgage note payable	10,798				10,798
Total liabilities	\$ 13,420	\$ 807	\$ 150	\$ (709)	\$ 13,668
Stockholders' Equity					
Class A Nonvoting Common Stock, par value \$.01, 100,000,000 shares authorized, 5,335,913 issued & outstanding	54		26 (D)		80
Class B Voting Common Stock, par value \$.01, 20,000,000 shares authorized, 1,333,969 issued & outstanding	13	20	7 (D)		20
Additional paid-in capital	59,603	349	(20) (D) 9,967 (D) (349) (D)		69,570
Accumulated deficit	(24,899)	2,268	(2,268) (D)		(24,899)
Accumulated other comprehensive loss	(43)	-			(43)
Note receivable from shareholder	(1,998)	-			(1,998)
Total stockholders' equity	\$ 32,730	\$ 2,637	\$ 7,363	\$ -	\$ 42,730
Total liabilities and stockholders' equity	\$ 46,150	\$ 3,444	\$ 7,513	\$ (709)	\$ 56,398

The pro forma balance sheet has been prepared to reflect the acquisition and merger of Off Broadway Theatres, Inc. by Citadel Off Broadway Theatres, Inc., a wholly-owned subsidiary of Citadel Holding Corporation, for \$10,000,000 of Citadel Class A and Class B

common stock shares. Pro forma adjustments are made to reflect the following:

- (A) Increase the carrying value of the real estate assets of Off Broadway Theatres, Inc. to the appraised fair market value at the merger/acquisition date.
- (B) To record the difference between the purchase price of \$10,000,000 and the fair value of net assets acquired (goodwill).
- (C) The estimated capitalized transaction costs to be paid by Citadel.
- (D) 2,622,466 shares of Class A and 655,616 shares of Class B common stock shares issued for this transaction and elimination of historical OBI capital.
- (E) Pursuant to the terms of the OBI Merger Agreement, the current accounts payable and accrued liabilities of OBI will be settled by OBI prior to closing of the OBI Merger, thereby reducing the current assets and current liabilities by the same amount.

CITADEL HOLDING CORPORATION
PRO FORMA COMBINED STATEMENT OF INCOME (UNAUDITED)
DECEMBER 31, 1999

	Citadel	OBI	Adjustments	Profroma Consolidated
Revenues	3,952	2,582		6,534
Operating expenses	2,851	2,212	386	(A) 5,449
Operating income	\$ 1,101	\$ 370	\$ (386)	\$ 1,085
Non-operating income (expense)	13,702	-	-	(B) 13,702
Earnings before minority interest and taxes	\$ 14,803	\$ 370	\$ (386)	\$ 14,787
Minority interest	(7)	-	-	(7)
Earnings before taxes	\$ 14,796	\$ 370	\$ (386)	\$ 14,780
Taxes	(5,309)	(74)	(164)	(C) (5,547)
Net earnings	\$ 9,487	\$ 296	\$ (550)	\$ 9,233
Basic earnings per share (D)	\$ 0.95			\$ 0.93
Diluted earnings per share (D)	\$ 0.95			\$ 0.93

(A) Adjustment represents an increase in the amortization of goodwill and capitalized transaction costs, which are being amortized over 10 years.

(B) Included in the OBI's operating expense are the following: (I) \$1,200,000 of general and administrative expenses paid to an affiliate; and (ii) \$305,000 of legal expenses. The arrangement with the affiliate to provide for general and administrative expenses will terminate upon closing of the acquisition of OBI by Citadel. Thus, such expenses are not expected to continue.

(C) Adjustment represents what income tax expense would have been if OBI had been a C-corporation throughout calendar year 1999, instead of being a more tax favorable S-corporation.

(D) Basic and diluted earning per share were calculated as if the 2,622,466 and 655,616 shares of Class A and Class B common stock shares were issued as of January 1, 1999. The average weighted shares used to calculate the earnings per share was 9,947,641.

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Current Report on Form 8-K under the Securities Exchange Act of 1934 of Citadel Holding Corporation dated October 4, 2000 of our report dated March 27, 2000 and contained in Registration Statement No. 333-36277 of Citadel Holding Corporation on Form S-8 under the Securities Act of 1933 insofar as such report relates to the financial statements and the financial statement schedule of Citadel Holding Corporation for the year ended December 31, 1999.

DELOITTE & TOUCHE LLP

Los Angeles, California
October 4, 2000