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FORM 10-K

READING INTERNATIONAL INC - RDI

Filed: April 17, 1995 (period: December 31, 1994)

Annual report with a comprehensive overview of the company

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1994

OR

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

For the transition period from _____ to _____

CITADEL HOLDING CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

95-3885184
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

600 NORTH BRAND BOULEVARD
GLENDALE, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)

91230
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (818) 551-7450

Indicate by check mark whether registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934
during the preceding 12 months (or for such shorter period that the registrant
was required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained, to
the best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or any
amendment to this Form 10-K. Yes No .

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of the latest practicable date. The number of shares of Common
Stock, par value \$.01 per share and Serial Preferred Stock, par value \$.01 per
share, of Registrant outstanding as of March 15, 1995 were 6,669,924 and
1,329,114 shares, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's 1995 Proxy Statement, which will be filed with the
Securities and Exchange Commission in connection with the Company's 1995 Annual
Meeting of Stockholders, are incorporated by reference in Part III hereof.

CITADEL HOLDING CORPORATION

ANNUAL REPORT ON FORM 10-K

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PART I

ITEM 1: BUSINESS OF CITADEL HOLDING CORPORATION

GENERAL

Citadel Holding Corporation, a Delaware corporation ("Citadel" and collectively with its wholly owned subsidiary, the "Company"), was incorporated in 1983 to serve as the holding company for Fidelity Federal Bank, a Federal Savings Bank ("Fidelity"). On August 4, 1994, Citadel and Fidelity completed the recapitalization component of a recapitalization and restructuring transaction (the "Restructuring"), which resulted in (i) the reduction of Citadel's interest in Fidelity from 100% to 16.2%, (ii) the acquisition by the Company, at bulk sale prices from Fidelity, of four Real Estate Owned properties (the "REO Properties"), (iii) the sale by Citadel to Fidelity of its Gateway Investment Services, Inc. ("Gateway") subsidiary for approximately \$1 million, (iv) the transfer to Citadel of Fidelity's interest in certain outstanding litigation (the "D&O Litigation"), and (v) the receipt by way of dividend from Fidelity of options to acquire at book value two office buildings used by Fidelity in its operations (the "Building Options"). Also in connection with the Restructuring, Citadel agreed to indemnify Fidelity with respect to certain environmental and structural representations and warranties made by Fidelity to certain third party buyers in connection with bulk sales by Fidelity made as a part of the Restructuring, up to a limit of \$4 million (the "Bulk Sale Indemnity").

As a result of the Restructuring, Citadel no longer consolidates Fidelity in its financial statements; rather it accounts for its investment on the cost basis. This change was effective as of January 1, 1994 for purposes of the financial statements included elsewhere in this report, although Fidelity's operational results through August 4, 1994 are reflected in Citadel's financial statements. Also, as Citadel no longer has representation on the Board of Directors of Fidelity, it no longer has direct access to information concerning Fidelity (other than information that is generally available to Fidelity stockholders) or any ability to assess the correctness or completeness of the information that it is provided by Fidelity. Accordingly, information (including without limitation financial information) included in this report with respect to Fidelity and reported after or pertaining to periods closing after the Restructuring have not been independently verified by Citadel.

In the Restructuring, Fidelity raised approximately \$109 million of equity

through the public issuance of 21,577,141 shares of Class A and Class C Common Stock, and sold problem assets with a net book value of \$418.8 million. Citadel incurred a loss through August 4, 1994, of \$112 million from the operations of Fidelity, and booked a write down as of August 4, 1994, of \$52.8 million on its Fidelity stock. The Company's residual interest in Fidelity is in the form of Class B Common Stock, which has only limited voting rights and is subject to certain transfer restrictions. Subject to certain limitations, upon the sale of shares of the Fidelity Class B Common Stock, such shares automatically convert into shares of Fidelity Class A Common Stock and have full voting and transfer rights. Subject to certain limitations, upon the reduction of Citadel's interest to less than 10% of the total Fidelity Common Stock of all classes outstanding, the Class B Common Stock held by Citadel will likewise automatically convert into Fidelity Class A Common Stock and have full voting and transfer rights. See "Description of Fidelity Class B Common Stock" below.

The four REO Properties acquired in connection with the Restructuring were purchased by a wholly owned subsidiary of Citadel, Citadel Realty, Inc. ("CRI"), with funding provided in the form of loans by Fidelity (\$13.9 million) and Craig Corporation ("Craig") (\$6.2 million), a major Citadel stockholder. See Item 2: "Real Estate Activities--Real Estate Interests."

At the present time, the Company is in the process of completing its disassociation from Fidelity and working to maximize the value of its real estate assets. Citadel has entered into an agreement with Dillon Investors, L.P. ("Dillon Investors") pursuant to which Dillon Investors and certain related parties (the "Dillon Parties") will purchase 30.8% of Citadel's Fidelity Class B Common Stock on April 18, 1995. See "The Dillon Litigation" below. Citadel is seeking alternatives to dispose of the rest of its Fidelity Class B Common Stock and anticipates that it will have disposed of such stock by the end of 1995. However, no

assurance can be given that Citadel will be able to dispose of such stock on terms favorable to Citadel. Upon the disposition of its remaining interest in Fidelity, the Company intends to review its assets and opportunities and to make a decision as to a new business direction. Among the alternatives under consideration are the continuation and expansion of its real estate operations, the movement into a new line or lines of business, merger or sale of the entire Company, and liquidation. However, as management believes that the Company has value as a publicly traded entity with significant assets, management believes it is unlikely that liquidation will be the selected business plan.

At December 31, 1994, the Company's principal assets were the REO Properties and its 16.2% interest in Fidelity. Based on appraisals prepared between October 1993, and July 1994, the REO Properties had an aggregate appraised value of \$25.6 million. See Item 2: "Real Estate Activities--Real Estate Interests." Based on the quoted bid/ask prices for Fidelity shares on December 31, 1994 (\$4.00/\$4.50 per share), Citadel's interest in Fidelity would have had a value of between \$16.8 million and \$18.91 million. Subsequent to December 31, 1994, Fidelity announced losses for the fourth quarter of 1994 of \$14.8 million, reducing its ratio of core capital to adjusted total assets to 4.29% and its ratio of total capital to risk weighted assets to 8.28%. At these ratios, Fidelity's excess capital (above the minimum required to be "adequately capitalized" under the "prompt corrective action" rules of the Office of Thrift Supervision (the "OTS")) is \$10.9 million and \$6.3 million, respectively. After consultation with its financial advisors and securities brokers, and taking into consideration the year-end results of Fidelity and the terms of the settlement with the Dillon Parties described below, the Company has written down its investment in Fidelity to \$13.4 million, or \$3.19 per share.

FIDELITY INVESTMENT: STATUS AS A SAVINGS AND LOAN HOLDING COMPANY

Companies deemed to "control" savings associations such as Fidelity are required to register as Savings and Loan Holding Companies and are subject to examination and regulation by the OTS. Citadel continues to be registered as a Savings and Loan Holding Company following the Restructuring. Citadel believed it to be in its best interest not to seek de-registration because it was believed that so long as the Company's holdings of Fidelity stock represented a major portion of Citadel's assets, Citadel should not give up such regulatory authority as it might have to exercise a controlling influence with respect to the business and affairs of Fidelity. In addition, in light of the scope and extent of Citadel's ongoing equity interest in Fidelity, there were questions as to whether Citadel would be permitted to de-register before reducing its holdings of Fidelity stock to below 10% of the total Fidelity Common Stock outstanding. However, based upon advice given to Dillon Investors by the OTS to

the effect that the OTS would not view Dillon Investors' acquisition of "control" of Citadel to constitute "control" by Dillon Investors of Fidelity, Citadel has reason to believe that the OTS should conclude that Citadel does not "control" Fidelity.

In light of the advice given to Dillon Investors and the decision by Citadel to dispose of its Fidelity holdings prior to December 31, 1995, Citadel in January of this year sought advice from the OTS to the effect that it is no longer in "control" of Fidelity and that it is no longer subject to the various regulations applicable to transactions between a savings association and a Savings and Loan Holding Company. However, no response has yet been forthcoming from the OTS to this request. Accordingly, at the present time, the Company continues to structure its affairs under the assumption that it continues to be deemed a Savings and Loan Holding Company by the OTS. Citadel believes that, once it has reduced its holdings of Fidelity Common Stock to an amount representing less than 10% of the outstanding Fidelity Common Stock, all questions as to its status should be resolved in favor of its not continuing to be a Savings and Loan Holding Company.

At the present time, the Company intends to dispose of its Fidelity Class B Common Stock by the end of 1995, although no assurance can be given that it will be able to dispose of all such stock on favorable terms by the end of the year. In connection with the settlement of the litigation with the Dillon Parties

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discussed below, on April 10, 1995, the Company approved an agreement pursuant to which it will sell 1,295,000 shares of its Fidelity Class B Common Stock (30.8% of its holdings) to the Dillon Parties on April 18, 1995.

THE DILLON LITIGATION

In October and November 1994, Citadel issued to Craig 74,300 shares of its Common Stock (the "Citadel Common Stock") and 1,329,114 shares of 3% Cumulative Voting Convertible Preferred Stock (the "Citadel Preferred Stock"), thereby increasing Craig's percentage voting power in Citadel from approximately 9% to 25%. The Citadel Common Stock was issued at a price of \$3.85 per share, and the Citadel Preferred Stock was issued at a price of \$3.95 per share. Payment for the Citadel Preferred Stock was in the form of cancellation of \$5.25 million of indebtedness owed to Craig under a line of credit provided to the Company by Craig. The issuance of the Citadel Preferred Stock improved Citadel's capital position and cash flow. The transaction was unanimously approved by those directors independent of Craig and was determined to be fair, from a financial point of view, by the Company's independent financial advisors. Nevertheless, Dillon Investors, which, together with its affiliates, owned approximately 9.9% of Citadel's Common Stock at the time, sued the Company, alleging, in essence, that the stock issuances to Craig were approved by the directors at an unfair price in order to entrench themselves in power in the face of an announced proxy contest and possible consent solicitation by Dillon Investors to take over control of the Citadel Board of Directors. Named as defendants in the suit were Citadel, its directors and Craig. The suit sought, inter alia, rescission of the issuance of the Citadel Preferred Stock and the reinstatement of the debt owed to Craig under the line of credit.

On April 3, 1995, Citadel signed a settlement agreement with the Dillon Parties. The Board of Directors approved the settlement on April 10, 1995, and the settlement and the transactions contemplated thereunder are currently scheduled to be consummated on April 18, 1995. Although the Company and its directors believed, upon advice of counsel, that they had good and meritorious defenses to the Dillon Investors claims, it was determined to be in the best interests of the Company and its stockholders to settle the litigation in light of, among other things, the estimated costs of taking the matter to trial and the uncertainty caused by the litigation. Pursuant to the settlement, the Dillon Parties have agreed to purchase from Citadel 1,295,000 shares of Fidelity Class B Common Stock. The consideration for the purchase consists of (i) \$2.22 million in cash, (ii) the surrender of 666,000 shares of Citadel Common Stock (the "Surrendered Shares"), which constitutes the entire interest of the Dillon Parties in Citadel, (iii) the settlement of all existing litigation between Citadel, its directors and Craig, on the one hand, and the Dillon Parties and the director nominees of Dillon Investors, on the other hand, and the granting of mutual releases by Citadel, Craig and the Dillon Parties, (iv) a covenant on the part of the Dillon Parties not to purchase or acquire any beneficial interest in any securities of Citadel and not to engage

in any solicitation consents or proxies for a one year period subsequent to the closing of the stock purchase, which is scheduled for April 18, 1995. Craig has agreed with the Dillon Parties not to exercise the conversion feature of its Citadel Preferred Stock prior to February 4, 1996 without the prior approval of the holders of a majority of the outstanding Citadel Common Stock. In consideration for Craig's agreement, Citadel has (a) granted Craig a two year option to purchase the Surrendered Shares at a purchase price of \$3.00 per share and (b) agreed to reimburse Craig for its litigation costs in an amount not to exceed \$75,000.

Although no specific value was assigned by the parties to these shares, the Company intends to assign a value of \$2.81 per share to the consideration received for such shares for accounting and income tax purposes, based upon a 2 1/8 per share market price for the Surrendered Shares.

D&O LITIGATION

In connection with the Restructuring, Fidelity also transferred to Citadel its interest in the D&O Litigation, a lawsuit that Fidelity had filed against the carrier of its directors' and officers' insurance policies. Citadel ultimately received \$2.5 million as final settlement of this litigation.

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THE BULK SALE INDEMNITY

In connection with the Restructuring, Fidelity consummated bulk sales during 1994 of certain nonperforming and other problem assets to third parties. Citadel agreed to indemnify Fidelity with respect to losses that might be incurred by Fidelity in the event of breach by Fidelity of certain representations and warranties made by Fidelity to such third party purchasers in connection with the bulk sales. Citadel's liability under this indemnity is capped at \$4 million and pertains only to those representations and warranties addressing certain environmental and structural issues.

The period for making claims under these representations and warranties has now lapsed, with claims of approximately \$3.9 million having been asserted against Fidelity. However, Fidelity has asserted that these claims are subject to, among other things, a cure threshold which would reduce the maximum amount of claims to \$2.8 million, and that other defenses exist which could further reduce Fidelity's obligations under these claims. Fidelity is currently reviewing these claims and Fidelity has informed the claimant that based upon Fidelity's review to date, it believes the claims to be without merit. However, as there continue to be a significant number of material issues to be resolved, the Company has recorded deferred proceeds of \$4 million on its balance sheet.

DESCRIPTION OF FIDELITY CLASS B COMMON STOCK

Under the terms of Fidelity's charter, the Fidelity Class B Common Stock has only limited voting rights. Holders of Fidelity Class B Common Stock are permitted to vote only (i) with respect to any amendment or modification of, or waiver with respect to, Fidelity's charter that would adversely affect the rights of the Fidelity Class B Common Stock (including, without limitation, any increase or decrease in the percentage of shares of outstanding Fidelity Class B Common Stock required to approve any such amendment, modification or waiver), in which case any such amendment, modification or waiver will not be effective without the prior affirmative vote of the holders of the majority of the Fidelity Class B Common Stock at the time outstanding voting as a separate class, (ii) on a merger or consolidation of Fidelity or a sale or exchange of all or substantially all of the assets of Fidelity on which the holders of Fidelity Class A Common Stock have the right to vote, in which event the holders of Fidelity Class A Common Stock and Fidelity Class B Common Stock will vote together as one class, (iii) together with the holders of the Fidelity Class A Common Stock and the Fidelity Class C Common Stock, voting as a single class, on any dissolution of Fidelity or (iv) as otherwise required by law.

The holders of Fidelity Class B Common Stock are entitled to receive dividends pari passu with the holders of Fidelity Class A Common Stock and Fidelity Class C Common Stock, out of funds legally available therefor, subject to the restrictions of Fidelity's regulators and the payment of preferential amounts of which any class of stock having preferences over the Fidelity Common Stock is entitled. Upon liquidation, dissolution or winding up of Fidelity, holders of the Fidelity Class B Common Stock will be entitled to share ratably and pari passu with holders of Class A Common Stock and Class C Common Stock in

all assets remaining after the payment of all liabilities of Fidelity and of any preferential amounts to which any class of stock having preferences over the Common Stock is entitled.

Upon the sale or transfer of any shares of Fidelity Class B Common Stock by Citadel to any person that is not an affiliate of Citadel, such transferred shares will automatically be converted into shares of Fidelity Class A Common Stock. In addition, any outstanding shares of Fidelity Class B Common Stock will automatically be converted into shares of Fidelity Class A Common Stock at such time as such outstanding shares represent less than 10% of the total outstanding Common Stock of Fidelity on a fully-diluted basis. The conversion rate for the Fidelity Class B Common Stock will be one-to-one.

Pursuant to a registration rights agreement entered into between Citadel and Fidelity (the "Registration Rights Agreement"), Citadel and any person who acquires shares of Fidelity Class B Common Stock or Fidelity Class A Common Stock issuable upon conversion of the shares of Fidelity Class B Common Stock

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(the "Registrable Securities") is entitled to certain registration rights with respect to such shares, subject to the terms and conditions of the Registration Rights Agreement. At any time on or before March 31, 1998, the holder or holders or more than 50% of the Registrable Securities may require Fidelity to register all or a portion of the Registrable Securities under OTS regulations, subject to certain restrictions. No more than three demands may be made pursuant to such registration rights. Furthermore, if, at any time before March 31, 1999, Fidelity proposes to register any of its Common Stock under the OTS regulations for purposes of an offering or sale in a primary or secondary offering, Fidelity may be required to include any or all of the Registrable Securities as directed by the holders thereof. Subject to certain limitations, Fidelity is required to bear all registration and selling expenses in connection with the registration of the Registrable Securities. However, after consultation with Fidelity, Citadel has determined that its shares of Fidelity Class B Common Stock may be freely sold without registration under the regulations of the OTS, and, when such shares convert to Fidelity Class A Common Stock, such shares will cease to be eligible for the foregoing registration rights.

The stockholders' agreement between Citadel and Fidelity (the "Citadel Stockholders' Agreement") provides restrictions on the transfer of shares of Fidelity Class B Common Stock. Except pursuant to the exercise of the registration rights described above, no holder of Fidelity Class B Common Stock may sell publicly shares of Fidelity Class B Common Stock representing more than 5% of the total outstanding Fidelity Common Stock on a fully-diluted basis during any 30-day period without the prior approval of the Board of Directors of Fidelity. In addition, if shares of Fidelity Class B Common Stock representing more than 5% of the total outstanding Common Stock of Fidelity on a fully-diluted basis are proposed to be sold privately to any person or, if after giving effect to such private sale, the transferee (including any of the transferee's affiliates or any "group" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of which the transferee is a member) would own more than 5% of the outstanding Common Stock of Fidelity on a fully-diluted basis, then, except in connection with distributions by Citadel of such shares to its stockholders, Fidelity will have an assignable right of first refusal with respect to the shares of Fidelity Class B Common Stock proposed to be sold. Upon any distribution of Fidelity Class B Common Stock by Citadel to its stockholders, by dividend or otherwise, any Citadel stockholder will be entitled to convert all or a portion of the shares of Fidelity Class B Common Stock so distributed to the extent that such shares when added to all other shares of Fidelity Class B Common Stock owned immediately prior to the distribution by such stockholder and any shares of Fidelity Class B Common Stock owned immediately prior to the distribution by all other members of any "group" (as defined) of which such stockholder is a member, do not exceed five % of all outstanding shares of Fidelity Common Stock.

In addition, for a period ending in February 1996, Fidelity has the right to redeem, subject to the approval of the OTS and the approval of the stockholders of Citadel, any outstanding shares of Fidelity Class B Common Stock owned by Citadel or its affiliates (each a "Citadel Person") in excess of the number of shares of Fidelity Common Stock held by the then largest stockholder of Fidelity (other than Citadel). The redemption price to be paid by Fidelity would be equal to 110% of the market price of the Fidelity Class A Common Stock, assuming it is then listed on a national securities exchange or admitted

for quotation on the National Association of Securities Dealers Automated Quotation System, or, if the Fidelity Class A Common Stock is not so listed or quoted, 100% of the book value per share of all Fidelity Common Stock as of the most recent quarterly balance sheet date; provided that no such redemption shall be made in anticipation of any merger, consolidation, sale of all or substantially all of Fidelity's assets, distribution (other than any ordinary cash dividend) or any other transaction involving the receipt by holders of any class of Fidelity Common Stock of any cash or other property. Fidelity will be required to notify each Citadel Person holding shares of Fidelity Class B Common Stock of its intention to exercise such right to redeem shares. After receiving such notice, such Citadel Person will have the option to distribute any or all of the shares of Fidelity Class B Common Stock it owns to its stockholders, in which case Fidelity will redeem only the shares of Fidelity Class B Common Stock, if any, not so distributed by such Citadel Person. Citadel believes that, at the present time this redemption provision has no practical effect because Citadel is currently not the largest

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Fidelity stockholder. Also, Fidelity's ability to exercise such stock redemption rights would be subject to it having adequate capital to make such acquisition, which is unlikely given Fidelity's current capital levels.

TAX SHARING

The tax sharing agreement between Citadel and Fidelity was terminated prior to the closing of the Restructuring on August 4, 1994 (the "Closing"). At the Closing, Citadel and Fidelity entered into a tax disaffiliation agreement (the "Tax Disaffiliation Agreement") that sets out each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state, local and foreign taxes for periods before and after the Closing, and related matters such as the filing of tax returns and the conduct of Internal Revenue Service and other audits. In general, under the Tax Disaffiliation Agreement, Fidelity will be responsible for (i) all adjustments to the tax liability of Fidelity and its subsidiaries for the periods before the Closing relating to operations of Fidelity; (ii) any tax liability of Fidelity and its subsidiaries for the taxable year that begins before and ends after the Closing with respect to that part of the taxable year through the date of the Closing; and (iii) any tax liability of Fidelity and its subsidiaries for periods after the Closing. For this purpose, Gateway is deemed to be a subsidiary of Fidelity at all relevant times and any liability for taxes for such period ending on or before the Closing shall be measured by Citadel's actual liability for taxes for such period, after applying tax benefits otherwise available to Citadel attributable to such period. With certain exceptions, Fidelity will be entitled to any refunds of taxes relating to its tax liabilities.

In general, Citadel will be responsible for all tax liabilities of Citadel and its subsidiaries (other than Fidelity and its subsidiaries) for all periods prior to disaffiliation. Citadel will be entitled to any refunds of taxes relating to its tax liabilities.

MANAGEMENT

Steve Wesson has been appointed as President and Chief Executive Officer of the Company. Mr. Wesson was initially retained to develop a plan for the retention by Citadel of approximately \$500 million in gross book value of the assets ultimately sold to third parties in the bulk sales described above under "The Bulk Sale Indemnity." From 1989 until he joined the Company in 1993, Mr. Wesson served as CEO of Burton Property Trust Inc., the U.S. real estate subsidiary of The Burton Group PLC. In this position he was responsible for the restructuring and eventual disposal of Burton's assets in the U.S. Mr. Wesson succeeds Richard M. Greenwood, who resigned from his positions with Citadel and continues as the President and Chief Executive Officer of Fidelity. All officers of Citadel, other than Heidi Wulfe, Senior Vice President, Controller and Chief Accounting Officer, resigned their offices effective as of the Closing. Ms. Wulfe resigned her positions with Citadel effective August 23, 1994. S. Craig Tompkins became the Secretary/Treasurer of Citadel in September, 1994. Mr. Tompkins is also President and a director of Craig. Prior to joining Craig in March 1993, Mr. Tompkins was a partner in the law firm of Gibson, Dunn & Crutcher.

CITADEL LOAN TO FORMER CHIEF EXECUTIVE OFFICER

As part of Mr. Greenwood's compensation package when he joined Citadel,

Citadel extended an interest-free loan to Mr. Greenwood in the amount of \$240,000, payable on demand. The loan was made principally to refinance a loan extended to Mr. Greenwood by his previous employer. At the Closing, this loan was converted into a 2-year term loan, with 9% interest accruing beginning February 7, 1995. Accrued interest is payable monthly in arrears.

ITEM 2: REAL ESTATE ACTIVITIES

REAL ESTATE INTERESTS

The table below provides an overview of the REO Properties, which constituted all of the real properties owned by the Company at December 31, 1994.

ADDRESS	TYPE	UNITS/SQUARE FEET	% LEASED AT 12/31/94	MAJOR TENANTS	REMAINING LEASE TERMS
ARBOLEDA 1661 Camelback Rd. Phoenix, Arizona	Office/ Restaurant	178,000	99	American Express	1-5 Yrs
VESELICH 3939 Veselich Ave. Los Angeles, Calif.	Apartment	216 176,000	95	NA	6-12 months
PARTHENIA 21028 Parthenia Canoga Park, Calif.	Apartment	27 26,000	70	NA	6-12 months
WESTERN(1) 23200 S. Western Ave. Harbor City, Calif.	Apartment	145 98,000	99	NA	6-12 months

(1) This property was sold by the Company during the first quarter of 1995.

Arboleda, Phoenix

Although this property was 100% leased at December 31, 1994, American Express Company, which occupies 58% (100,098 sq. ft.) of the property, announced that it does not intend to renew at the expiration of the current term in February 1997. While management believes that the leasing market in Phoenix will continue to strengthen, it is anticipated that significant capital expenditures would be necessary to relet the American Express space and that the space may remain vacant for some time. With the uncertainty regarding the American Express lease and certain planning issues on an adjacent site, management believes it to be unlikely that proceeds would be maximized by a current disposition of the property.

Veselich, Los Angeles

While the occupancy rate of this property in the last 12 months has ranged from 80% to 95%, the property has historically experienced considerable turnover of tenants. This has resulted in high overhead and reduced cash flows. Management is addressing this issue by carrying out deferred maintenance, increasing marketing expenditures and improving diligence on prospective tenants. It is expected that the property will be stabilized at near to full occupancy sometime during 1995, but there can be no assurance on this point.

Parthenia, Canoga Park

Of the 27 units in this complex, 21 were significantly damaged in the January 1994 Northridge earthquake. The Company has since completed appropriate repairs. The apartment complex remained 33% occupied during the earthquake renovation, and occupancy had increased to 70% by December 31, 1994. It is anticipated that it will take 6-12 months to complete the releasing of the property although no assurance can be given that additional time will not be needed.

Western, Harbor City

Subsequent to December 31, 1994, the Company sold the Western property for a net price of \$5.9 million and a gain of approximately \$980,000. In addition, a mortgage note payable to Fidelity of \$3.7 million was assumed by the purchaser. During the last several months prior to its sale, this property has consistently operated at 99% occupancy with low tenant turnover.

BUILDING OPTIONS

As part of the Restructuring, Citadel acquired by way of dividend the Building Options, which were assigned to CRI, its wholly owned subsidiary. The office buildings subject to the Building Options are used by Fidelity in its operations and are located in Glendale (the "Glendale Building") and in Sherman Oaks (the "Sherman Oaks Building"). The aggregate exercise price of the Building Options is \$9.3 million, which is equal to the aggregate net book value of the two buildings on the books of Fidelity as of June 30, 1994.

On February 2, 1995, the Company exercised each of the Building Options. On March 22, 1995, the Company purchased and immediately sold the Sherman Oaks Building for a gain of approximately \$560,000. The purchase of the Glendale Building is expected to close by May 17, 1995.

The Company expects to fund the \$7.1 million exercise price to purchase the Glendale Building through borrowing of up to \$5.38 million with the balance of the funds coming from internal sources. It is presently intended that Fidelity will provide the necessary financing and Citadel has been informed that Fidelity's Board of Directors has approved the principal terms of the loan. However, Fidelity has conditioned the making of the loan on either (i) the OTS determining that Citadel and Fidelity are not affiliates or (ii) the terms of the loan complying with OTS regulations relating to loans to affiliates. If neither of these conditions can be satisfied, the Company would have to seek financing from other sources. No assurance can be given that either of the conditions to the Fidelity loan will be satisfied or that the Company would be able to obtain other financing. For a description of the terms of the proposed loan from Fidelity, see Item 7: "Management's Discussion and Analysis of Financial Conditions and Results of Operations--Business Plan, Capital Resources and Liquidity of the Company."

The table below provides an overview of the Glendale Building:

ADDRESS	TYPE	UNITS/ SQUARE		% LEASED AT 12/31/94	MAJOR TENANTS	LEASE TERM
		FEET				
----- GLENDALE BUILDING 600 North Brand Blvd., Glendale, California	Office	89,000		100	Fidelity: Public Storage	(1)

(1) For Fidelity, 10 years from Citadel's purchase of the Glendale Building; for Public Storage, to 1996.

The Glendale Building is the headquarters building of Fidelity. Upon completion of Citadel's purchase of the Glendale Building, scheduled for no later than May 17, 1995 (the "Glendale Building Closing"), Citadel and Fidelity will enter into a 10-year, full service gross lease for four of the six floors of the Glendale Building.

The rental rate for the first five years of the lease term will be approximately \$26,600 per month (including parking) for the ground floor and approximately \$75,000 per month (including parking) for the fourth, fifth and sixth floors. This lease will provide for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index ("CPI") or 3%. After the first five years of the lease term, the rental rate for the ground floor will be adjusted to the higher of the then current market rate or the prevailing rental rate in the fifth year of the lease and the rental rate for the upper floors will be adjusted to the higher of the then current market rate or \$1.50 per square foot increased by the annual rental rate increase applied during the first five years of the lease as described in the preceding

sentence. Fidelity will have the option to extend the lease of the ground floor for two consecutive five year terms at a market rental rate and will have the option to purchase the Glendale Building at a market rate at the expiration of the lease term, provided that Citadel then owns the building.

Third-party appraisals on the Glendale Building indicate that the market value of the Glendale Building could be as much as \$2.75 million above the exercise price of the Glendale Building Option, before costs the Company would incur in connection with the exercise, which may be significant and would include the repair

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of earthquake damage to the parking structure. While management believes that the Glendale Building is well situated, the value of the Glendale Building is tied in significant part to the credit-worthiness and future prospects of Fidelity.

FINANCING OF REAL ESTATE INTERESTS

The Company's acquisition of the REO Properties was 100% leveraged: \$13.9 million was obtained in the form of conventional mortgage loans by Fidelity against the Arboleda, Veselich and Western Avenue Properties, while the balance was obtained through drawdowns (\$6.2 million) on an \$8.2 million line of credit from Craig.

With respect to each of the Western Avenue property and the Veselich property (two apartment complexes), Fidelity extended a 10-year loan, amortizing over 30 years, at an adjustable rate of interest tied to the one-year Treasury rate plus approximately 3.70% per annum, with an initial interest rate of 7.25%. The rate on the Veselich property loan is currently 7.25%. The loan relating to the Western Avenue Property was assumed by the purchaser when the property was sold in January, 1995. The loan secured by the Arboleda Property (an office building) is guaranteed by Citadel (CRI is the borrower), has a seven-year term, amortizing over 25 years, with an adjustable rate of interest tied to a six-month LIBOR rate plus 4.5% per annum, with an initial rate of 9.25% per annum. This rate on this loan is currently 9.25%. Fidelity did not provide financing with respect to the Parthenia property (an apartment complex).

The remainder of the purchase price of the REO Properties was drawn on a line of credit (the "Craig Line of Credit") provided by Craig. At the time of the Restructuring, Craig held approximately 9% of the outstanding common stock of Citadel. At the time of Citadel's borrowing under the Craig Line of Credit, James J. Cotter was Chairman of each of Citadel and Craig and S. Craig Tompkins was a director of Citadel and the President and a director of Craig.

The Craig Line of Credit was initially committed in the amount of \$8.2 million, of which \$6.2 million was immediately drawn down. The Craig Line of Credit has a one year term, maturing on August 4, 1995, but can be extended an additional six months. The Company paid a commitment fee of 2.5% at the origination of the Craig Line of Credit, which bears interest at the prime rate plus 3%. There is a 0.5% annual fee on the average undrawn balance under the line.

On November 10, 1994, the Company retired \$5.25 million of the Craig Line of Credit by issuance to Craig of the Citadel Preferred Stock. The Craig Line of Credit was reduced to \$950,000, all of which is currently outstanding. For information regarding the issuance of the Citadel Preferred Stock and rights, privileges and preferences of the Citadel Preferred Stock, see Item 7: "Management's Discussion and Analysis of Financial Conditions and Results of Operations--Issuance of Preferred Stock in Debt Restructuring."

ITEM 3: LEGAL PROCEEDINGS

On November 7, 1994, a stockholder, Dillon Investors, filed a lawsuit in the Court of Chancery of the State of Delaware. The suit named as defendants the Company, its directors and Craig, and alleged that the Citadel Preferred Stock and the Citadel Common Stock were issued at unfair prices in order to entrench the Board of Directors in power in the face of an announced proxy contest and possible consent solicitation by Dillon Investors to take over control of the Board of Directors. The suit sought rescission of the issuance of the Citadel Preferred Stock and the reinstatement of borrowings from Craig under the Craig Line Of Credit.

On December 5, 1994, the Company filed a lawsuit in the United States District Court for the Central District of California. The suit named as defendants Dillon Investors, Roderick H. Dillon, Jr., and certain entities affiliated with Dillon Investors, and alleged that the defendants had made insufficient disclosure under Section 13 of the Securities Exchange Act of 1934, as amended.

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On April 3, 1995, the Company, its directors, Craig, and the Dillon Parties entered into settlement agreements to resolve the Delaware suit and the federal suit. The settlements are expected to be consummated on April 18, 1995. See Item 1: "Business of Citadel Holding Corporation--The Dillon Litigation."

The Company, Hecco Ventures I and James J. Cotter are defendants in a civil action filed in 1990 by Alfred Roven in the United States District Court for the Central District of California. The complaint alleges fraud by the Company in a proxy solicitation relating to the Company's 1987 annual meeting of stockholders and breach of fiduciary duty. The complaint seeks compensatory and punitive damages in an amount alleged to exceed \$40,000,000. The complaint grew out of and was originally asserted as a counter-claim in an action brought by the Company against Roven for illegal short-swing profits. The Company's motion for summary judgment was granted in the spring of 1991 and all federal claims were dismissed. However, the Court retained jurisdiction over pendent state law claims for breach of fiduciary duty. Roven was granted summary judgment on the short swings profits claim. Roven has now filed a motion to amend the complaint against the Company for malicious prosecution in connection with the short swings profit litigation. The proposed amendment names certain former individual directors of Citadel and its counsel of record. The motion to amend is scheduled to be heard on May 1, 1995. The Company believes that it has meritorious defenses to these claims, and has not reserved any amounts with respect thereto. However, costs of defense could be material, particularly given the Company's limited cash flow and operating profits.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 1994. The 1994 annual meeting of stockholders (the "1994 Meeting") was held on January 10, 1995. At the 1994 Meeting, each of the current directors was elected to serve on the Board until the next annual meeting and until successors are elected.

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PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Citadel's common stock is listed and quoted on the American Stock Exchange ("AMEX"). The following table sets forth the high and low closing bid prices of the common stock of Citadel as reported by AMEX for each of the following quarters:

	HIGH -----	LOW -----
1995:		
First quarter.....	\$ 3 1/8	\$ 2 1/16
1994:		
Fourth quarter.....	4 3/16	2 1/6
Third quarter.....	6 3/8	3 1/2
Second quarter.....	8	3 7/8
First quarter.....	12 1/4	4 1/4
1993:		
Fourth quarter.....	19 1/2	9 3/8
Third quarter.....	18 5/8	14 1/4
Second quarter.....	21 7/8	12 5/8
First quarter.....	23 7/8	16

HOLDERS OF RECORD

The number of holders of record of Citadel's common stock at April 14, 1995 was 272.

DIVIDENDS

While Citadel has never declared a dividend on its common stock and has no current plan to declare such a dividend, Citadel will review this matter on an ongoing basis.

ITEM 6: SELECTED FINANCIAL DATA

FIVE-YEAR SELECTED FINANCIAL DATA

The tables below set forth certain historical financial data regarding the Company. This information is derived in part from, and should be read in conjunction with, the consolidated financial statements of the Company.

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	1994	1993	1992	1991	1990
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Income from real estate operations.....	\$ 2,115				
Net interest income after provision for estimated loan losses..		\$ 36,101	\$ 79,601	\$ 92,264	\$ 103,611
Gains (losses) on sales of loans, net.....		194	1,117	2,118	(1,408)
Gains (losses) on sales of mortgage-backed securities, net.....		1,342		8,993	(165)
Gains (losses) on sales of investment securities.....		(54)		1	32
Other income (expense)..		(35,870)	(6,602)	(5,616)	5,510
Administrative charge from Fidelity.....	916				
Loss of Fidelity.....	171,964				
Operating expense.....	4,060	105,341	77,911	79,446	66,527
Earnings (loss) before income taxes.....	(174,825)	(103,628)	(3,795)	18,314	41,053
Income tax expense (benefit).....		(36,467)	(5,841)	15,651	17,734
Net earnings (loss).....	\$ (174,825)	\$ (67,161)	\$ 2,046	\$ 2,663	\$ 23,319
Net earnings (loss) per share.....	\$ (26.45)	\$ (11.56)	\$ 0.62	\$ 0.81	\$ 7.07
Average common and common equivalent shares outstanding (1) (2).....	6,610,280	5,809,570	3,297,812	3,297,812	3,298,140
Balance Sheet Data:					
Total assets.....	\$ 39,912	\$4,389,519	\$4,698,326	\$5,126,525	\$5,697,664
Cash and investments..	4,805	238,220	177,599	289,150	309,814
Total loans, net.....		3,713,383	3,991,781	4,550,848	5,085,213
Deposits.....		3,368,643	3,457,918	3,884,707	3,967,488
Borrowings.....	14,846	734,230	908,400	871,150	1,349,166
Subordinated notes....		60,000	60,000	60,000	60,000
Stockholders' equity..	17,838	187,403	223,186	221,140	218,477
Stockholders' equity per share.....		28.41	67.68	67.06	66.25
Common shares outstanding (1) (2).....	6,669,924	6,595,624	3,297,812	3,297,812	3,297,812
Other Data:					
Real estate loans funded.....		\$ 422,355	\$ 435,690	\$ 509,625	\$1,407,522

Average interest rate on new loans.....	6.75%	7.77%	9.07%	9.31%
Loans sold.....	\$ 137,870	\$ 204,435	\$ 282,728	\$ 158,691
Nonperforming assets to total assets.....	5.37%	4.99%	2.43%	0.850%
Number of deposit accounts.....	241,093	233,037	238,187	233,546
Interest rate margin at the end of the period.....	2.19%(3)	2.68%	3.20%	2.33%
Interest rate margin for the period.....	2.28%(3)	2.67%	2.54%	2.11%
Retail branch offices (4).....	42	43	43	44

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- (1) Net of treasury shares, where applicable.
- (2) 1993 data includes 3,297,912 shares issued in March 1993 in connection with a stock rights offering, which produced net proceeds to the Company of \$31.4 million.
- (3) Excluding the writedowns of core deposit intangibles of \$5.2 million, interest rate margins at and for the year ended December 31, 1993, would have been 23.2% and 2.39%.
- (4) All retail branch offices are located in Southern California.

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ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

RESULTS OF OPERATIONS

Prior to the Restructuring, Citadel was a financial services holding company engaged primarily in the savings bank business through Fidelity. It conducted virtually no operations at the holding company level. In the Restructuring, Citadel's interest in Fidelity was reduced from 100% to 16.2% and Citadel transferred the stock of its other subsidiary, Gateway, to Fidelity, leaving Citadel with no historical operating business. As a result, effective January 1, 1994 Citadel ceased including the results of Fidelity in its consolidated financial statements and began accounting for its investment in Fidelity on the cost basis. Since the Restructuring, Citadel has been engaged primarily in the ownership and management of commercial and residential real property. Therefore, Citadel's results of operations for the year ended December 31, 1994 are not comparable to its results of operations for prior years.

The Company reported a loss of \$174.8 million (\$26.45 per share) in 1994, comprised of (i) a \$112.1 million loss from the operations of its former subsidiary, Fidelity, through the date of the Restructuring, (ii) writedowns of \$59.9 million on the Company's investment in Fidelity at and following the Restructuring, (iii) a \$900,000 administrative charge paid to Fidelity prior to the Restructuring and (iv) a \$1.9 million loss from continuing operations.

Of the \$1.9 million loss from continuing operations, \$1.1 million related to the contested proxy solicitation, litigation defense and settlement costs. See Item 1: "Business of Citadel Holding Corporation--The Dillon Litigation." In addition, the Company spent approximately \$200,000 on deferred maintenance on its real estate holdings.

The Company continues to make progress in the leasing of its apartment properties. At December 31, 1994, the Parthenia property was 70% leased; in the first quarter of 1995, the Parthenia property had achieved over 90% occupancy. Changes made by the Company in the management of the Veselich property appear to be stabilizing the high turnover which had caused additional operating costs. Occupancy at the Veselich property is in the 90-95% range.

The Arboleda property has maintained full occupancy with low turnover of tenants. However, American Express has publicly announced that it will vacate the property at the end of its lease in February 1997. While the Phoenix office leasing market continues to strengthen, it is anticipated that significant capital expenditures will be necessary to re-lease this space and the space might remain vacant for some time. See Item 2: "Real Estate Activities--Real Estate Interests."

In addition, operating results for 1995 should be positively affected by the sale of the Harbor City and Sherman Oaks properties.

BUSINESS PLAN, CAPITAL RESOURCES AND LIQUIDITY OF THE COMPANY

In prior periods, Citadel relied almost exclusively on cash flow from the operations of Fidelity and Gateway for its liquidity needs. As a result of the completion of the Restructuring on August 4, 1994, Fidelity and Gateway are no longer subsidiaries of Citadel, and Citadel and its wholly-owned subsidiary, CRI, no longer have the benefit of cash flow from these companies to meet the Company's liquidity needs. Additionally, the Craig Line of Credit prohibits the payment of certain dividends by CRI to Citadel.

The Company expects that its sources of funds in the near term will include cash on hand (\$4.8 million at December 31, 1994), cash flow from the operations of its real estate properties, if any, and proceeds from sales of properties (see Note 13), and the sale of Fidelity Class B Common Stock to the Dillon Parties (see Note 13). Management is actively seeking one or more buyers for the balance of its Fidelity Class B Common

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Stock to provide additional funding for the Company's short and long term capital needs. It is anticipated that Citadel will complete the disposition of its entire interest in Fidelity by the end of 1995, although no assurance can be given that it will be able to dispose of its entire interest on favorable terms by the end of the year. The Company is also seeking to obtain a loan (the "Glendale Loan") of up to \$5.38 million from Fidelity to fund a portion of the purchase price for the Glendale Building. The Glendale Loan would be a five year mortgage, amortized over 20 years, adjusted monthly at LIBOR plus 4.5%. The Company currently has no borrowing capacity under the Craig Line of Credit.

In the short term, uses of funds are expected to include (i) funding of the purchase price for the Glendale Building and repair of the earthquake damage to the parking structure thereon, (ii) operating expenses, (iii) any amounts that may become payable under the \$4 million Bulk Sale Indemnity, (iv) debt service under the Fidelity mortgages relating to the REO Properties and (v) interest and principal payments under the Craig Line of Credit. Management believes that the Company's sources of funds will be sufficient to meet its cash flow requirements for the foreseeable future provided that it is able to obtain the Glendale Loan or alternative financing is available to finance the purchase of the Glendale Building. However, the Glendale Loan is subject to certain conditions. See Item 2: "Real Estate Activities--Building Options." If the Company does not obtain the Glendale Loan, the Company would have to seek financing from other sources. No assurance can be given that the Glendale Loan will be obtained or that the Company would be able to obtain other financing.

If no financing is available to purchase the Glendale Building, Citadel will have to determine whether (i) to purchase the Glendale Building, paying the entire purchase price out of cash reserves (if then adequate for such purpose), (ii) to refrain from consummating such purchase, or (iii) to sell the Glendale Building Option. If Citadel elects the first alternative, Citadel may be left with inadequate cash reserves to meet its other obligations in a timely manner unless it is able to liquidate other assets, such as its remaining shares of Fidelity Class B Common Stock, to meet such obligations. If Citadel elects the second alternative, it may be deemed to be in breach of an obligation under the Glendale Building Option. Management believes that the Glendale Building has a value materially in excess of its purchase price based on existing and contemplated leases, and has been offered a premium for the Glendale Building Option.

Management is currently evaluating the assets and opportunities available to the Company with a view to developing a new business plan. Among the alternatives under consideration are the continuation and expansion of its real estate operations, the movement into a new line or lines of business, merger or sale of the entire Company, and liquidation. However, as management believes that the Company has value as a publicly traded entity with significant assets, management believes it is unlikely that liquidation will be the selected business plan. No final conclusions have been reached regarding any of the foregoing alternatives. In the near term, the Company is seeking to dispose of its Fidelity Class B Common Stock and working to maximize the value of its current real estate holdings.

ISSUANCE OF PREFERRED STOCK IN CRAIG DEBT RESTRUCTURING

On November 10, 1994, Citadel issued 1,329,114 shares (the "Preferred

Shares") of Citadel Preferred Stock to Craig at a price of \$3.95 per share. Payment for the Preferred Shares was made by cancellation of \$5,250,000 of indebtedness owed to Craig under the Craig Line of Credit. As part of this transaction (the "Craig Debt Restructuring"), the Craig Line of Credit was reduced to \$950,000, all of which is currently drawn.

The conversion of the debt to equity in the Craig Debt Restructuring has improved Citadel's cash flow by converting floating rate debt bearing an interest rate of prime plus 3% into a fixed cumulative dividend of 3% (which is not a liability on Citadel's balance sheet until declared), and has expanded Citadel's equity base while reducing Citadel's leverage. It has also reduced pressure on the Company to sell assets in order to repay short-term debt.

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If a court of competent jurisdiction issues any ruling, judgment, injunction, decree or order that prohibits Craig from voting the Preferred Shares at any meeting of Citadel stockholders or pursuant to any written consent of Citadel stockholders, in which vote or consent the Preferred Shares would otherwise be entitled to participate, or invalidates any such vote or consent, then Craig has the right to rescind the Craig Debt Restructuring, in which event the debt under the Craig Line of Credit that was canceled in the Craig Debt Restructuring would be reinstated and would bear interest as though it had been outstanding on a continuous basis. On March 15, 1995, the effective rate of interest on the Craig Line of Credit was 12%.

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ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

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AND FINANCIAL STATEMENT SCHEDULES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Citadel Holding Corporation:

We have audited the consolidated financial statements and financial statement schedule listed at Item 8 of Citadel Holding Corporation (the "Company"). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1994 and 1993, and the results of its consolidated operations and cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles. Also in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Los Angeles, California
 March 15, 1995 (April 12, 1995 as to the
 fourth paragraph of Note 13)

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS) (NOTE 1)

	DECEMBER 31,	
	1994	1993
	-----	-----
ASSETS:		
Cash, federal funds sold and other cash equivalents.....	\$ 4,805	\$ 145,961
Investment securities held for sale.....		92,259
Mortgage-backed securities held for sale.....		91,108
Loans held for sale, at lower of cost or market.....		367,688
Loans receivable, net of allowances of \$83,832 at December 31, 1993.....		3,345,695
Interest receivable.....		23,052
Investment in FHLB stock.....		52,151
Real estate owned, net.....		153,607
Premises and equipment, net.....		49,247
Deferred tax assets.....		1,247
Investment in Fidelity Federal Bank--held for sale.....	13,405	
Rental properties, less accumulated depreciation.....	19,858	
Other receivables.....	1,219	
Other assets.....	625	67,504
	-----	-----
Total.....	\$39,912	\$4,389,519
	=====	=====

See notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS) (NOTE 1)

	DECEMBER 31,	
	1994	1993
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities:		
Deposits.....		\$3,368,643
FHLB advances.....		326,400
Commercial paper.....		304,000
Mortgage-backed notes and bonds.....		100,000
Other borrowings.....		3,830
Security deposits payable.....	\$ 227	
Deferred tax liabilities.....		14,564
Accounts payable and accrued liabilities.....	3,001	24,679
Deferred proceeds from bulk sales agreement.....	4,000	
Subordinated notes.....		60,000
Short-time line of credit.....	950	
Mortgage notes payable.....	13,896	
Total liabilities.....	22,074	4,202,116
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Serial preferred stock, par value \$.01 per share; 5,000,000 shares authorized		
3% Cumulative Voting Convertible, (\$3.95 or \$5,250,000 stated value)- 1,329,114 shares issued and outstanding at December 31, 1994.....	13	
Common stock, par value \$.01 per share; 10,000,000 shares authorized, 6,669,924 and 6,595,624 shares issued and outstanding at December 31, 1994 and 1993, respectively.	67	66
Paid in capital.....	65,298	60,052
Retained earnings (deficit).....	(47,540)	127,285
Total stockholders' equity.....	17,838	187,403
Total.....	\$39,912	\$4,389,519

See notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) (NOTE 1)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
Real Estate Operations:			
Rental income.....	\$ 2,070		
Interest income.....	45		
	2,115		
Real estate operating expenses.....	1,350		
Depreciation and amortization.....	276		
Interest expense.....	649		
General and administrative expenses.....	1,785		
Loss from Real Estate Operations.....	(1,945)		
Financial Services Operations:			
Interest income.....	\$ 289,592	\$ 370,722	
Interest expense.....	188,391	239,941	

Net Interest Income	101,201	130,781
Provisions for estimated loan losses (Note 18).....	65,100	51,180
-----	-----	-----
Net Interest Income after Provision for Estimated Loan Losses.....	36,101	79,601
-----	-----	-----
Noninterest Income (Expense):		
Loan and other fees.....	5,389	7,885
Gain (loss) on sales of loans, net.....	194	1,117
Fee income from investment products.....	4,313	3,368
Fee income on deposits and other income.....	3,271	4,406
Provision for estimated real estate losses... Real estate operations on specific properties.....	(30,200)	(17,820)
	(18,643)	(4,441)
Gains on sales of mortgage-backed securities and investment securities, net.....	1,288	
Operating expenses.....	(105,341)	(77,911)
-----	-----	-----
Total noninterest expense.....	(139,729)	(83,396)
-----	-----	-----
Loss from Financial Services Operations.....	(103,628)	(3,795)
-----	-----	-----
Administrative Charge from Fidelity Federal Bank.....	(916)	
Loss of and Write-Down of Investment in Fidelity Federal Bank.....	(171,964)	
-----	-----	-----
Loss Before Income Taxes.....	(174,825)	(103,628)
Income Tax Expense (Benefit).....		(36,467)
-----	-----	-----
Net Earnings (Loss).....	\$ (174,825)	\$ (67,161)
=====	=====	=====
Net Earnings (Loss) Per Share (After Preferred Stock Dividend).....	\$ (26.45)	\$ (11.56)
=====	=====	=====
Weighted Average Common and Common Equivalent Shares Outstanding.....	6,610,280	5,809,570
=====	=====	=====

See notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS) (NOTE 1)

THREE YEARS ENDED DECEMBER 31, 1994								
	PREFERRED STOCK		COMMON STOCK		PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	TOTAL STOCKHOLDER'S EQUITY
	NUMBER OF SHARES	PAR	NUMBER OF SHARES	PAR				
Balance, January 1, 1992.....			3,477,512	\$35	\$34,784	\$192,400	\$ (6,079)	\$221,140
Retirement of treasury stock.....			(179,700)	(2)	(6,077)		6,079	
Net earnings for 1992..						2,046		2,046
-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1992.....			3,297,812	33	28,707	194,446		223,186
Proceeds of rights offering.....			3,297,812	33	31,345			31,378
Net of loss of 1993....						(67,161)		(67,161)
-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31,								

1993.....	6,595,624	66	60,052	127,285	187,403
Issuance of common stock.....	74,300	1	285		286
Issuance of preferred stock, net of issuance costs of \$275.....	1,329,114	\$13	4,961		4,974
Net loss of 1994.....				(174,825)	(174,825)

Balance, December 31, 1994.....	1,329,114	\$13	6,669,924	\$67	\$65,298
	=====	===	=====	=====	=====
				\$(47,540)	\$
					\$ 17,838
					=====

See notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS) (NOTE 1)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
	-----	-----	-----
CASH FLOWS--OPERATING ACTIVITIES:			
Net earnings (loss).....	\$(174,825)	\$ (67,161)	\$ 2,046
Reconciliation of net earnings (loss) to net cash from operations:			
Provisions for estimated losses.....		95,300	(9,079)
Gains on sales of loans and securities.....		(1,482)	(1,117)
Capitalized loan origination costs.....		(2,187)	(3,001)
Amortization of deferred loan items, net....		(1,163)	(604)
Purchases of investment securities held for trading.....		(248,272)	
Proceeds from sales of investment securities held for trading.....		248,248	
Purchases of investment securities held for sale.....		(420,956)	
Maturities of investments securities held for sale.....		260,838	
Proceeds from sales of investment securities held for sale.....		76,687	
Investment securities held for sale lower of cost or market writedown.....		2,074	
Purchases of mortgage-backed securities held for trading.....		(51,248)	
Proceeds from sales of mortgage-backed securities held for trading.....		51,277	
Purchase of mortgage-backed securities held for sale.....		(395,561)	
Principal repayments of mortgage-backed securities held for sale.....		58,865	
Proceeds from sales of mortgage-backed securities held for sale.....		463,704	
Originations of loans held for sale.....		(162,868)	(176,220)
Proceeds from sales of loans held for sale..		138,399	204,435
FHLB stock dividend.....		(1,640)	(790)
Depreciation and amortization.....	276	23,092	9,344
Interest receivable decrease.....		4,080	9,974
Other receivable increase.....	(1,219)		
Other assets (increase) decrease.....	(625)	(49,414)	3,934
Deferred income tax expense (benefit).....		14,491	(19,966)
Interest payable decrease.....		(5,103)	(5,954)
Security deposits payable increase.....	227		
Other liabilities and deferred income increase (decrease).....	3,001	(16,350)	(19,283)
Deferred proceeds from Bulk Sales agreement.	4,000		
Other, net.....		72	257

Writedown of investment in Fidelity.....	59,892		
Deconsolidation of Fidelity.....	111,988		
		-----	-----
Operating cash flows, net.....	2,715	13,722	72,134
	-----	-----	-----
CASH FLOWS--INVESTING ACTIVITIES:			
Purchases of investment securities.....		(200,055)	(170,539)
Maturities of investment securities.....		226,617	137,237
Proceeds from sales of investment securities.		26,908	
Purchases of mortgage-backed securities held for investments.....			(92,502)
Principal repayments of mortgage-backed securities held for investments.....		9,565	8,588
Proceeds from sales of mortgage-backed securities held for investments.....		7,114	

See notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS--(CONTINUED)
(DOLLARS IN THOUSANDS) (NOTE 1)

	YEAR ENDED DECEMBER 31,		
	1994	1993	1992
	-----	-----	-----
Purchase of loans.....		\$ (3,951)	\$ (1,675)
Loans receivable, net decrease.....		149,909	274,181
Real estate investment (additions), net....	\$ (20,055)		
Proceeds from sales of real estate.....		41,608	24,329
Premises and equipment (additions), net....		(6,946)	(2,460)
Other, net.....		3,275	(4,746)
		-----	-----
Investing cash flows, net.....	(20,055)	254,044	172,413
	-----	-----	-----
CASH FLOWS--FINANCING ACTIVITIES:			
Demand deposits and passbook savings, net increase (decrease).....		(111,601)	86,531
Certificate accounts, net increase (decrease).....		22,326	(513,320)
Proceeds from FHLB advances.....		250,000	1,223,400
Repayment of FHLB advances.....		(505,000)	(1,017,000)
Repayment of related party loan.....			
Mortgage note.....	13,930		
Proceeds from line of credit.....	6,210		
Short-term borrowings increase.....		242,830	61,800
Proceeds from issuance of common stock....	286		
Repayments of long-term borrowings.....	(34)	(162,000)	(265,950)
Loan fee.....	(256)		
Costs of issuance of preferred stock.....	(275)		
Proceeds from stock rights offering, net...		31,378	
		-----	-----
Financing cash flows, net.....	19,861	(232,067)	(389,539)
Less cash and cash equivalents of Fidelity at beginning of period.....	(143,677)		
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(141,156)	35,699	(144,992)
Cash and cash equivalents at beginning of period.....	145,961	110,262	255,254
	-----	-----	-----
Cash and cash equivalents at end of period..	\$ 4,805	\$ 145,961	\$ 110,262
	=====	=====	=====

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the period for:

Interest on mortgages and line of credit.. 548

Interest on deposits, advances and other borrowings.....	180,861	236,953
Income taxes.....	(679)	21,697
NONCASH TRANSACTIONS:		
Conversion of line of credit to preferred stock, net of loan costs.....	4,974	
Additions to real estate owned acquired through foreclosure.....	193,641	121,192
Loans originated to finance sale of real estate acquired through foreclosure.....	51,607	11,243
Transfers from investment portfolio to held-for-sale portfolio:		
Loans receivable.....	325,222	
Investment securities.....	14,264	
Mortgage-backed securities.....	214,310	
Mortgage loans exchanged for mortgage-backed securities.....		114,277
Retirement of treasury stock.....		6,079

See notes to consolidated financial statements.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1--BASIS OF PRESENTATION

On August 4, 1994 ("the Closing"), Citadel Holding Corporation ("Citadel") completed a restructuring (together with the other transactions described below, the "Restructuring") in which, among other things, Citadel's ownership interest in Fidelity Federal Bank, a Federal Savings Bank ("Fidelity"), was reduced from 100% to approximately 16%. The reduction was a result of Fidelity issuing and selling to investors in a public offering shares of Class A and Class C common stock. Citadel's investment in Fidelity was reclassified into 4,202,243 shares of Class B common stock of Fidelity. As a result, effective January 1, 1994, Citadel no longer consolidates Fidelity in its financial statements; rather it accounts for its investment on the cost basis. In addition, several other significant events occurred in the Restructuring, including:

a. Citadel sold to Fidelity all of the stock of Gateway Investment Services, Inc., previously a wholly owned subsidiary of Citadel ("Gateway").

b. A newly-formed subsidiary of Citadel, Citadel Realty, Inc. ("CRI") purchased four real properties from Fidelity for a purchase price of \$19.8 million (Fidelity's book value) of which \$13.9 million was financed by Fidelity on a secured basis and the balance of which was financed by Craig Corporation ("Craig"), a significant stockholder of Citadel, under a short-term line of credit (Citadel and CRI are referred to herein as the "Company").

c. Citadel received from Fidelity by way of dividend (i) one-year transferable options (subsequently contributed to CRI) to acquire two office buildings in Sherman Oaks and Glendale, California (the "Office Buildings") used in the operations of Fidelity (including its headquarters buildings) for an aggregate exercise price of \$9.3 million (the "Office Building Options"), portions of which buildings would be leased back by Fidelity upon purchase by the Company (see Note 13), and (ii) Fidelity's interest in a lawsuit filed against the former carrier of Fidelity's directors' and officers' insurance policies, involving certain coverage and indemnity issues, which resulted in Citadel collecting \$2.5 million.

d. Citadel and Fidelity entered into a Stockholders' Agreement (the "Stockholders' Agreement"), under which Citadel must reimburse Fidelity for certain losses that may be incurred by Fidelity as a result of certain environmental and other representations made by Fidelity in connection with the bulk sale of loans and other assets to certain third parties in connection with the Restructuring. Subject to a \$4 million limit, the Stockholders' Agreement requires Citadel to reimburse Fidelity for losses incurred by Fidelity, in either repurchasing assets (sold in connection

with the bulk sale) in the event of breached representations, or curing such breaches.

The information for the year ended December 31, 1994 presents the Company's results of operations for the five months subsequent to the Restructuring separate from the results of operations of Citadel (including Fidelity and Gateway) prior to the Restructuring, which have been included in the loss of and write-down of investment in Fidelity in the statement of operations (see Note 4).

For the period prior to the closing of the Restructuring, administrative expenses have been recorded consistent with previous allocations made to Citadel by Fidelity.

Notes 1 through 13 relate to the Company on a restructured basis while Notes 14 through 27 relate to Citadel, as the holding company of Fidelity, prior to the restructuring, with the exception of Notes 25 and 26 which relate to the Company both prior and subsequent to the restructuring.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

2--SUMMARY OF THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents--For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

Deferred Financing Cost--Costs incurred in connection with obtaining financing are amortized over the terms of the respective loans on a straight-line basis.

Depreciation and Amortization--Depreciation and amortization are computed principally on the straight-line method over the estimated useful lives of the assets which range from 27 to 39 years. Leasehold improvements are amortized over the lives of the respective leases or the useful lives of the improvements, whichever is shorter.

Investment in Common Stock--The Company's investment in common stock of Fidelity is classified as "available for sale" under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115 and is reported at fair value. Under SFAS No. 115, fluctuations in fair value are included as a separate component of stockholders' equity. If there is a decline in fair value judged to be other than temporary, the amount of the write down is included in net income (loss).

Earnings (Loss) per Share--The earnings (loss) per share was computed on the weighted average number of shares outstanding. The 3% cumulative voting convertible preferred stock is a common stock equivalent but was anti-dilutive.

3--RENTAL PROPERTIES

Rental properties consist of the following:

	DECEMBER 31, 1994
	----- (IN THOUSANDS)
Land	\$ 5,538
Building and improvements	14,517

Total	20,055
Less accumulated depreciation	(197)

Rental properties, net	\$19,858
	=====

Rental properties consist of three apartment buildings and one commercial

building. Subsequent to December 31, 1994, one of the apartment buildings was sold (see Note 13).

4--INVESTMENT IN FIDELITY FEDERAL BANK

As of December 31, 1994, the investment in Fidelity consists of 4,202,243 shares of Class B Common Stock received in the Restructuring at a fair value estimated by management to be \$3.19 per share, or a total value of \$13,405,000. Such valuation was based on management's consultation with financial advisors and securities brokers, recent operating results of Fidelity and giving effect to the consideration to be received from the Dillion Investors, L.P. to acquire 1,295,000 shares in April 1995 (see Note 13).

Fidelity suffered losses of \$14,800,000 and \$128,400,000 for the fourth quarter and year ended December 31, 1994 respectively. As of December 31, 1994, Fidelity had stockholders' equity of \$156,500,000, or \$6.03 per share. Although Fidelity met its numerous regulatory capital requirements at December 31, 1994, Fidelity's ability to meet the prescribed capital requirements in the future is uncertain.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The loss of and write-down of investment in Fidelity for the year ended December 31, 1994 consisted of the following;

	(IN THOUSANDS)
Loss from operations of Fidelity through August 4, 1994	\$112,072
Write-down of investment in Fidelity as of the date of Restructuring	52,811
Write-down representing other than temporary decline in fair value from August 5, 1994 to December 31, 1994	7,081

	\$171,964
	=====

Included in the write-down of the investment in Fidelity as of the Closing Date is the effect of the proceeds received from the settlement of the D&O Litigation, the write-down on uncollectible loans, and the deferral of a portion of the proceeds received from the Bulk Sale Asset agreement relating to a sale of Fidelity loans (see Note 1). The loss from operations through August 4, 1994 was partially offset by an income tax benefit of \$16,524,000.

Pursuant to a Registration Rights Agreement entered into between Fidelity and Citadel, Citadel and any person who acquires shares of Class B Common Stock or Class A Common Stock issuable upon conversion of the shares of Class B Common Stock (the "Registrable Securities") will be entitled to certain registration rights with respect to such shares. At any time before March 31, 1998, the holder or holders of more than 50% of the Registrable Securities may require Fidelity to register all or a portion of the Registrable Securities under OTS regulations, subject to certain restrictions. Furthermore, if, at any time before March 31, 1999, Fidelity proposes to register any of its Common Stock under the OTS regulations for purposes of an offering or sale in a primary or secondary offering, Fidelity may be required to include any or all of the Registrable Securities as directed by the holders thereof. Subject to certain limitations, Fidelity is required to bear all registration and selling expenses in connection with the registration of the Registrable Securities. However, after consultation with Fidelity, Citadel has determined that its shares of Fidelity Class B Common Stock may be freely sold without registration under the regulations of the OTS, and, when such shares convert to Fidelity Class A Common Stock, such shares will cease to be eligible for the foregoing registration rights.

The Stockholders' Agreement provides restrictions on the transfers of shares of Class B Common Stock. Except pursuant to the exercise of registration rights as described above, no holder of Fidelity Class B Common Stock may sell

publicly shares of Class B Common Stock representing more than 5% of the total outstanding Fidelity Common Stock on a fully diluted basis during any 30-day period without the prior approval of Fidelity. In addition, if shares of Class B Common Stock representing more than 5% of the total outstanding Fidelity Common Stock on a fully diluted basis are proposed to be sold privately to any person or, if after giving effect to such private sale, the transferee (including any of the transferee's affiliates or any "group" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of which the transferee is a member) would own more than 5% of the outstanding Fidelity Common Stock on a fully diluted basis, then except in connection with distributions by Citadel of such shares to its stockholders, Fidelity will have an assignable right of first refusal with respect to the shares of Class B Common Stock proposed to be sold. Upon any distribution of Class B Common Stock by Citadel to its stockholders, by dividend or otherwise, any Citadel stockholder shall be entitled to convert all or a portion of the shares of Class B Common Stock so distributed to the extent that such shares when added to all other shares of Class B Common Stock owned immediately prior to the distribution by such stockholder and any shares of Class B Common Stock owned immediately prior to the distribution by all other members of any "group" (as so defined) of which such stockholder is a member, do not exceed 5% of all outstanding shares of Fidelity Common Stock.

In addition, for a period commencing six months after the Closing and ending 18 months after the Closing, Fidelity will have the right to redeem, subject to the approval of the OTS and the approval of the

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

stockholders of Citadel, any outstanding shares of Class B Common Stock owned by Citadel, in excess of the number of shares of Class B Common Stock held by the then largest stockholder of Fidelity (other than Citadel), at a redemption price (the "Redemption Price") equal to either (a) 110% of the market price of the Class A Common Stock, assuming it is then listed on a national securities exchange or admitted for quotation on the NASDAQ, or (b) if the Class A Common Stock is not so listed or quoted, 100% of the book value per share of Fidelity Common Stock as of the most recent quarterly balance sheet date; provided that no such redemption shall be made in anticipation of any merger, consolidation, sale of all or substantially all of Fidelity's assets, distribution (other than any ordinary cash dividend), or any other transaction involving the receipt by holders of any class of Fidelity Common Stock of any cash or other property.

5--OTHER ASSETS

Other assets are summarized as follows:

	(IN THOUSANDS)

Deferred financing costs.....	\$256
Accumulated amortization.....	(79)

Deferred financing costs, net.....	177
Deposits.....	87
Prepaid expenses	329
Other.....	32

Total other assets.....	\$625
	=====

6--DEFERRED PROCEEDS FROM BULK SALES AGREEMENT

Under the Stockholders' Agreement (see Note 1), Citadel will be required to reimburse Fidelity for certain losses incurred by Fidelity in either curing breached representations or repurchasing assets sold under a bulk sales agreement, subject to a \$4 million aggregate limit, in the event Fidelity is determined to have breached certain representations made in connection with certain Bulk Sales which were part of the Restructuring. To date, claims

totaling \$3.9 million have been asserted. Citadel has been informed that Fidelity is contesting these claims. Proceeds of \$4 million have been included in the balance sheet as deferred proceeds.

7--MORTGAGE NOTES PAYABLE

Mortgage notes payable to Fidelity at December 31, 1994 are as follows:

Notes payable--principal and interest paid monthly at rates equal to LIBOR plus 4.5% and 1-year Treasury rate plus 3.7% maturing through 2004 \$13,896,000
=====

Aggregate future principal payments as of December 31, 1994 are as follows:

YEAR ENDING DECEMBER 31, -----	(IN THOUSANDS) -----
1995	\$ 142
1996	154
1997	167
1998	180
1999	195
Thereafter	13,058

	\$13,896
	=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

As of December 31, 1994, the LIBOR interest rate was 7.75% and the 1-year Treasury rate was 6.7%. Management believes that the carrying value of these variable rate mortgages approximates their fair value.

8--SHORT-TERM LINE OF CREDIT

The Company has a line of credit with Craig in the amount of \$950,000 all of which has been drawn. The line of credit matures and all borrowed amounts are due on August 5, 1995. If certain conditions are met, the maturity date may be extended an additional six months. The Company pays interest, on all borrowed amounts at a rate equal to prime plus 3%. A 0.5% annual fee is charged on any undrawn balance. In connection with the restructuring, the Company borrowed \$6,200,000 on this Line of Credit. The amount was reduced to \$950,000 through the issuance of 1,329,114 shares of Preferred Stock (see Note 9). The line of credit is guaranteed by Citadel, which guarantee is collateralized by the common stock of CRI. The line of credit contains restrictions as to the payment of dividends by CRI. Management believes that the carrying value of the borrowings under the line of credit approximates its fair value. During the year ended December 31, 1994, the average balance outstanding was \$4,391,000 and the effective interest rate was 11%.

9--3% CUMULATIVE VOTING CONVERTIBLE PREFERRED STOCK

On November 10, 1994, the Company issued 1,329,114 shares of 3% Cumulative Voting Convertible Preferred Stock ("Preferred Stock") at a stated value of \$3.95 per share. The sales price of the 1,329,114 shares sold was \$5,250,000 which was paid through conversion of existing indebtedness on the Craig line of credit (see Note 8). Dividends are payable quarterly commencing on January 15, 1995. Each share of Preferred Stock entitles the holder to one vote on all matters submitted to a vote of the Company's stockholders. The Preferred Stock is convertible at the option of the holder into common stock. The conversion

ratio is one share of Preferred Stock for a fraction of a share of common; the numerator of which is the sum of \$3.95 per share plus any accrued but unpaid dividends, and the denominator of which is the average of the closing prices per share of the Company's common stock, as defined ("Market Price"). If the Market Price exceeds \$5.00 per share the conversion ratio will be calculated using \$5.00.

The Company does not have the right to redeem shares of Preferred Stock prior to November 1997. Thereafter, the Company has the right, at its sole option, to redeem at the sum of (1) \$3.95 per share, (2) any unpaid dividends, and (3) a premium at the redemption date equal to an accrual on the Stated Value ranging from 9% per annum during the period from November 1994 to November 1998 and thereafter reducing over time during the period from November 1998 to November 2006 at the rate of 1% per year. If the redemption date is after November 2006, there is no premium. The Company can redeem Preferred Stock tendered for conversion at a price based upon the above redemption provisions if the Market Price is below \$3.00. In the event of a change of control of the Company (as defined), the Company is required to redeem the Preferred Stock, if demanded by the holder, at a price based upon the above provisions. Further, each holder of Preferred Stock is entitled to a preemptive right to purchase or subscribe for any unissued voting stock. Such preemptive rights shall allow such holder to maintain its proportionate share of the outstanding voting stock of the Company.

If a court prohibits Craig from voting the Preferred shares, or invalidates any such vote, the debt under the line of credit that was cancelled would be reinstated and would bear interest as though it had been outstanding on a continuous basis.

10--COMMON STOCK

On January 10, 1995, the Company authorized an additional 10,000,000 shares of \$.01 par value common stock.

In 1993, Citadel granted an option to purchase 20,000 shares of common stock at a price of \$21.90 per share to one of its former executives. As of December 31, 1994, all options are exercisable.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The Company has agreed to grant an option to its President to purchase 33,000 shares of common stock at a price of \$2.69 per share. The option has vested as to 11,000 shares and will vest as to 11,000 shares on each of August 4, 1995 and 1996.

11--FUTURE MINIMUM RENT

The Company has operating leases, at its commercial property, with tenants that expire at various dates through 1999 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Future minimum rent under operating leases, excluding tenant reimbursements of certain costs, is summarized as follows:

YEAR ENDING DECEMBER 31 -----	(IN THOUSANDS) -----
1995	\$2,049
1996	1,753
1997	628
1998	295
1999	127

	\$4,852
	=====

Leases related to the Company's residential properties have been excluded

from the above schedule as they are generally six months or less in length.

12--COMMITMENTS AND CONTINGENCIES

There are several legal actions and claims against the Company. Based on advice of legal counsel management believes that the ultimate liability, if any, which may result from any of these lawsuits will not materially affect the financial position or results of operations of the Company (see Note 13 for the settlement of certain litigation).

13--SUBSEQUENT EVENTS

Subsequent to December 31, 1994, the Company sold its rental property located in Harbor City for \$5.9 million in cash, net of expenses. The sale resulted in a gain of approximately \$980,000 for financial statement purposes. As a result of the sale, \$3,696,000 of its mortgage notes payable to Fidelity were assumed by the purchaser.

On February 2, 1995, the Company exercised its office building options to purchase the two buildings (see Note 1) and on March 22, 1995, purchased and immediately sold the Sherman Oaks building for a gain of \$560,000. The purchase price for the Glendale Building is \$7.1 million. Fidelity has given Citadel a conditional commitment to provide \$5.38 million of mortgage financing on the Glendale Building on the following terms and conditions: a 5 year mortgage, amortized on a 20 year basis with interest payable monthly at LIBOR plus 4.5%. These terms have been approved by the Board of Directors of Fidelity subject to advice from the OTS on the issues of affiliate transactions, completion of required documentation, and the equity portion of the purchase will be funded from internal sources. This transaction has not yet been finalized and an extension of the closing date has been agreed to by both Citadel and Fidelity while certain financing issues are resolved.

The Glendale building is the headquarters building of Fidelity. Upon completion of Citadel's purchase of the Glendale building, scheduled for no later than May 17, 1995, Citadel and Fidelity will enter into a 10-year, full service gross lease for four of the six floors of the Glendale building. The rental rate for the first five years of the lease term will be approximately \$26,600 per month (including parking) for the ground floor and approximately \$75,000 per month (including parking) for the fourth, fifth and sixth floors. This lease will provide for annual rental increases at a rate equal to the lower of the increase in the Consumer Price Index

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

("CPI") or 3%. After the first five years of the lease term, the rental rate for the ground floor will be adjusted to the higher of the then current market rate or the prevailing rental rate in the fifth year of the lease and the rental rate for the upper floors will be adjusted to the higher of the then current market rate or \$1.50 per square foot increased by the annual rental rate increase applied during the first five years of the lease as described in the preceding sentence. Fidelity will have the option to extend the lease of the ground floor for two consecutive five year terms at a market rental rate and will have the option to purchase the Glendale building at a market rate at the expiration of the lease term, provided that Citadel then owns the building.

On November 7, 1994, a stockholder, Dillon Investors, L.P. ("Dillon"), filed a lawsuit against the Company, its directors and Craig Corporation alleging that the 74,300 shares of Citadel Common Stock issued to Craig at \$3.85 per share in October, 1994, and the Preferred Stock were issued at unfair prices in order to entrench the Board of Directors in power in the face of an announced proxy contest and possible consent solicitation by Dillon to take over control of the Board of Directors. The suit sought rescission of the issuance of the Preferred Stock and the reinstatement of borrowings from Craig under a line of credit (see Note 8). As of April 12, 1995, the Company entered into a Stock Exchange and Settlement Agreement with Dillon pursuant to which Dillon will purchase from Citadel 1,295,000 shares of Fidelity Class B Common Stock in consideration of \$2.22 million in cash and the surrender of 666,000 shares of Citadel Common Stock (the "Surrendered Shares"). Further, Craig has agreed not to exercise the conversion feature of its Preferred Stock prior to February 4, 1996, without the prior approval of the holders of the majority of the Citadel

common shareholders. Citadel has (a) granted Craig a two year option to purchase the Surrendered Shares at a purchase price of \$3.00 per share and (b) agreed to reimburse Craig for its litigation costs in an amount not to exceed \$75,000 which has been included in accounts payable and accrued liabilities.

As noted in Note 1, Notes 14 through 27 related to the Company, as the holding company of Fidelity, prior to Restructuring, with the exception of Notes 25 and 26 which relate to the Company both prior to and subsequent to the Restructuring.

14--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES PRIOR TO RESTRUCTURING

Principles of Consolidation--The consolidated financial statements include the accounts of Citadel Holding Corporation ("Citadel") and subsidiaries. Until August 4, 1994 Citadel was the holding company of Fidelity Federal Bank, a Federal Savings Bank ("Fidelity") and Gateway Investment Services, Inc. ("Gateway"). Unless otherwise indicated, references to the "Company" include Citadel, Fidelity, Gateway, and all subsidiaries of Fidelity and Citadel. All significant intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents--For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds sold are one-day periods. Fidelity is required by the Federal Reserve System to maintain noninterest-earning cash reserves against certain of its transaction accounts. At December 31, 1993, the required reserves totaled \$28.6 million including vault cash.

Investment Securities and Mortgage-backed Securities--U.S. Government and agency obligations, commercial paper, mortgage-backed securities and other corporate debt securities identified as held for investment are recorded at cost, with any discount or premium recognized over the life of the related security by using a methodology which approximates the interest method. Fidelity's portfolio of mortgage-backed securities consists of pools of mortgage loans exchanged for mortgage-backed securities and those purchased. Securities held for investment are those securities which the Company has the intent and ability to hold until maturity, and are carried on an amortized cost basis. Securities to be held for indefinite periods of time, including securities that management intends to use as part of its asset/liability strategy, or that may be sold

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors, are classified as held for sale and are carried at the lower of cost or market value. Any gains or losses incurred on sales of securities are calculated based upon the specific identification method. Any investment securities held for trading are carried at market value.

Loans--Interest on loans is credited to income as earned and is accrued only if deemed collectible. Accrued interest is fully reserved on loans over 90 days contractually delinquent and on other loans which have developed inherent problems prior to being 90 days delinquent. Discounts and premiums on loans are included with loans receivable and are credited or charged to operations over the estimated life of the related loans using the interest method. The Bank charges fees for originating loans. Loan origination fees, net of direct costs of originating the loan are recognized as an adjustment of the loan yield over the life of the loan by the interest method, which results in a constant rate of return. When a loan is sold, net loan, origination fees and direct costs are recognized in operations. Other loan fees and charges representing service costs for the prepayment of loans, for delinquent payments or for miscellaneous loan services are recognized when collected. Loan commitment fees received are deferred to the extent they exceed direct underwriting costs.

Fidelity has designated certain of its loans receivable as being held for sale. In determining the level of loans held for sale, Fidelity considers whether loans (a) would be sold as part of its asset/liability strategy, or (b) may be sold in response to changes in interest rates, changes in prepayment risk, the need to increase regulatory capital or other similar factors. Such loans are classified as held for sale and are carried at the lower of cost or

market value.

Fidelity has sold loans which have generated gains on sale, a stream of loan servicing revenue and cash for lending or liquidity. Sales of loans are dependent upon various factors, including interest rate movements, investor demand for loan products, deposit flows, the availability and attractiveness of other sources of funds, loan demand by borrowers and liquidity and capital requirements. Due to the volatility and unpredictability of these factors, the volume of Fidelity's sales of loans has fluctuated. All loans sold during 1993 and 1992 were from the held for sale portfolio. Fidelity has the intent and ability to hold all of its loans, other than those designated as held for sale, until maturity.

Owned Real Estate--Real estate held for sale acquired in settlement of loans generally results when property collateralizing a loan is foreclosed upon or otherwise acquired by Fidelity in satisfaction of the loan. Real estate acquired through foreclosure is recorded at the lower of fair value or the recorded investment in the loan satisfied at the date of foreclosure. Fair value is based on the amount that the Company could reasonably expect to receive for the asset in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale. Inherent in the computation of estimated fair value are assumptions about the length of time the Company may have to hold the property before disposition. The holding costs through the expected date of sale and estimated disposition costs are included in the valuations. Real estate held for investment or development is carried at the lower of cost or fair value. Adjustments to the carrying value of the assets are made through valuation allowances and charge-offs, through a charge to operations. Net cash receipts on real estate owned or on those loans designated as in-substance foreclosures and net cash payments are recorded in real estate operations on specific properties.

Loans meeting certain criteria are accounted for as "in-substance foreclosures." These substantially foreclosed assets are recorded at the lower of the loan's carrying amount or at the estimated fair value of the collateral at the date the loan was determined to be in-substance foreclosed. These assets are reported as "real estate owned" in addition to formally foreclosed real estate.

Allowances for Estimated Losses on Loans and Real Estate--The Company has established valuation allowances for estimated losses on specific loans and real estate ("specific reserves") and for the inherent risk in the loan and real estate portfolios which has yet to be specifically identified ("general valuation allowances")

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

or "GVA"). The internal asset review department reviews the quality and recoverability of the Company's assets on a quarterly basis in order to establish adequate specific reserves and general valuation allowances. The Bank utilizes the delinquency migration and the classification methods in determining the adequacy of its GVA. The delinquency migration method attempts to capture the potential future losses as of a particular date associated with a given portfolio of loans, based on the Bank's own historical migration experience over a given period of time. Under the classification method, a reserve factor is applied to each aggregate classification level by asset collateral type in an effort to estimate the loss content in the portfolio. The Bank calculates a range of loss by applying both methodologies and then applies judgment and knowledge of particular credits, economic trends, industry experience and other relevant factors to estimate the GVA amount. Additions to the allowances, in the form of provisions, are reflected in current operations. Charge-offs to the allowances are made when the loss is determined to be significant and permanent.

Depreciation and Amortization--Depreciation and amortization are computed principally on the straight-line method over the lives of the respective leases or the useful lives of the improvements, whichever is shorter.

Intangible Assets--In 1993, the Company reassessed the valuation of its intangible assets which resulted in a writedown of \$14.0 million. See Note 20 for further information.

Until 1993, the excess of cost over the fair value of net assets acquired (goodwill) in connection with the acquisition of Mariners Savings and Loan in 1978, was included in intangible assets in the statements of financial condition and was being amortized to operations over forty years.

The cost of core deposits purchased from various financial institutions is amortized over the average life of the deposits acquired, generally five to ten years.

Financial Instruments--In the normal course of business, the Company enters into off-balance sheet instruments to enhance yields and to alter its exposure to interest rate risk. These financial include interest rate swaps and swap option agreements and puts and calls. The differences to be paid or received on swaps are included in interest expense as payments are made or received. The swap options are held as trading positions during the option period and are carried at market value and gains and losses are reflected in operations.

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial condition, for which it is practicable to estimate that value. Financial instruments are defined as cash, evidence of an ownership in an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument.

Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of Fidelity's financial instruments, active markets do not exist. Therefore, considerable judgment was required in estimating fair value for certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 1993, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments which are contained in the notes to the consolidated financial statements that describe each financial instrument.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Cash and cash equivalents: The book value amounts reported in the statement of financial condition for cash and cash equivalents approximate the fair value of such assets, because of the short maturity of such investments.

Investment securities and mortgage-backed securities: Estimated fair values for investment and mortgage-backed securities are based on quoted market prices, where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable instruments.

Loans: The estimated fair values of real estate loans held for sale are based on quoted market prices. The estimated fair values of loans receivable are based on quoted market prices, when available, or an option adjusted cash flow valuation ("OACFV"). The OACFV includes forward interest rate simulations and the credit quality of performing and nonperforming loans. Such valuations may not be indicative of the value derived upon a sale of all or part of the portfolio. The book value of accrued interest approximates its fair value.

Investment in FHLB stock: The book value reported in the statement of financial condition for the investment in FHLB stock approximates fair value as the stock may be sold back to the Federal Home Loan Bank at face value to the extent that it exceeds the amount of FHLB stock which Fidelity is required to hold.

Deposits: The fair value of demand deposits, savings accounts and certain

money market deposits is the amount payable on demand. The fair value of fixed rate certificates of deposits is estimated by using an OACFV analysis.

Borrowings (including FHLB Advances, other borrowings and subordinated notes): The estimated fair value is based on an OACFV model.

Off-balance sheet instruments: The estimated fair value for Fidelity's off-balance sheet instruments are based on quoted market prices, when available, or an OACFV analysis.

15--INVESTMENT SECURITIES

The following maturity table shows the book value and market value of investment securities held for sale at December 31, 1993:

YEAR OF MATURITY -----	BOOK VALUE	MARKET VALUE
	(IN THOUSANDS)	
1994.....	\$ 1,301	\$ 1,301
1995 through 1998.....	90,686	90,939
1999 through 2003.....	272	272
	-----	-----
	\$92,259	\$92,512
	=====	=====

Investment Securities Held for Investment--Proceeds from sales of securities held for investment during 1993 were \$26.9 million, with a resulting gain of \$1,946,000.

During 1993, the Company changes its investment strategy and as a result, moved its entire portfolio of investment securities from the investment portfolio to the held for sale portfolio. The Company had no outstanding investment securities held for investment at December 31, 1993.

16--MORTGAGE-BACKED SECURITIES

Mortgage-Backed Securities Held for Trading--The Company had no outstanding mortgage-backed securities held for trading at December 31, 1993. Proceeds from sales of mortgage-backed securities held for trading during 1993 totaled \$51.3 million. Gross gains of \$54,000 were realized from those sales and are reported in the statement of operations as a component of gains/losses on sales of mortgage-backed securities, net.

CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Mortgage-Backed Securities Held for Sale--Summarized below are mortgage-backed securities held for sale at December 31, 1993:

	BOOK VALUE	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
	(IN THOUSANDS)			
FHLMC.....	\$34,184	\$ 3	\$ (217)	\$33,970
FNMA.....	14,853		(33)	14,820
Participation Certificates.....	38,223	454		38,677
CMO.....	3,848		(17)	3,831
	-----	----	-----	-----
	\$91,108	\$457	\$ (267)	\$91,298
	=====	=====	=====	=====
Weighted average yield.....	5.33%			
	=====			

During the year ended December 31, 1993, the Company had gross gains of \$1,500,000 and gross losses of \$1,000 on the sale of mortgage-backed securities held for investment.

17--LOANS RECEIVABLE AND LOANS HELD FOR SALE

Total loans include loans receivable and loans held for sale and are summarized as follows:

	DECEMBER 31, 1993
	----- (IN THOUSANDS)
Real estate loans:.....	
Single family.....	\$ 792,054
Multifamily.....	
2 to 4 units.....	505,219
5 to 36 units.....	1,795,374
37 units and over.....	406,330
Commercial and industrial.....	295,761
Land.....	4,828

Total real estate loans.....	3,799,566
Other.....	8,998

	3,808,564

Less:	
Undisbursed loan funds.....	
Unearned discounts.....	210
Deferred loan fees.....	11,139
Allowance for estimated losses (Note 17).....	83,832

	95,181

	\$3,713,383
	=====

Included above are \$56.3 million of amounts drawn under home equity lines of credit at December 31, 1993.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Also included above are loans held for sale, consisting of the following at the dates indicated:

	DECEMBER 31, 1993
	----- (IN THOUSANDS)
Residential loans:	
Single family.....	\$239,371
Multifamily 2 to 4 units.....	128,317

Total loans held for sale.....	\$367,688
	=====

Fidelity's portfolio of mortgage loans serviced for others amounted to \$888.4 million at December 31, 1993.

18--REAL ESTATE OWNED

Owned real estate consists of the following:

	DECEMBER 31, 1993
	----- (IN THOUSANDS)
Real estate held for investment or development.....	\$ 11,161
Real estate acquired through foreclosure.....	131,799
In-substance foreclosed real estate.....	28,362
Allowance for estimated losses.....	(17,715)

	\$153,607
	=====

The following summarizes the results of real estate operations:

	DECEMBER 31,	
	----- 1993	----- 1992
	----- (IN THOUSANDS)	
Income (loss) from:		
Real estate acquired for investment or development.....	\$ 110	\$ (841)
Real estate acquired through foreclosure.....	(18,753)	(3,600)
Provision for estimated losses.....	(30,200)	(17,820)
	-----	-----
	\$ (48,843)	\$ (22,261)
	=====	=====

19--ALLOWANCE FOR ESTIMATED LOAN AND REAL ESTATE LOSSES

The following summarizes the activity in the Company's allowance for estimated loan and real estate losses:

	LOANS	OWNED REAL ESTATE	TOTAL
	-----	-----	-----
	(IN THOUSANDS)		
Balance at January 1, 1992.....	\$ 52,374		\$ 52,374
Provision for losses.....	51,180	17,820	69,000
Transfer of general valuation allowance.....	(12,400)	12,400	
Charge-offs.....	(27,350)	(13,826)	(41,176)
Recoveries.....	473	56	529
	-----	-----	-----
Balance at December 31, 1992.....	64,277	16,450	80,727
Provision for losses.....	65,100	30,200	95,300
Charge-offs.....	(50,504)	(28,940)	(79,444)
Recoveries.....	4,959	5	4,964
	-----	-----	-----
Balance at December 31, 1993.....	\$ 83,832	\$17,715	\$101,547
	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Fidelity's percentage of nonperforming assets to total assets increased to 5.37% at December 31, 1993 from 4.99% at December 1992.

20--INTANGIBLE ASSETS

In 1993, Fidelity reassessed the valuation of its intangible assets. Based upon the results of a branch profitability analysis and an analysis of the recoverability of its core deposit intangible assets, Fidelity wrote down the carrying value of its core deposit intangible assets in an amount of \$5.2 million (which writedown is included in interest expense). The net unamortized balance of core deposit intangibles was \$2.1 million at December 31, 1993. Also in 1993, an analysis was performed of the recoverability of the goodwill related to the acquisition of Mariners Savings and Loan ("Mariners") in 1978. This analysis indicated that the expected future net earnings from the branches or assets acquired did not support the carrying value of the goodwill. As a result, Fidelity wrote down the remaining \$8.8 million balance of goodwill related to the Mariners acquisition (which writedown is included in operating expense).

The amortization and writedown of core deposit intangibles, resulting from purchases of deposits and goodwill acquired in the acquisitions of other financial institutions for the two years ended December 31, 1993, are summarized as follows:

	DECEMBER 31,	
	-----	-----
	1993	1992
	-----	-----
	(IN THOUSANDS)	
Amortization of core deposit intangibles.....	\$ 4,020	\$4,199
Writedown of core deposit intangibles.....	5,192	
Amortization of goodwill.....	470	596
Writedown of goodwill.....	8,776	
	-----	-----
Total.....	\$18,458	\$4,795
	=====	=====

21--DEPOSITS

Deposits consist of the following:

	DECEMBER 31, 1993	
	-----	-----
TYPE OF ACCOUNT, WEIGHTED AVERAGE INTEREST RATE	AMOUNT	%
-----	-----	-----
	(IN THOUSANDS)	
Passbook, 2.00%.....	\$ 82,168	2.4%
Checking and money market checking, 0.96%.....	366,968	10.9
Money market passbook, 2.37%.....	280,474	8.3
	-----	-----
	729,610	21.6
	-----	-----
Certificates with rates of:		
Under 3.00%.....	418,326	12.4
3.01-4.00%.....	1,326,449	39.4
4.01-5.00%.....	395,129	11.7
5.01-6.00%.....	137,710	4.1
6.01-7.00%.....	225,035	6.7
7.01-8.00%.....	90,280	2.7
Over 8.00%.....	46,104	1.4
	-----	-----
	2,639,033	78.4
	-----	-----
	\$3,368,643	100.0%
	=====	=====

Weighted average interest rate..... 3.59%
 =====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Fidelity had noninterest-bearing checking amounts of \$52.9 million at December 31, 1993.

At December 31, 1993, certificate accounts were scheduled to mature as follows:

YEAR OF MATURITY -----	AMOUNT (IN THOUSANDS) -----
1994.....	\$2,097,475
1995.....	220,791
1996.....	91,610
1997.....	203,317
1998.....	25,488
After 1999.....	352

	\$2,639,033
	=====

At December 31, 1993, loans totaling \$98.3 million were pledged as collateral for \$5.9 million of public funds on deposit with Fidelity and potential future deposits.

Certificates of deposits of \$100,000 or more accounted for \$593 million and represented 18% of all deposits at December 31, 1993.

The Bank also utilizes brokered deposits as a short-term means of funding. These deposits (\$92,196 or 2.74% of total deposits) are obtained or placed by or through a deposit broker and are subject to certain regulatory limitations. The following table summarizes Fidelity's outstanding balance of brokered deposits at the dates indicated:

The carrying amounts and the estimated fair values of deposits consisted of the following at December 31, 1993:

	BOOK VALUE	FAIR VALUE
	-----	-----
	(IN THOUSANDS)	
Passbook, checking and money market accounts.....	\$ 729,610	\$ 729,600
Certificates of deposit.....	2,639,033	2,684,100
	-----	-----
Total deposits.....	\$3,368,643	\$3,413,700
	=====	=====

SFAS No. 107 defines the fair value of demand deposits as the stated amount of passbook, checking and certain money market accounts. Although SFAS No. 107 specifically prohibits including a deposit-based intangible element as part of the fair value disclosure for deposit liabilities, it does allow supplemental disclosure, which is unaudited. The core deposit intangible is the excess of the fair value of demand deposits over recorded amounts and represents the benefit of retaining these deposits for an expected period of time. Fair value is based on a discounted cash flow analysis using Fidelity's alternative funding costs for similar maturities and assumed retention rates for each type of deposit. The core deposit intangible is estimated to be \$63.0 million at

December 31, 1993, and is not included in the above fair values or recorded as an asset in the balance sheet.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

22--FEDERAL HOME LOAN BANK ADVANCES

FHLB Advances are summarized as follows:

	DECEMBER 31, 1993
	----- (IN THOUSANDS)
Balance at year-end.....	\$326,400
Average amount outstanding during the year.....	394,591
Maximum amount outstanding at any month-end.....	496,400
Weighted average interest rate during the year.....	4.33%
Weighted average interest rate at year-end.....	4.52%
Secured by:	
FHLB stock.....	\$ 51,951
Loans receivable (1).....	900,776

	\$952,727
	=====

(1) Includes pledged loans available for use under the letter of credit securing commercial paper (available unused balance was \$96 million at December 31, 1993).

The maturities and weighted average interest rates on FHLB Advances are summarized as follows:

YEARS OF MATURITY	DECEMBER 31, 1993	
	AMOUNT	WEIGHTED AVERAGE INTEREST RATE
	----- (IN THOUSANDS)	
1994.....	\$ 3,700	3.32%
1995.....	60,000	4.88
1996.....	232,700	4.02
1997.....	10,000	6.30
1998.....	20,000	8.61

	\$326,400	5.52%
	=====	

The estimated fair value of FHLB Advances at December 31, 1993, was \$328 million.

23--OTHER BORROWINGS AND SUBORDINATED NOTES

Other borrowings consist of the following:

DECEMBER 31, 1993

YEAR OF MATURITY

(IN THOUSANDS)

Short-term borrowings:		
Commercial paper.....	1994	\$304,000
Securities sold under agreement to repurchase.....	1994	3,830

		307,830
Long-term borrowings:		
8 1/2% Mortgage-backed medium-term notes ("1997 MTNs") secured by--Joint pool of mortgage loans and U.S. Treasury notes, at cost.....		100,000

		\$407,830
		=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Borrowings other than the mortgage-backed bonds and notes are summarized as follows:

Commercial paper:	
Balance at year-end.....	\$304,000
Average amount outstanding during the year.....	\$274,620
Maximum amount outstanding at any month-end.....	\$342,090
Weighted average interest rate during the year.....	3.44%
Weighted average interest rate at year-end.....	3.38%
Secured by Letter of Credit from FHLB.....	\$400,000
Securities sold under agreement to repurchase:	
Balance at year-end.....	\$ 3,830
Average amount outstanding during the year.....	\$138,701
Maximum amount outstanding at any month-end.....	\$289,885
Weighted average interest rate during the year.....	3.23%
Weighted average interest rate at year-end.....	3.40%
Secured by mortgage-backed securities, at cost.....	\$ 4,000

Fidelity entered into a Subordinated Loan Agreement dated as of May 15, 1990 (the "Subordinated Loan Agreement") pursuant to which \$60 million in subordinated notes (the "Notes") are outstanding, which Notes were guaranteed by the Company. The Notes were approved by the OTS as additional regulatory capital. The Notes were issued to institutional investors in the amount of \$60.0 million, interest payable semiannually at 11.68% per annum, and are repayable in five equal annual installments commencing May 15, 1996.

The Subordinated Loan Agreement, among other covenants, contains a provision requiring Fidelity to maintain a consolidated tangible net worth at least equal to the greater of (a) \$170 million plus 50% of consolidated net earnings since January 1, 1990, or (b) 3.25% of consolidated assets.

The carrying and estimated fair value of other borrowings and subordinated notes consisted of the following at December 31, 1993:

	BOOK VALUE	FAIR VALUE
	-----	-----
	(IN THOUSANDS)	
Commercial paper.....	\$304,000	\$304,000
1997 MTNs.....	100,000	110,600
Subordinated notes.....	60,000	60,300
Securities sold under agreement to repurchase.....	3,830	3,800
	-----	-----
	\$467,830	\$478,700

24--EMPLOYEE BENEFIT PLANS

Postretirement Benefits--Fidelity provided certain health and life insurance postretirement benefits for all eligible retired employees. In connection with the restructuring, all postretirement benefit Plans were retained by Fidelity.

Effective January 1, 1993, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" for its unfunded postretirement health care and life insurance program. This statement requires the cost of postretirement benefits to be accrued during the service lives of employees. The Company's previous practice was to expense these costs on a cash basis.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Net periodic postretirement benefit costs for 1993 included the following components:

	AMOUNT

	(IN THOUSANDS)
Service cost (benefits attributed to service during the period).....	\$187.1
Interest cost on accumulated postretirement benefit obligation.....	250.2
Amortization of transition obligation.....	156.4

Net periodic postretirement benefit cost.....	\$593.7
	=====

The following table sets forth the postretirement benefit liability at December 31, 1993:

	AMOUNT

	(IN THOUSANDS)
Retirees.....	\$ 1,616.7
Employees presently eligible to retire.....	1,115.9
Employees not yet eligible to retire.....	974.7

Total accumulated post benefit obligation ("APBO").....	3,707.3
Unrecognized transition obligation.....	(2,971.2)
Unrecognized cumulative loss.....	(237.4)

Net postretirement benefit liability recognized in the balance sheet.....	\$ 498.7
	=====

The APBO as of December 31, 1993, was determined using a 7.25% weighted-average discount rate. The health care cost trend rates were assumed to be 9.5% at December 31, 1993, gradually declining to 5.25% after ten years and remaining at that level thereafter.

25--INCOME TAXES

Income tax expense benefit for the years ended December 31, 1993 and 1992 was comprised of the following:

YEAR ENDED DECEMBER 31

	1993	1992
(IN THOUSANDS)		
Current income tax expense (benefit):		
Federal.....	\$ (51,033)	\$ 12,429
State.....	75	1,696
	-----	-----
	(50,958)	14,125
	-----	-----
Deferred income tax expense (benefit):		
Federal.....	17,746	(15,503)
State.....	(3,255)	(4,463)
	-----	-----
	14,491	(19,966)
	-----	-----
Total income tax benefit.....	\$ (36,467)	\$ (5,841)
	=====	=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

A reconciliation from the statutory income tax expense/benefit to the consolidated effective income tax expense/benefit follows:

	YEAR ENDED DECEMBER 31		
	1994	1993	1992
(IN THOUSANDS)			
Expected federal income tax expense (benefit).....	\$ (67,439)	\$ (35,234)	\$ (1,290)
Increases (reductions) in taxes resulting from:			
Losses for which no tax benefit was recorded.....	50,915		
Franchise tax expense (benefit), net of federal income tax.....		(4,398)	(234)
Bad debt and loan loss deduction.....			
Goodwill.....		3,108	124
Redetermination of tax.....			(4,130)
Other, net.....		57	(311)
	-----	-----	-----
Income tax expense (benefit).....	\$ (16,524)	\$ (36,467)	\$ (5,841)
	=====	=====	=====

As stated in Note 4, an income tax benefit of \$16,524,000 was recorded during the year ended December 31, 1994 relating to the loss from operations of Fidelity.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The components of the net deferred tax liability/asset are as follows:

YEAR ENDED DECEMBER 31

1994 1993

(IN THOUSANDS)

FEDERAL

Deferred tax liabilities:

Loan fees and interest.....		\$ 12,995
FHLB stock dividends.....		12,066
California franchise tax.....		2,691
Other.....	\$ 20	7,480

Gross deferred tax liabilities..... 20 35,232

Deferred tax assets:

Option properties.....	350	
Acquired properties.....	2,034	
Investment in Fidelity.....	21,580	
Bulk sale indemnification.....	1,400	
California franchise tax.....	2,393	
Bad debt and loan loss deduction.....		11,369
REO operating income.....		2,926
Net operating loss carryforward.....	525	
Other.....	385	6,373

Gross deferred tax assets..... 28,667 20,668

Valuation allowance..... (28,647)

Deferred tax assets, net of allowance..... 20 20,668

Net deferred tax liability (asset)..... 14,564

STATE

Deferred tax liabilities:

Loan fees and interest.....		4,245
FHLB stock dividends.....		3,942
Other.....	5	2,514

Gross deferred tax liabilities..... 5 10,701

Deferred tax assets:

Option properties.....	93	
Acquired properties.....	540	
Investment in Fidelity.....	5,734	
Bulk sale indemnification.....	372	
Bad debt and loan loss deduction.....		16,187
Net operating loss carryforward.....	94	
Other.....		3,069

Gross deferred tax assets..... 6,833 19,256

Valuation allowance..... (6,828) (7,308)

Deferred tax assets, net of allowance..... 5 11,948

Net deferred tax liability (asset)..... \$ (1,247)

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

As of December 31, 1994, the Company has for income tax purposes a net operating loss carryforward of approximately \$1.5 million. These carryforwards will expire in the year 1999 through 2004. Realization of such tax benefits is unlikely as a result of recent history of operating losses, accordingly, a full valuation reserve has been provided for in 1994.

In 1993, no valuation allowance was required for federal purposes. Federal deferred tax assets would be fully realized as an offset against reversing temporary differences which create net future tax liabilities, and/or through loss carrybacks. Therefore, even if no future income was expected, federal deferred tax assets would still be fully realized. However, a valuation allowance was required for state purposes, as certain state deferred tax assets

would not be realized as an offset against reversing temporary differences which create net future state tax liabilities.

The tax sharing agreement between Citadel and Fidelity was terminated prior to the Closing. In connection with such termination, Citadel and Fidelity agreed that certain amounts, estimated to be approximately \$3.2 million, that would otherwise become payable by Citadel to Fidelity under the terms of such agreement as a result of losses recognized by Fidelity during the second quarter of 1994, would not be payable.

Citadel and Fidelity entered into a tax disaffiliation agreement (the "Tax Disaffiliation Agreement") which sets forth each party's rights and obligations with respect to deficiencies and refunds, if any, of federal, state, local or foreign taxes for periods before and after the Closing and related matters such as the filing of tax returns and the conduct of Internal Revenue Service and other examinations.

In general, under the Tax Disaffiliation Agreement, Fidelity is responsible for (a) all adjustments to the tax liability of Fidelity and its subsidiaries for periods before the Closing relating to operations of Fidelity, (b) any tax liability of Fidelity and its subsidiaries for the taxable year that begins before and ends after the Closing in respect to that part of the taxable year through the date of the Closing, and (c) any tax liability of Fidelity and its subsidiaries for periods after the Closing. For this purpose, any liability for taxes for periods ending on or before the Closing shall be measured by Fidelity's actual liability for taxes after applying tax benefits attributable to periods prior to the Closing otherwise available to Fidelity. With certain exceptions, Fidelity is entitled to any refunds relating to those liabilities.

In general, Citadel is responsible for all tax liabilities of Citadel and its subsidiaries (other than Fidelity and its subsidiaries) for all periods. Citadel is entitled to any refunds relating to those liabilities.

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

26--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	YEAR
	-----	-----	-----	-----	-----
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
1994:					
Real estate income.....			\$ 812	\$ 1,303	\$ 2,115
Real estate, general and administrative expenses.....			940	3,120	4,060
Loss of Fidelity.....	\$14,757	\$91,218	58,908	7,081(1)	171,964
Administrative charge from Fidelity.....	393	393	130		916
Net loss.....	(14,757)	(92,004)	(59,166)	(8,898)	(174,825)
Net loss per share.....	(2.24)	(13.95)	(8.97)	(1.29)	(26.45)
1993:					
Interest income.....	\$78,187	\$73,679	\$69,187	\$68,539	\$289,592
Interest expense.....	49,397	46,748	43,767	48,479	188,391
Provision for estimated loan losses.....	7,500	14,500	19,500	23,600	65,100
Provision for estimated real estate losses.....	1,000	16,000	4,000	9,200	30,200
Gains (losses) on sales of loans, net.....	395	225	(34)	(392)	194
Gains (losses) on sales of mortgage-backed securities, net.....		1,543	917	(1,118)	1,342
Gains (losses) on sales of investment securities, net...		1,946	17	(2,017)	(54)
Net earnings (loss) per share.	0.04	(2.31)	(2.23)	(5.66)	(11.56)

(1) Due to worsening operating results of Fidelity during the fourth quarter an additional write-down, which was deemed to be other than temporary, in the value of Fidelity stock was recorded.

27--PARENT COMPANY CONDENSED FINANCIAL INFORMATION

This information should be read in conjunction with the other notes to the consolidated financial statements.

CITADEL HOLDING CORPORATION
STATEMENTS OF FINANCIAL CONDITION

	DECEMBER 31, 1993	

	(IN THOUSANDS)	
ASSETS:		
Cash.....	\$	2,284
Investment in subsidiaries.....		182,966
Other assets.....		2,767

	\$	188,017
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities:		
Income tax liability.....	\$	15
Other liabilities.....		599

		614
Total stockholders' liability.....		187,403

	\$	188,017
		=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

CITADEL HOLDING CORPORATION
STATEMENTS OF OPERATIONS

	YEAR ENDED	
	DECEMBER 31	

	1993	1992

	(IN THOUSANDS)	
INCOME:		
Dividends from subsidiaries.....	\$ 1,000	\$2,075
Subordinated notes interest income.....		538
Other income.....	324	55

	1,324	2,668
EXPENSES:		
Interest expense.....		
Related party loan interest expense.....	15	408
Provision for estimated real estate losses.....	599	
Other expense.....	2,986	2,402

	2,986	2,810

Earnings (loss) before income tax benefit.....	(1,662)	(142)
Income tax benefit.....	(861)	(845)

Net earnings (loss) before equity in undistributed net		

earnings of subsidiaries.....	(701)	703
Equity in undistributed net earnings (loss) of subsidiaries..	(66,460)	1,343
	-----	-----
Net earnings (loss).....	\$ (67,161)	\$2,046
	=====	=====

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CITADEL HOLDING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

CITADEL HOLDING CORPORATION
STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31	
	1993	1992
	-----	-----
	(IN THOUSANDS)	
CASH FLOWS--OPERATING ACTIVITIES:		
Net earnings (loss).....	\$ (67,161)	\$ 2,046
Purchases of investment securities held for sale...	(35,001)	
Maturities of investment securities held for sale..	21,844	
Sale of investment securities held for sale.....	13,239	
Interest receivable decrease.....		471
Other assets increase (decrease).....	164	(1,032)
Equity in net (earnings) loss of subsidiaries.....	65,460	(3,418)
Deferred income taxes increase (decrease).....	36	(816)
Other liabilities and deferred income increase (decrease).....	(1,303)	116
Other, net.....	(82)	33
	-----	-----
Operating cash flows, net.....	(2,804)	(2,600)
	-----	-----
CASH FLOWS--INVESTING ACTIVITIES:		
Retirement of subordinated notes.....		15,000
Other, net.....		1,059
	-----	-----
Investing cash flows, net.....		16,059
	-----	-----
CASH FLOWS--FINANCING ACTIVITIES:		
Repayment of related party loan.....		(15,000)
Proceeds from stock rights offering.....	31,378	
Capital contributions to Fidelity.....	(28,000)	
Dividends from subsidiaries.....	1,000	1,000
	-----	-----
Financing cash flows, net.....	4,378	(14,000)
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	1,574	(541)
Cash and cash equivalents at beginning of period...	710	1,251
	-----	-----
Cash and cash equivalents at end of period.....	\$ 2,284	\$ 710
	=====	=====
CASH FLOWS--SUPPLEMENTAL INFORMATION:		
Cash paid during the period for:		
Interest expense on borrowings.....		\$ 408
Income taxes.....	\$ 75	96
Dividend of Gateway from Fidelity.....		1,075

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ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by this reference is the information set forth in the sections entitled "ELECTION OF DIRECTORS" and "MANAGEMENT" contained in the Company's Proxy Statement to be filed for its 1995 Annual Meeting of Stockholders (the "1995 Proxy Statement").

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by this reference is the information set forth in the section entitled "EXECUTIVE COMPENSATION" contained in the 1995 Proxy Statement to be filed.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by this reference is the information set forth in the sections entitled "ELECTION OF DIRECTORS" and "PRINCIPAL HOLDERS OF CITADEL COMMON STOCK" contained in the 1995 Proxy Statement to be filed.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Incorporated herein by this reference is the information set forth in the section entitled "RELATED PARTY TRANSACTIONS" contained in the 1995 Proxy Statement to be filed.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) (1) FINANCIAL STATEMENTS

DESCRIPTION -----	PAGE NO. -----
Independent Auditor's Report.....	F-2
Consolidated Balance Sheets as of December 31, 1994 and 1993.....	F-3
Consolidated Statements of Operations for Each of the Three Years in the Period Ended December 31, 1994.....	F-5
Consolidated Statements of Stockholders' Equity for Each of the Three Years in the Period Ended December 31, 1994.....	F-6
Consolidated Statements of Cash Flows for Each of the Three Years in the Period Ended December 31, 1994.....	F-7
Notes to Consolidated Financial Statements.....	F-9

(A) (2) FINANCIAL STATEMENT SCHEDULE

Financial Statement Schedule III--Real Estate and Accumulated Depreciation.....	II-1
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(B) REPORTS ON FORM 8-K..... II-1

(i) The Company filed a Report on Form 8-K on October 20, 1994, reporting on Item 7, "Financial Statements and Exhibits."

(ii) The Company filed a Report on Form 8-K on October 25, 1994, reporting on Item 7, "Financial Statements and Exhibits."

(iii) The Company filed a Report on Form 8-K on November 14, 1994, reporting on Item 5, "Other Events," and Item 7, "Financial Statements and Exhibits."

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(C) EXHIBITS

EXHIBIT
NO.

DESCRIPTION

-
- 3.1 Certificate of Amendment of Restated Certificate of Incorporation of Citadel Holding Corporation (filed herewith)
 - 3.2 Restated By-laws of Citadel Holding Corporation (filed as Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 1988, and incorporated herein by reference)
 - 4.1 Certificate of Designation of the 3% Cumulative Voting Convertible Preferred Stock of Citadel Holding Corporation (filed as Exhibit 3 to the Company's Report on Form 8-K, filed on November 14, 1994, and incorporated herein by reference)
 - 10.1 Form of Investor Purchase Agreement between Fidelity Federal Bank and the investors (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.2 Settlement Agreement between Fidelity Federal Bank, Citadel Holding Corporation and certain lenders, dated as of June 3, 1994 (the "Letter Agreement") (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.3 Amendment No. 1 to the Letter Agreement, dated as of June 30, 1994 (filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.4 Amendment No. 2 to Letter Agreement, dated as of July 28, 1994 (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.5 Amendment No. 3 to Letter Agreement, dated as of August 3, 1994 (filed as Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.6 Mutual Release, dated as of August 4, 1994, between Fidelity Federal Bank, Citadel Holding Corporation and certain lenders (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.7 Mutual Release between Fidelity Federal Bank, Citadel Holding Corporation, and The Chase Manhattan Bank, N.A., dated June 17, 1994 (filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.8 Loan and REO Purchase Agreement (Primary), dated as of July 13, 1994, between Fidelity Federal Bank and Colony Capital, Inc. (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.9 Deposit Escrow Agreement, dated as of July 13, 1994, among Colony Capital, Inc., Fidelity Federal Bank, and Morgan Guaranty Trust Company of New York (filed as Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.10 Real Estate Purchase Agreement, dated as of August 3, 1994, between Fidelity Federal Bank and Citadel Realty, Inc. (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.11 Loan and REO Purchase Agreement (Secondary), dated as of July 12, 1994, between Fidelity Federal Bank and EMC Mortgage Corporation (filed as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
 - 10.12 Deposit Escrow Agreement, dated as of July 13, 1994, between EMC Mortgage Corporation, Fidelity Federal Bank, and Morgan Guaranty Trust Company of New York (filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)

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EXHIBIT
NO.

DESCRIPTION

10.13 Loan and REO Purchase Agreement (Secondary), dated as of July 21, 1994, between Fidelity Federal Bank and Internationale Nederlanden

- (US) Capital Corporation, Farallon Capital Partners, L.P., Tinicum Partners, L.P. and Essex Management Corporation (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.14 Deposit Escrow Agreement, dated as of July 21, 1994, between Fidelity Federal Bank and Internationale Nederlanden (US) Capital Corporation, Farallon Capital Partners, L.P., Tinicum Partners, L.P., Essex Management Corporation, and Morgan Guaranty Trust Company of New York (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.15 Purchase of Assets and Liability Assumption Agreement by and between Home Savings of America, FSB and Fidelity Federal Bank, FSB, dated as of July 19, 1994 (filed as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.16 Credit Agreement among Citadel Realty, Inc., Citadel Holding Corporation and Craig Corporation, dated as of August 2, 1994 (filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.17 Promissory Note, dated as of August 2, 1994, by Citadel Realty, Inc. in favor of Craig Corporation (filed as Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.18 Guaranty, dated as of August 2, 1994, by Citadel Holding Corporation in favor of Craig Corporation (filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.19 Pledge Agreement, dated as of August 2, 1994, between Citadel Holding Corporation and Craig Corporation (filed as Exhibit 10.19 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.20 Promissory Note, dated August 3, 1994, by Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.21 Promissory Note, dated July 28, 1994, by Citadel Realty, Inc. in favor of Fidelity Federal Bank (filed as Exhibit 10.21 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.22 Guaranty Agreement, dated August 3, 1994, by Citadel Holding Corporation, in favor of Fidelity Federal Bank (filed as Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.23 Unsecured Environmental Indemnity Agreement dated as of August 3, 1994, by Citadel Realty, Inc., in favor of Fidelity Federal Bank (filed as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.24 Unsecured Environmental Indemnity Agreement dated as of July 28, 1994, by Citadel Realty, Inc. in favor of Fidelity Federal Bank (filed as Exhibit 10.24 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.25 Registration Rights Agreement dated as of June 30, 1994, between Fidelity Federal Bank, Citadel Holding Corporation and certain holders of Class C Common Stock of Fidelity Federal Bank (filed as Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)

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EXHIBIT NO. -----	DESCRIPTION -----
10.26	Stockholders Agreement, dated as of June 30, 1994, between Citadel Holding Corporation and Fidelity Federal Bank (filed as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
10.27	Tax Disaffiliation Agreement, dated as of August 4, 1994, by and between Citadel Holding Corporation and Fidelity Federal Bank (filed

- as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.28 Option Agreement, dated as of August 4, 1994, by and between Fidelity Federal Bank and Citadel Holding Corporation (filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.29 Assignment of Option Agreement, dated as of August 4, 1994, by and between Citadel Holding Corporation and Citadel Realty, Inc. (filed as Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.30 Amendment No. 2 to Executive Employment Agreement, dated as of August 4, 1994, between Richard M. Greenwood and Fidelity Federal Bank (filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.31 Amended and Restated Term Note, dated October 29, 1992, by Richard M. Greenwood in favor of Citadel Holding Corporation (filed as Exhibit 10.31 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.32 Letter Agreement dated August 4, 1994, between Richard M. Greenwood and Citadel Holding Corporation (filed as Exhibit 10.32 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.33 Amended and Restated Charter S of Fidelity Federal Bank (filed as Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.34 Amended Service Agreement between Fidelity Federal Bank and Citadel Holding Corporation dated as of August 1, 1994 (filed as Exhibit 10.34 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.35 Placement Agency Agreement, dated July 12, 1994 between J.P. Morgan Securities Inc., Fidelity Federal Bank and Citadel Holding Corporation (filed as Exhibit 10.35 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.36 Side letter, dated August 3, 1994, between Fidelity Federal Bank and Citadel Realty, Inc. (filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994, and incorporated herein by reference)
- 10.37 Stock Exchange and Settlement Agreement, dated April 3, 1995, by and among Citadel Holding Corporation, Dillon Investors, L.P., a Delaware partnership, Roderick H. Dillon, Jr., an individual, Roderick H. Dillon, Jr. Foundation, an Ohio trust, and Roderick H. Dillon, Jr.--IRA (filed as Exhibit 10.1 to the Company's Report on Form 8-K, filed on April 4, 1995, and incorporated herein by reference)
- 10.38 Stock Purchase Agreement, dated October 21, 1994, by and between Citadel Holding Corporation and Craig Corporation, a Delaware corporation (filed as Exhibit 2 to the Company's Report on Form 8-K, filed on October 25, 1994, and incorporated herein by reference)

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EXHIBIT NO.	DESCRIPTION
10.39	Preferred Stock Purchase Agreement, dated November 10, 1994, by and between Citadel Holding Corporation and Craig Corporation, a Delaware corporation (filed as Exhibit 2 to the Company's Report on Form 8-K, filed on November 14, 1994, and incorporated herein by reference)
10.40	Conversion Deferral, Warrant and Reimbursement Agreement, dated as of April 11, 1995, by and between Citadel Holding Corporation and Craig Corporation, a Delaware corporation (filed herewith)
10.41	Employment Agreement between Citadel Holding Corporation and Steve Wesson (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, and incorporated herein by reference)
21	Subsidiaries of the Company (filed herewith)
27	Financial Data Schedule (filed herewith)

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

Citadel Holding Corporation

/s/ Steve Wesson

By _____
Steve Wesson
President and Chief
Executive Officer

Date: April 17, 1995

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

SIGNATURE -----	TITLE(S) -----	DATE ----
/s/ James J. Cotter ----- James J. Cotter	Chairman of the Board and Director	April 17, 1995
/s/ Steve Wesson ----- Steve Wesson	President, Chief Executive Officer and Director	April 17, 1995
/s/ S. Craig Tompkins ----- S. Craig Tompkins	Principal Accounting Officer and Director	April 17, 1995

III-1

CERTIFICATE OF AMENDMENT OF RESTATED
CERTIFICATE OF INCORPORATION OF
CITADEL HOLDING CORPORATION

Citadel Holding Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that the amendment to the Corporation's Restated Certificate of Incorporation set forth in the following resolution was duly approved and adopted by the Corporation's Board of Directors and stockholders in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware:

"RESOLVED, that the Certificate of Incorporation of the Corporation be amended by striking Article FOURTH in its entirety and replacing therefor:

The total number of shares of stock which the corporation shall have authority to issue is twenty-five million (25,000,000), of which stock twenty million (20,000,000) shares shall be Common Stock, par value \$.01 per share, and five million (5,000,000) shares shall be Serial Preferred Stock, par value \$.01 per share. The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof will be determined by resolution of the Board of Directors."

IN WITNESS WHEREOF, Citadel Holding Corporation has caused this Certificate to be signed and attested to by its duly authorized officer as of March 2, 1995.

CITADEL HOLDING CORPORATION

By: /s/ Steve Wesson

Steve Wesson
President, Chief Executive Officer

CERTIFICATE OF AMENDMENT
OF
RESTATED
CERTIFICATE OF INCORPORATION
OF CITADEL HOLDING CORPORATION

Citadel Holding Corporation, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), hereby certifies that the amendment set forth below to the Corporation's Restated Certificate of Incorporation was duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware:

Article SEVENTH shall be amended by adding the following two paragraphs at the beginning thereof:

Unless the by-laws of the Corporation are amended by the stockholders of the Corporation after the effectiveness of this provision to provide for the division of the directors into classes, at each annual meeting all directors shall be elected to hold office until their respective successors are elected and qualified or until their earlier resignation or removal.

Regardless of whether the board of directors of the Corporation is divided into classes, any director or the entire board of directors may, subject to the rights of the holders of shares of any series of Serial Preferred Stock, be removed, with or without cause, by the holders of a majority

of the shares then entitled to vote at an election of directors.

IN WITNESS WHEREOF, Citadel Holding Corporation has caused this Certificate to be signed and attested to by its duly authorized officers this 11th day of July, 1988.

CITADEL HOLDING CORPORATION

By: /s/ Godfrey B. Evans

Godfrey B. Evans
Senior Vice President

ATTEST:

/s/ Karalee Vint

Karalee Vint
Secretary

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RESTATED
CERTIFICATE OF INCORPORATION
OF
CITADEL HOLDING CORPORATION
(INCORPORATED MARCH 15, 1983)

* * * * *

Adopted in accordance with the provisions of Sections 242 and 245 of the General
Corporation Law of the State of Delaware

Citadel Holding Corporation, a corporation organized and existing under and
by virtue of the General Corporation Law of Delaware, DOES HEREBY CERTIFY:

FIRST: That the name of the corporation is Citadel Holding Corporation and
that the original certificate of incorporation was filed with the Secretary of
State of the State of Delaware on March 15, 1983.

SECOND: That this restated certificate of incorporation restates,
integrates and further amends the provisions of the corporation's restated
certificate of incorporation as heretofore amended or supplemented.

THIRD: That the text of the certificate of incorporation as restated is as
follows:

"1. The name of the corporation is CITADEL HOLDING CORPORATION.

2. The address of its registered office in the State of Delaware is
1209 Orange Street, in the City of Wilmington, County of New Castle. The name
of its registered agent at such address is The Corporation Trust Company.

3. The nature of the business or purposes to be conducted or
promoted is to engage in any lawful act or activity for which corporations may
be organized under the General Corporation Law of Delaware.

4. The total number of shares of stock which the corporation shall
have authority to issue is fifteen million (15,000,000) of which stock ten
million (10,000,000) shares of the par value of One Cent (\$.01) each, amounting
in the aggregate to One Hundred Thousand Dollars (\$100,000.00), shall be Common
Stock and of which five million (5,000,000) shares of the par value of One Cent
(\$.01) each, amounting in the aggregate to Fifty Thousand Dollars (\$50,000.00),
shall be Serial Preferred Stock. The designations and the powers, preferences
and rights, and the qualifications, limitations or restrictions thereof will be
determined by resolution of the Board of Directors.

5. The corporation is to have perpetual existence.

6. In furtherance and not in limitation of the powers conferred by
statute, the Board of Directors is expressly authorized to make, alter or repeal
the bylaws of the corporation.

7. Elections of Directors need not be by written ballot unless the
bylaws of the corporation shall so provide.

Meetings of stockholders may be held within or without the State of Delaware, as the bylaws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the bylaws of the corporation.

8. A director of this corporation shall not be liable to the corporation or its stockholders for monetary damages for breaches of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as the same exists or may hereafter be amended.

Any repeal or modification of the foregoing paragraph shall not adversely affect any right or protection of a director of the corporation existing hereunder with respect to any act or omission prior to such repeal or modification.

9. No amendment, addition, alteration, change, or repeal of this certificate shall be made, unless such is first proposed by the Board of Directors of the corporation and thereafter approved by the affirmative vote of the holders of 50 percent or more of the total votes eligible to be cast at a meeting of the stockholders of the corporation.

10. Subject to the immediately preceding Paragraph hereof, the corporation reserves the right to amend, alter, change or repeal any provision contained in this certificate of incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation."

FOURTH: That this restated certificate of incorporation was duly adopted by the Board of Directors and stockholders of the corporation in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, said CITADEL HOLDING CORPORATION has caused this restated certificate to be signed by James A. Taylor, its Chairman of the Board of Directors, and attested by Karalee Vint, its Secretary, this 2nd day of June, 1987.

CITADEL HOLDING CORPORATION

By: /s/ James A. Taylor

James A. Taylor,
Chairman of the Board of Directors

ATTEST:

By: /s/ Karalee Vint

Karalee Vint, Secretary

CONVERSION DEFERRAL,
WARRANT AND REIMBURSEMENT AGREEMENT

This Warrant and Settlement Agreement (the "Agreement"), is made and entered into as of April 11, 1995, by and between Citadel Holding Corporation, a Delaware corporation ("Citadel"), and Craig Corporation, a Delaware corporation ("Craig").

RECITALS

A. Craig owns shares of common stock, par value \$.01 per share (the "Common Stock"), and 3% Cumulative Voting Convertible Preferred Stock, par value \$.01 per share (the "Preferred Stock"), of Citadel.

B. Citadel and Craig are defendants in a lawsuit filed by Dillon Investors, L.P., a Delaware partnership ("Dillon LP"), in the Court of Chancery of the State of Delaware in and for New Castle County (C.A. No. 13867) (the "Delaware Action").

C. Citadel is the plaintiff in a lawsuit filed by it in the United States District Court, Central District of California (Case No. CV-94-7735 R) (the "Federal Action", and collectively with the Delaware Action, the "Actions"), naming as defendants Dillon LP, Roderick H. Dillon, Jr. ("Dillon"), Roderick H. Dillon, Jr. Foundation, an Ohio trust ("Dillon Trust"), and Roderick H. Dillon, Jr.-IRA ("Dillon IRA"; Dillon LP, Dillon, Dillon Trust and Dillon IRA are collectively referred to herein as the "Dillon Parties"), and certain other individuals.

D. Citadel, Craig and the Dillon Parties have executed agreements to settle the Actions and to provide mutual releases of all claims related thereto (the Settlement Agreements"), pursuant to which, among other things, (i) Citadel is acquiring from the Dillon Parties 666,000 shares of Common Stock and (ii) Craig has agreed that, prior to February 4, 1996, Craig will not, absent the approval of a majority of the outstanding shares of Common Stock of Citadel, exercise its right to tender any share or shares of the Preferred Stock for conversion into common stock of Citadel pursuant to Section 7 of the Certificate of Designation of the Preferred Stock.

NOW, THEREFORE, in consideration of the foregoing and the provisions set forth below, the parties hereto agree as follows:

1. Conversion Deferral. In conformity with the Settlement

Agreements, Craig hereby agrees, effective on the Closing Date (as defined below), that, prior to February 4, 1996, Craig will not, absent the approval of a majority of the outstanding shares of Common Stock of Citadel, exercise its right to tender any share or shares of the Preferred Stock for conversion into Common Stock of Citadel pursuant to Section 7 of the Certificate of Designation of the Preferred Stock (the "Conversion Deferral")

2. Warrant.

2.1 In consideration of Craig's agreement to the Conversion Deferral, Citadel hereby grants to Craig, effective on the Closing Date, a warrant (the "Warrant"), exercisable on or prior to the second anniversary of the date of this Agreement in whole or from time to time in part, to purchase 666,000 shares (the "Warrant Shares") of Common Stock of Citadel, representing the number of shares of Common Stock purchased by Citadel from the Dillon Parties pursuant to the Settlement Agreements, at a price per share, payable in cash, of \$3.00 (the "Warrant Price"). If the outstanding shares of Common Stock are increased or decreased, or are changed into or exchanged for a different number or kind of shares or securities, as a result of one or more reorganizations, recapitalizations, mergers, consolidations, stock splits, reverse stock splits, stock dividends, rights offering or similar event, appropriate adjustments shall be made to the number and type of Warrant Shares and the Warrant Price to reflect any such event(s), and if Citadel undertakes a rights offering to the holders of Common Stock of the type described in Exhibit A attached hereto, the

appropriate adjustments shall be those set forth in Exhibit A attached hereto and incorporated herein by reference.

2.2 The Warrant Shares shall be deemed to be included in the term "Shares" for purposes of Article Three of that Stock Purchase Agreement dated October 21, 1994 (the "1994 Agreement") between Citadel and Craig and shall accordingly be eligible for registration under the Securities Act of 1933, as amended, in accordance with the terms of the 1994 Agreement; provided, however, that the date applicable to the Warrant Shares set forth in Section 3.1(b) (vi) of the 1994 Agreement shall be April 17, 1996.

3. Reimbursement of Expenses. In further consideration of Craig's

agreement to the Conversion Deferral, Citadel hereby agrees, effective the Closing Date, to reimburse Craig for its legal fees and expenses, up to a maximum of \$75,000, incurred by Craig in defense of the Delaware Action upon submission to Citadel of appropriate written invoices and receipts itemizing such fees and expenses in reasonable detail.

4 Closing Date; Termination. As used herein, the terms "Closing" and

"Closing Date" shall mean the Closing and Closing Date, respectively, contemplated by the Stock Exchange and Settlement Agreement dated April 3, 1995 (the "Settlement Agreement") among Citadel and the Dillon Parties. All provisions of this Agreement are subject to the approval of the Boards of Directors of Citadel and Craig. If (i) this Agreement has not been approved by the Boards of Directors of Citadel and Craig on or before April 13, 1995, or (ii) the Settlement Agreement is terminated for any or no reason prior to the occurrence of the Closing, then this Agreement shall thereupon immediately and automatically terminate and shall thereafter have no legal force or effect whatsoever.

5. Miscellaneous.

5.1 Notices. All notices, requests, demands and other communications

hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission (with subsequent letter confirmation by mail) or two days after being mailed by certified or registered mail, postage prepaid, return receipt requested, to the parties, their successors in interest or their assignees at the following addresses, or at such other addresses as the parties may designate by written notice in the manner aforesaid:

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If to Craig: Craig Corporation
 116 N. Robertson Blvd.
 Los Angeles, California 90048
 Telecopy: (310) 659-9120
 Attention: President

If to Citadel: Citadel Holding Corporation
 4565 Colorado Street
 Los Angeles, California
 Telecopy: (818) 549-3564
 Attention: President

5.2 Assignability and Parties in Interest. This Agreement shall not

be assignable by either of the parties, except that (a) affiliates of Craig may participate in registrations as contemplated by Section 2.2 and (b) the rights of Craig under Section 2.2 may be assigned to one acquiror of all Warrant Shares and Shares under the 1994 Agreement in a private purchase from Craig and its affiliates if and when such acquiror delivers to Citadel such acquiror's written agreement to assume all of the obligations of Craig under Article Three of the 1994 Agreement. This Agreement shall inure to the benefit of and be binding upon the parties and their respective permitted successors and assigns.

5.3 Governing Law. This Agreement shall be governed by, and

construed and enforced in accordance with, the internal law, and not the law pertaining to conflicts or choice of law, of the State of California.

5.4 Counterparts. This Agreement may be executed in several

counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

5.5 Complete Agreement. This Agreement contains the entire agreement

between the parties with respect to the subject matter hereof and shall supersede all previous oral and written and all contemporaneous oral negotiations, commitments and understandings.

5.6 Modifications, Amendments and Waivers. This Agreement may be

modified, amended or otherwise supplemented only by a writing signed by both of the parties. No waiver of any right or power hereunder shall be deemed effective unless and until a writing waiving such right or power is executed by the party waiving such right or power.

5.7 Attorneys' Fees and Costs. Should any party institute any

arbitration, action, suit or other proceeding arising out of or relating to this Agreement, the prevailing party shall be entitled to receive from the losing party reasonable attorneys' fees and costs incurred in connection therewith.

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5.8 Contract Interpretation; Construction of Agreement.

(a) The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Article, section, party and recital references are to this Agreement unless otherwise stated.

(b) Neither 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 either party.

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

CRAIG CORPORATION

By: /s/ S. CRAIG TOMPKINS

Title: President

CITADEL HOLDING CORPORATION

By: /s/ STEVE WEISS

Title: President and Chief Executive Officer

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EXHIBIT A

Adjustment for Conventional Rights Issue. If Citadel distributes any

conventional rights, options or warrants to all holders of its Common Stock, entitling them to purchase shares of Common Stock at a price per share less than the Current Market Price per share (as defined below) on the record date described below, the number of unissued Warrant Shares and the Warrant Price shall be adjusted as follows:

The number of unissued Warrant Shares shall be adjusted pursuant to

the following formula:

$$WS' = WS \times \frac{O + A}{O + P \times A} \times M$$

The Warrant Price shall be adjusted pursuant to the following formula:

$$WP' = WP \times \frac{O + P \times A}{O + A} \times M$$

where:

- WS' = the adjusted number of Warrant Shares.
- WS = the current number of unissued Warrant Shares.
- WP' = the adjusted Warrant Price.
- WP = the current Warrant Price.
- O = the number of shares of Common Stock outstanding on the record date.
- A = the number of additional shares of Common Stock offered.
- P = the offering price per share of additional shares.
- M = the "Current Market Price" per share of Common Stock on the record date, determined by averaging the closing prices for the Common Stock on the American Stock Exchange (or other principal exchange or market system on which the Common Stock then trades) for the ten trading days immediately preceding the record date.

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The adjustment shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the record date for the determination of stockholders entitled to receive the rights, options or warrants. If at the end of the period during which such rights, options or warrants are exercisable, not all rights, options or warrants shall have been exercised, the number of unissued Warrant Shares and the Warrant Price shall be immediately readjusted to what they would have been if "A" in the above formula had been the number of shares actually issued.

Unconventional Rights Offerings. If Citadel distributes any unconventional rights, options or warrants to all holders of its Common Stock, entitling them to purchase shares of Common Stock at a price per share less than the Current Market Price per share on the record date, the parties will negotiate in good faith for adjustments to the number of unissued Warrant Shares and the Warrant Price that are fair, just and equitable.

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SUBSIDIARIES OF THE COMPANY

CITADEL REALTY, INC., A DELAWARE CORPORATION

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